ABN AMRO HOLDING N V
Form 20-F
March 31, 2008

As filed with the Securities and Exchange Commission on 31 March 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended 31 December 2007

OR

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

Commission file number 1-14624

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares of ABN AMRO Holding N.V.(1)	New York Stock Exchange

American Depositary Shares, each representing one Ordinary Share of ABN AMRO Holding N.V.	New York Stock Exchange
Guarantee of 5.90% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust V.......	New York Stock Exchange
Guarantee of 6.25% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust VI…..	New York Stock Exchange
Guarantee of 6.08% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust VII…	New York Stock Exchange
5.90% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust V.......	New York Stock Exchange
6.25% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust VI…..	New York Stock Exchange
6.08% Non-cumulative Guaranteed Trust Preferred Securities of ABN AMRO Capital Funding Trust VII…	New York Stock Exchange

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(1) Not for trading, but only in connection with the registration of American Depositary Shares representing such Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of ABN AMRO Holding N.V.'s classes of capital or common stock as of 31 December 2007 was:

Title of Class	Number of Shares Outstanding
Ordinary Shares (EUR 0.56)	1,084,634,609
Convertible Financing Preference Shares (EUR 0.56)	767,096,884
Formerly Convertible Preference Shares (EUR 2.24)	44,988
Non-cumulative Guaranteed Trust Preferred Securities	16,697,030

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes	x	No	o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes	o	No	x

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes	x	No	o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o	Non-accelerated filer	o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17	o	Item 18	x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes	o	No	x

The information contained in this report is incorporated by reference into the registration statements on Form S-8 with Registration Nos. 333-81400, 333-84044, 333-74703, 333-140798, 333-145751 and 333-149577, the registration statements on Form F-3 with Registration Nos. 333-137691 and 333-104778 and the registration statement on Form F-4 with Registration No. 333-108304.

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SECTION 1 GENERAL

CHAIRMAN'S REVIEW

Chairman's review of 2007

On 17 October 2007 the majority of ABN AMRO's Holding share capital was acquired by the consortium of banks through RFS Holdings B.V. The consortium consists of The Royal Bank of Scotland Group plc ('RBS'), Fortis N.V., Fortis SA/NV ('Fortis') and Banco Santander S.A. It was the outcome of a process under which ABN AMRO's shareholders were able to choose between two competing offers for ABN AMRO one from Barclays and one from the consortium. In early November, the consortium announced that they had acquired 98.8% of the ordinary shares of ABN AMRO Holding, 86.1% of the formerly convertible preference shares and 98.8% of the convertible financing preference shares. A 'squeeze-out' procedure was started shortly after the acquisition to buy out the remaining shareholders and initiatives to delist ABN AMRO shares from Euronext Amsterdam and the New York Stock Exchange were taken. The delisting is expected to be effective 25 April 2008.

At the request of the Dutch Central Bank, RBS has assumed the lead responsibility for ensuring that ABN AMRO is managed in compliance with all applicable regulatory requirements.

Plans and proposals for ABN AMRO

Following the completion of the acquisition, the consortium banks have worked closely 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 to them before announcement of the offers.

In December 2007, the consortium banks agreed and validated a base-line plan for achieving synergies and for separating and transferring of the ABN AMRO businesses to the respective banks. The businesses to be acquired by each of the banks of the consortium and in which each have an interest through their share holdings in RFS Holdings B.V. equal to the banks funding commitments, are:

- RBS: Business Unit North America, Business Unit Global Clients (excluding Latin America) and Dutch wholesale clients and wholesale clients in Latin America (excluding Brazil), Business Unit Asia (excluding interest in Saudi Hollandi Bank) and Business Unit Europe (excluding Antonveneta).

- Fortis: Business Unit Netherlands (excluding former Dutch wholesale clients), Business Unit Private Clients (excluding Latin America) and Business Unit Asset Management. The European Commission has cleared the acquisition of certain businesses of ABN AMRO by Fortis, on the condition that certain specified businesses were divested. The businesses identified for disposal are the Hollandsche Bank Unie N.V., 13 advisory branches and two Corporate Client Departments as well as the sale of the Dutch factoring company IFN Finance B.V. Fortis can only acquire control over ABN AMRO's Business Unit Netherlands and Business Unit Private Clients after divesting these assets to a suitable purchaser.

- Santander: Business Unit Latin America (excluding wholesale clients outside Brazil), Antonveneta, Asset Management Antonveneta and Private Clients business in Latin America. On 8 November Santander announced it had reached an agreement with Banco Monte dei Paschi di Siena with respect to the sale of Antonveneta.

Furthermore the consortium participate proportionally to their funding commitment in the shared assets which include: central functions including Head Office functions, the private equity portfolio, the Group's investment in Saudi Hollandi Bank, the central investment portfolio and debt issuances. During the reorganisation, the consortium

banks will retain a shared economic interest in all central functions (including Head Office functions) that provide support to the ABN AMRO businesses. The non-core assets are expected to be disposed of over a period of time with a view to maximising their value.

This transition plan forms the basis for continued consultation with employee representative bodies and regulators. The plan for separating and transferring the ABN AMRO businesses to the respective banks was submitted to the Dutch Central Bank and Central Works Council for review in mid December and was neutrally advised by the Central Works Council on 14 February 2008 and approved by the Dutch Central Bank on 10 March 2008. Now that the approvals have been received, the implementation of the plan can begin.

Different parts of ABN AMRO will experience separation and integration at different speeds. The precise timing of the separation of the businesses will depend on a range of factors, including the complexity of the separation task. For more complex separation processes, where the businesses are closely interlinked with the ABN AMRO Group systems and platforms, (such as within the BU Netherlands), separation and integration is expected to take some time; in contrast other less complicated separations will move relatively quickly. In each case the pace of the separation process will aim to accommodate the need for clarity among employees while also maintaining the appropriate level of service to ABN AMRO's clients.

For now the acquisition has no impact on the status of any debt and related securities currently issued and/or guaranteed by ABN AMRO Holding N.V. or any of its subsidiaries. In addition, the entire portfolio of ABN AMRO's risk management transactions will be managed actively to ensure that all the risk management needs of the component ABN AMRO businesses are satisfied.

The operations in 2007

The net profit attributable to shareholders in 2007 amounted to EUR 9,848 million and included a gain on the sale of LaSalle of EUR 7,162 million. Adjusted* net profit attributable to shareholders was EUR 2,665 million.

The original earnings per share (EPS) target for 2007 of EUR 2.30 included the full-year profit of LaSalle. Following the sale of LaSalle, this target was revised for nine months contribution to EUR 2.16. The adjusted EPS was EUR 1.44, primarily due to the impact of the credit market related write-downs (EUR 0.62) and the continued disappointing performance of Antonveneta (EUR 0.23).

Mark Fisher
Chairman of the Managing Board of ABN AMRO

Amsterdam, 25 March 2008

* The adjusted figures exclude the following items: gains on sale and disposals, gain on sale of Capitalia which was settled in exchange for shares of Unicredito, transaction-related expenses including a break fee paid to Barclays, transition and integration costs, a liability for the proposed US Department of Justice settlement, a provision for the Futures business which was sold in 2006, and restructuring expenses in 2006.

The total impact of these adjustments in 2007 is EUR 868 million on operating income, EUR 1,151 million on operating expenses, negative EUR 275 million on tax, EUR 7,191 million on discontinued operations, and EUR 7,183 million on net profit attributable to shareholders.

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INTRODUCTION

Filing

This document contains ABN AMRO's Form 20-F, which will be filed with the United States Securities and Exchange Commission ("SEC").

Certain definitions

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

The terms "consortium" and "consortium banks" refer to the banks The Royal Bank of Scotland Group plc ("RBS"), Fortis N.V., Fortis SA/NV ("Fortis") and Banco Santander S.A. ("Santander") who jointly acquired ABN AMRO Holding N.V. on 17 October 2007.

Presentation of Information

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

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

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

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

Cautionary Statement on Forward-looking Statements

Certain statements included in this report are forward-looking statements. ABN AMRO also may make forward-looking statements in ABN AMRO's other documents filed with its regulations and stock exchange, invitations to annual shareholders' meetings and other information sent to shareholders, offering circulars and prospectuses, press releases and other written materials. In addition, ABN AMRO's senior management may make forward-looking statements orally to investors, representatives of the media and others. Forward-looking statements can be identified by the use of forward-looking terminology such as "believe", "expect", "may", "intend", "will", "should", "anticipate", "Value at Risk", or by the use of similar expressions or variations on such expressions, or by the discussion of strategy or objectives. Forward-looking statements are based on current plans, estimates and projections, and are

subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements.

In particular, this report includes forward-looking statements relating but not limited to management objectives, implementation of ABN AMRO's strategic initiatives, trends in results of operations, margins, costs, return on equity, and risk management, including ABN AMRO's potential exposure to various types of risk such as market risk, which includes interest rate risk, currency risk and equity risk. For example, some of the market risk disclosures are dependent on choices about key model characteristics, assumptions and estimates, and are subject to various limitations. By their nature, certain market risk disclosures are only estimates and could differ materially from what actually occurs in the future.

ABN AMRO has identified some of the risks inherent in forward-looking statements in the paragraph "Risk factors" in this report. Factors that could cause actual results to differ materially from those estimated by the forward-looking statements in this report include, but are not limited to:

- general economic and business conditions in the Netherlands, the European Union, the United States, Brazil and other countries or territories in which ABN AMRO operates;
- changes in applicable laws and regulations, including taxes;
- uncertainty on the capital consequences of the implementation of the Basel II framework;
- regulations and monetary, interest rate and other policies of central banks, particularly the Dutch Central Bank, the Bank of Italy, the European Central Bank, the US Federal Reserve Board and the Brazilian Central Bank;
- changes or volatility in interest rates, foreign exchange rates (including the Euro-US dollar rate), asset prices, equity markets, commodity prices, inflation or deflation;
- volatility in the financial or credit markets;
- the effects of competition and consolidation in the markets in which ABN AMRO operates, which may be influenced by regulation, deregulation or enforcement policies;
- changes in consumer spending and savings habits, including changes in government policies which may influence investment decisions;
- ABN AMRO's ability to hedge certain risks economically;
- ABN AMRO's success in managing the risks, which depends, among other things, on the ability to anticipate events that cannot be captured by the statistical models ABN AMRO uses;
- risks related to ABN AMRO's transition and separation process following its acquisition by the consortium banks; and
- force majeure and other events beyond ABN AMRO's control.

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

The forward-looking statements made in this report speak only as at the date of publication of this report. ABN AMRO does not intend to publicly update or revise these forward-looking statements to reflect events or circumstances after the date of this report, and ABN AMRO does not assume any responsibility to do so. The reader should, however, take into account any further disclosures of a forward-looking nature ABN AMRO may make in ABN AMRO's interim reports. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

Selected financial data

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

Selected consolidated income statement

	As at 31 December			
	2007 (1)	2007	2006	2005
	(in millions of USD)	(in millions of euros)		
Net interest income	11,446	8,352	7,268	6,763
Net fee and commission income	5,859	4,275	4,049	3,432
Net trading income	1,749	1,276	2,849	2,514
Results from financial transactions	2,121	1,548	794	1,183
Share of result in equity accounted investments	371	271	241	245
Other operating income	1,886	1,376	914	808
Income of consolidated private equity holdings	5,257	3,836	5,313	3,637
Operating income	28,689	20,934	21,428	18,582
Operating expenses	23,956	17,480	16,945	13,913
Loan impairment and other credit risk provisions	2,335	1,704	1,411	614
Total expenses	26,291	19,184	18,356	14,527
Operating profit before tax	2,398	1,750	3,072	4,055
Income tax expense	(66)	(48)	366	735
Profit from continuing operations	2,464	1,798	2,706	3,320
Profit from discontinued operations net of tax	11,206	8,177	2,074	1,123
Profit for the year	13,670	9,975	4,780	4,443
Attributable to shareholders of the parent company	13,496	9,848	4,715	4,382
Dividends on ordinary shares	1,468	1,071	2,153	2,050
Per share financial data				
Average number of ordinary shares outstanding (in millions)	–––	1,851.3	1,882.5	1,804.1
Net profit per ordinary share (in EUR)	–	5.32	2.50	2.43
Fully diluted net profit per ordinary share (in EUR)	––	5.32	2.49	2.42
Net profit per ordinary share from continuing operations (in EUR)	–	0.92	1.43	1.83
Fully diluted net profit per ordinary share from continuing operations (in EUR)	–	0.92	1.42	1.83
Dividend per ordinary share (in EUR)	–	0.58	1.15	1.10
Net profit per American Depositary Share (in USD) (2) (3)	–	7.29	3.16	3.01
Dividend per American Depositary Share (in USD) (2)	–	0.70	1.50	1.34

(1) Solely for your convenience, euro amounts have been translated into US dollars at an exchange rate of 1 USD = EUR 0.7297, which is the rate equal to the average of the month-end rates for 2007.

(2) Adjusted for increases in share capital, as applicable. See Note 12 to ABN AMRO's consolidated financial statements for a description of the computation of earnings per ordinary share.
(3) This item has been translated into US dollars at the rate equal to the average of the month-end rates for the applicable year.

Selected consolidated balance sheet

	As at 31 December			
	2007 (1) (in millions of USD)	2007	2006	2005
		(in millions of euros)		
Assets				
Financial assets held for trading	356,511	242,277	205,736	202,055
Financial investments	141,904	96,435	125,381	123,774
Loans and receivables – banks	258,537	175,696	134,819	108,635
Loans and receivables – customers	583,835	396,762	443,255	380,248
Total assets	1,508,601	1,025,213	987,064	880,804
Liabilities				
Financial liabilities held for trading	228,783	155,476	145,364	148,588
Due to banks	352,180	239,334	187,989	167,821
Due to customers	486,113	330,352	362,383	317,083
Issued debt securities	257,505	174,995	202,046	170,619
Capitalisation				
Equity attributable to shareholders of the parent company	43,520	29,575	23,597	22,221
Equity attributable to minority interests	1,669	1,134	2,298	1,931
Subordinated liabilities	22,979	15,616	19,213	19,072
Group capital	68,168	46,325	45,108	43,224
Per share financial data				
Ordinary shares outstanding (in millions)	–	1,844.1	1,853.8	1,877.9
Equity attributable to shareholders of the parent company per ordinary share (in EUR)	–	16.04	12.73	11.83
Equity attributable to shareholders of the parent company per American Depositary Share (in USD) (2)	–	23.60	16.78	14.00

(1) Solely for your convenience, euro amounts have been translated into US dollars at an exchange rate of 1 USD = EUR 0.6796, which is the year-end rate for 2007.

(2) This item has been translated into US dollars at the applicable year-end rate.

Selected ratios (1)

	At or for the year ended 31 December		
	2007	2006	2005
	(in percentages)		
Profitability ratios			
Net interest margin (2)	0.9	0.9	0.9
Non-interest income to total operating income	60.1	66.1	63.6
Efficiency ratio (3)	83.5	79.1	74.9
Return on average total assets (4)	1.04	0.58	0.61
Return on average ordinary shareholders equity (5)	38.4	20.7	23.5
Capital ratios			
Average ordinary shareholders equity on average total assets	2.68	2.75	2.47
Dividend payout ratio (6)	10.9	46.0	45.3
Tier 1 Capital ratio (7)	12.42	8.45	10.62
Total Capital ratio (7)	14.61	11.14	13.14
Credit quality ratios			
Provision for loan losses to private sector loans (8)	0.64	0.45	0.22
Provision for loan losses to private and public sector loans (8)	0.63	0.43	0.22
Non-performing loans to private sector loans (gross) (8) (9)	1.44	2.31	1.72
Non-performing loans to private and public sector loans (gross) (8) (9)	1.41	2.23	1.68
Allowance for loan loss to private sector loans (8)	1.13	1.15	1.09
Allowance for loan loss to private and public sector loans (8)	1.10	1.11	1.06
Allowance for loan losses to non-performing loans (gross) (9)	78.16	50.03	63.07
Write-offs to private sector loans (gross) (8)	0.52	0.36	0.39
Write-offs to private and public sector loans (gross) (8)	0.51	0.35	0.38
Consolidated ratio of earnings to fixed charges			
Excluding interest on deposits (10)	1.23	1.44	1.85
Including interest on deposits (10)	1.08	1.17	1.27

(1) According to IFRS the income statement figures of 2006 and 2005 are restated for the qualifying discontinued operations. The 2007 balance sheet figures of 2006 and 2005 are not restated. As a result the applicable ratios throughout the years are therefore not comparable.

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

(3) Operating expenses as a percentage of total operating income.

(4) Profit for the year as a percentage of average total assets.

(5) 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.

(6) Dividend per Ordinary share as a percentage of net profit per Ordinary share.

(7) Tier 1 capital and total capital as a percentage of risk-weighted assets under Bank for International Settlements guidelines. For more information on ABN AMRO's capital ratios, see page 29.

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

(9) Non-performing loans are doubtful loans for which there is objective evidence that not all contractually agreed amounts will be collected and for which an allowance for loan losses has been established. For more information

on non-performing loans see pages 274 and further.

(10) Deposits include banks and total customer accounts.

GROUP ORGANIZATION STRUCTURE

Organisational structure

The following organisational structure was adopted in January 2006. This structure was used by the Consortium Banks to divide the activities amongst each other:

- seven client BUs
- three global product BUs
- two cross-BU segments
- Group Functions
- Services

The seven client BUs consist of five regional BUs (Netherlands, Europe, North America, Latin America and Asia) and two global client BUs, Private Clients and Global Clients. BU Global Clients overlaps the regional BUs in the segment reporting adopted in 2007.

The three global 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.

The client BUs are bound together through a cross-BU Consumer Client Segment and a cross-BU Commercial Client Segment.

The Consumer Client Segment comprises the Consumer Banking heads of all ABN AMRO’s Client BU’s and aims to leverage ABN AMRO’s global capabilities by replicating successes, driving synergies, and identifying global consumer initiatives with the ambition for growth as guiding principle.

The Commercial Client Segment encompasses all of ABN AMRO’s commercial clients. The Commercial Client Segment coordinates activities across the Client and Product Bus, sharing best practice and the overall strategic framework supporting this essential component of the bank’s portfolio.

Group Functions delivers support across the Group in areas ranging from Risk to Finance and from Human Resources to Sustainability.

Services focuses on increasing the operational efficiency through Group-wide consolidation and standardisation.

Please note for the financial results of the Group and each individual BU that the financial results of BU Global Clients, BU Global Markets and BU Transaction Banking are reported in the regional BUs. To align with the management of the business the results of BU Global Clients are reported in the regional BUs as from January 2007. The comparative segment figures of 2006 and 2005 have been restated.

As from 2008, ABN AMRO will be organised into three units each containing the businesses that will ultimately be transferred to the respective Consortium Banks. A fourth unit will contain central functions including the Head Office functions and businesses which are regarded as non-strategic.

Operating and financial review and prospects

For critical accounting policies and changes in accounting rules, refer to the accounting policies section in section 4 (the financial statements).

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

This operating and financial review and prospects examines the Group results under IFRS by comparing the results of operations for the years 2007 to 2006 and for 2006 to 2005, highlighting key notes by Business Unit (BU) for each line item. This is followed by a more detailed analysis of the results of operations for each BU, which explains significant variances in profit or losses for the year with reference to the relevant line items.

Consolidation effects of controlled private equity investments

IFRS requires consolidating private equity investments over which ABN AMRO has control, including non-financial investments managed as private equity investments. However, as a practical matter, ABN AMRO's private equity business is managed separately from the rest of the banking business and management does not measure the performance of banking business based on the consolidated results of operations. Private equity business involves buying equity stakes in unlisted companies over which ABN AMRO can establish influence or control, and managing these share-holdings as an investor for a number of years with a view to selling these at a profit. The companies in which ABN AMRO has these temporary holdings are active in business sectors outside the financial industry. ABN AMRO believes that combining these temporary holdings with the core banking business does not provide a meaningful basis for discussion of the financial condition and results of operations. Therefore, in the presentation of ABN AMRO's 'Group results', the effects of a line-by-line consolidation in the income statement of the private equity holdings of Private Equity and BU Europe are removed. The results excluding the consolidation effect include the 'de-consolidated' holdings based on the equity method. The measures excluding the effects of consolidation of ABN AMRO's private equity holdings are non-GAAP financial measures. Management refers to these non-GAAP financial measures when making operating decisions because the measures provide meaningful supplementary information about ABN AMRO's operational performance. In accordance with applicable rules and regulations, ABN AMRO has presented, and investors are encouraged to review, reconciliations of non-GAAP financial measures to the most comparable IFRS measures, i.e., reconciliations of results excluding the consolidation effects private equity holdings to results including those effects.

Discontinued operations

Antonveneta, BU Asset Management, ABN AMRO North America Holdings ("LaSalle"), ABN AMRO Mortgage Group and Bouwfonds are reported as discontinued operations. BU Asset Management is reported as discontinued operations as of December 2007 due to the planned sale of ABN AMRO's Asset Management activities to Fortis expected to be completed in April 2008. Antonveneta is reported as discontinued operations as of December 2007 due to the sale of Antonveneta which is expected to be effective in the second quarter of 2008. Profits from discontinued operations include the related operating results and if applicable the gain on sale (see note 45 to the financial statements). The comparative income statement figures for the years 2006 and 2005 have been restated in accordance with IFRS. The related assets and liabilities of the discontinued operations are presented as assets/liabilities of businesses held for sale as at 31 December 2007. The comparative figures have not been restated in accordance with IFRS. As at 31 December 2007 also the Private

Equity business is presented as assets/liabilities held for sale. The presentation in the income statement has not been changed compared to previous periods.

Constant foreign exchange rates

Throughout the discussion of the operating and financial review and prospects, the financial results and performance compared with the prior period, both in euros and percentage terms, are given in euros. ABN AMRO 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 are GAAP financial measures 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 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 the BU Latin America in Brazilian real into euros.

Management believes that the exclusion of these items provides a better understanding of the underlying operational performance of businesses during such periods of exchange rate volatility. Fluctuations in exchange rates are outside of the control or influence of management and may distort the analysis of underlying operating performance of ABN AMRO’s businesses during the periods under review. External stakeholders, such as business analysts, also use these measures. However, ABN AMRO recognises that these measures should not be used in isolation and, accordingly, begins the analysis on the performance of the Group and of the BUs with the comparable GAAP actual growth measures that reflect all the factors affecting the business.

ABN AMRO calculates 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 during the previous period being compared. For example, the volumes for the year ended 31 December 2007 have been multiplied with the average monthly exchange rates prevailing during 2006 in order to enable comparison with the 2006 results on a constant currency basis.

Group results

The following table sets out selected information relating to the Group for the years ended 31 December 2007, 2006 and 2005 showing the results both under IFRS and excluding the consolidation effect of ABN AMRO's private equity investments.

(in millions of euros)	IFRS			Consolidation effect (1)			Excluding consolidation effect (non-GAAP measure)		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Net interest income	8,352	7,268	6,763	(220)	(342)	(280)	8,572	7,610	7,043
Net fee and commission income	4,275	4,049	3,432	–	–	–	4,275	4,049	3,432
Net trading income	1,276	2,849	2,514	3	(3)	2	1,273	2,852	2,512
Results from financial transactions	1,548	794	1,183	46	15	35	1,502	779	1,148
Share of results in equity accounted investments	271	241	245	1	–	–	270	241	245
Other operating income	1,376	914	808	–	–	(6)	1,376	914	814
Income of consolidated private equity holdings	3,836	5,313	3,637	3,836	5,313	3,637	–	–	–
Operating income	20,934	21,428	18,582	3,666	4,983	3,388	17,268	16,445	15,194
Operating expenses	17,480	16,945	13,913	3,634	4,939	3,366	13,846	12,006	10,547
Operating result	3,454	4,483	4,669	32	44	22	3,422	4,439	4,647
Loan impairment and other credit risk provisions	1,704	1,411	614	–	–	–	1,704	1,411	614
Operating profit before tax	1,750	3,072	4,055	32	44	22	1,718	3,028	4,033
Income tax expense	(48)	366	735	32	44	22	(80)	322	713
	1,798	2,706	3,320	–	–	–	1,798	2,706	3,320

Net operating profit									
Profit from discontinued operations net of tax	8,177	2,074	1,123	–	–	–	8,177	2,074	1,123
Profit for the year	9,975	4,780	4,443	–	–	–	9,975	4,780	4,443
Total assets	1,025,213	987,064	880,804	1,698	4,537	3,477	1,023,515	982,527	877,327
Risk-weighted assets	232,312	280,704	257,854	–	–	–	232,312	280,704	257,854
Full-time equivalent staff (4)	114,423	124,437	106,689	13,168	30,881	27,775	101,255	93,556	78,914
Number of branches and offices (2)(4)	4,296	4,634	3,681	–	–	–	4,296	4,634	3,681
Efficiency ratio (3)	83.5%	79.1%	74.9%	99.1%	99.1%	99.4%	80.2%	73.0%	69.4%

(1) This is the impact per line item of the private equity investments which are required to be consolidated under IFRS. See ‘financial statements 2007, Accounting policies’.

(2) This number includes double counting of branches and offices that serve more than one BU. Adjusted for this double counting, the actual number of branches and offices amounts to 4,254 (2006: 4,532; 2005: 3,557).

(3) Efficiency ratio (in %) is the operating expenses divided by the operating income.

(4) Including numbers from discontinued operations

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

Profit for the year 2007 increased by EUR 5,195 million, or 108.7% to EUR 9,975 million. Profit from continuing operations decreased by EUR 908 million, or 33.6%, to EUR 1,798 million. The major variances year-on-year are: BU Europe (decrease EUR 1,008 million), BU Group Functions (decrease EUR 511 million), BU North America (decrease EUR 90 million), partly offset by BU Netherlands (increase EUR 343 million), Latin America (increase EUR 107 million), BU Asia (increase EUR 146 million), and BU Private Clients (increase EUR 105 million). Profit from discontinued operations net of tax amounted to EUR 8,177 million, up 294.3% reflecting the divestment of ABN AMRO North America Holding Company, which principally consists of the retail and commercial activities of LaSalle Cooperation (LaSalle), the divestment of ABN AMRO Mortgage Group, Inc., the divestment of Bouwfonds' property management and development activities, the classification of Antonveneta and the classification of BU Asset Management as discontinued operations. Profits from discontinued operations include the related operating results and if applicable the gain on sale.

Operating income

Operating income decreased by EUR 494 million, or 2.3%, to EUR 20,934 million (non-GAAP: operating income increased by EUR 823 million or 5.0%). This relates primarily to the increases of operating income in BU Latin America (EUR 1,114 million), BU Asia (EUR 559 million), and BU Netherlands (EUR 350 million), partly offset by decreases in BU Europe (EUR 1,340 million) and Group Functions (EUR 1,386 million, excluding the consolidation effect (non-GAAP measure: decrease EUR 69 million)) the individual lines that make up operating income are discussed below.

Key notes:

- The increase in BU Latin America was driven by continued strong growth in the Brazil loan portfolio and gains in the ALM portfolio, as well as gains on the sale of stakes in Brazilian credit analysis provider Serasa, Brazilian stock exchange Bovespa, and Brazilian futures exchange Bolsa de Mercados & Futuros (in total EUR 382 million).
- Operating income in BU Asia increased due to further growth in the consumer clients business as the Preferred Banking activities and credit card business continued to expand, especially in India, China, Hong Kong and Taiwan. In addition, commercial client revenues increased as a result of higher Merger & Acquisition advisory fees, a rise in client transactions executed and higher Global Markets revenues.
- Operating income in BU Netherlands increased due to tax-exempt gains on the sale of Interbank/DMC (EUR 56 million) and ABN AMRO Mellon (EUR 139 million), an increase in net interest income due to volume and margin growth in savings products and higher Global Markets revenues, especially in the areas Financial Markets and Structured Finance.
- Operating income in BU Europe decreased due to negative fair value adjustments (EUR 1,561 million) on portfolios related to the credit crisis that developed from the conditions of the sub-prime mortgage market in the United States. BU Europe includes the global hub for Global Markets and therefore the impact of value adjustments is concentrated in BU Europe. The fair value adjustments were partly offset by EUR 435 million of fair value adjustments from changes in own credit risk of which EUR 267 million is recorded in trading income and EUR 168 millions in results from financial transactions.

Net interest income

Net interest income increased by EUR 1,084 million, or 14.9%, to EUR 8,352 million (non-GAAP: net interest income increased by EU 962 million or 12.6%). This was mainly due to increases in BU Latin America (EUR 750 million), BU Netherlands (EUR 278 million), BU Europe (EUR 233 million) and BU Asia (EUR 219 million), partly offset by a decrease in Group Functions (EUR 336 million; non-GAAP measure: EUR 458 million).

Key notes:

- Net interest income in BU Latin America increased mainly due to continued growth in the Brazil credit portfolio, the appreciation of the Brazilian real against the Euro, and higher interest-related treasury revenues.
- The increase in BU Netherlands reflects the growth in volumes and margins of commercial and consumer savings products.
- The increase in BU Asia resulted from continued growth in the consumer lending business and credit card business, higher ALM income and the consolidation of Prime Bank and Taitung Business Bank.
- Net interest income in Group Functions decreased due to higher funding costs and lower investment income following sales of AFS bonds.

Net fee and commission income

The following table sets out the net fee and commission income for the Group for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Fee and commission income			
Securities brokerage fees	1,445	1,692	1,529
Payment and transaction services fees	1,602	1,376	1,237
Asset management and trust fees	485	414	243
Fees generated on financing arrangements	279	162	170
Advisory fees	594	484	333
Insurance-related commissions	133	130	136
Guarantee fees	192	159	164
Other fees and commissions	492	454	369
Subtotal	5,222	4,871	4,181
Fee and commission expense			
Securities brokerage expense	86	322	321
Payment and transaction services expense	267	200	165
Other fee and commission expense	594	300	263
Subtotal	947	822	749
Total	4,275	4,049	3,432

Net fee and commission income increased by EUR 226 million, or 5.6%, to EUR 4,275 million, mainly due to an increase in BU Asia (EUR 286 million), and Group Functions (EUR 121 million), partly offset by decreases in BU Netherlands (EUR 121 million) and BU Europe (EUR 121 million).

Key notes:

- The increase in BU Asia reflected the higher Merger & Acquisition advisory fees following the successful closing of client transactions, higher transaction banking revenues, and further growth in the sale of investment products to the Van Gogh Preferred Banking client base.
- The decrease in BU Netherlands is due to a decline in securities commissions and commissions related to large corporate clients, partly offset by higher payment and asset management commissions (decrease EUR 121 million).

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Net trading income

The following table sets out the net trading income for the Group for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Interest instruments trading	(1,222)	1,103	1,360
Foreign exchange trading	976	706	393
Equity and commodity trading	1,462	1,054	612
Other	60	(14)	149
Total	1,276	2,849	2,514

Net trading income decreased by EUR 1,573 million, or 55.2%, to EUR 1,276 million (non-GAAP: EUR 1,579 million to EUR 1,273 million), mainly due to a decrease in BU Europe (EUR 1,565 million) and in Group Functions (EUR 204 million; non-GAAP measure: EUR 210 million).

Key notes:

- The decrease in BU Europe was due to negative fair value adjustments (EUR 1,561 million) relating to the credit crisis that developed from the conditions of the sub-prime mortgage market in the United States (partially offset by EUR 267 million of income recorded related to changes in own credit risk.) BU Europe includes the global hub for Global Markets and therefore the impact of adjustments was concentrated in BU Europe offsets agains own credit risk of EUR 267 million. .
- The decrease of net trading income in Group Functions is mainly due to lower proprietary trading income in the Global Market business.

Results from financial transactions

The following table sets out the results from financial transactions for the Group for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Net gain from the disposal of available-for-sale debt securities	278	485	431
Net gain from the sale of available-for-sale equity investments	321	70	49
Net gain on fair value changes in own credit risk	168	–	–
Dividend on available-for-sale equity investments	16	32	19
Net gain on other equity investments	669	435	468
Hedging ineffectiveness	(4)	65	30
Fair value change of credit default swaps	116	(280)	(51)
Other	(16)	(13)	237
Total	1,548	794	1,183

Results from financial transactions increased by EUR 754 million, or 95.0%, to EUR 1,548 million (non-GAAP measure: by EUR 723 million or 92.8%). The increase was mainly due to increases in Group Functions (EUR 262 million; non-GAAP measure: EUR 231 million) and BU Latin America (EUR 382 million).

Key notes:

- BU Latin America benefited from gains in the ALM portfolio and gains on sale of stakes in Serasa, a credit analysis provider, the Brazilian stock exchange Bovespa, and the Brazilian futures exchange Bolsa de Mercadorias & Futuros in total a EUR 382 million increase.

- The results from financial transactions of Group Functions increased in total EUR 262 million due to market-to-market gains on capital and risk hedging (credit default swap portfolio) that benefited from the general widening of the credit spreads that occurred throughout the year and gains from changes in fair value related to own credit risk of EUR 115 million, partly offset by decreased gains on sales of AFS bonds.

Share of result in equity accounted investments

Share of result in equity accounted investments increased by EUR 30 million to EUR 271 million (non-GAAP measure: EUR 29 million), mainly due to the increase at Group Functions (EUR 22 million; non-GAAP measure: EUR 21 million).

Other operating income

The following table sets out the Group's results from other operating income for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Insurance activities	95	90	153
Leasing activities	82	61	60
Disposal of operating activities and equity accounted investments	951	453	348
Other	248	310	247
Total	1,376	914	808

Other operating income increased by EUR 462 million, or 50.5%, to EUR 1,376 million, mainly due to increases at Group Functions (EUR 226 million), BU Netherlands (EUR 153 million) and BU Private Clients (EUR 93 million).

Key notes:

- The increase in Group Functions was mainly due to the sale of Capitalia whose shares were settled in exchange for shares in Unicredit, resulting in a gain of EUR 624 million.
- The increase in BU Netherlands was due to the gains on sale of Interbank/DMC (EUR 56 million) and ABN AMRO Mellon (EUR 139 million) realised in 2007.
- The increase in Private Clients was due to the gain on sale of the Latin American Private Banking operations in Miami and Uruguay, including the Latin American portfolios in Switzerland and Luxembourg (EUR 77 million).

Income of consolidated private equity holdings

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

Operating expenses

Operating expenses increased by EUR 535 million, or 3.2%, to EUR 17,480 million (non-GAAP measure: increase of expenses of EUR 1,840 million, or 15.3%, to EUR 13,846 million), due to the increases in operating expenses in BU Latin America (EUR 496 million), BU Asia (EUR 384 million). The increases were partly offset by Group Functions

(decrease of operating expenses of EUR 370 million; non-GAAP measure: increase of EUR 935 million).

In 2007, EUR 24 million of restructuring costs were released, compared with a charge of EUR 207 million in 2006 (of which EUR 174 million in continuing operations and EUR 25 million net in discontinuing operations). In 2007, EUR 272 million (of which EUR 249 million in continuing operations and EUR 17 million net in discontinuing operations) of accelerated vesting of share-based payment plans were recorded. The accelerated vesting of share-based payment plans was a result of the acquisition of ABN AMRO by the consortium banks.

Key notes:

- The decrease in Group Functions was caused by a decline in the operating expenses of consolidated private equity investments due to the change in control. On a non-GAAP basis the increase (EUR 935 million) was due to the break-up fee paid to Barclays (EUR 200 million), transaction-related advisory fees (EUR 211 million), transition and integration costs due to the takeover by the Consortium (EUR 95 million), the provision for the US Department of Justice investigation (EUR 365 million), and the costs of accelerated vesting of share-based payments (EUR 117 million) recorded in Group Functions.
- Operating expenses in BU Latin America were impacted by a new collective labour agreement that came into effect in September 2007, higher bonus accruals, strong growth in business activities, and investments in the expansion of the distribution infrastructure in Brazil.
- The expenses in BU Asia increased due to the acquisition of Prime Bank and Taitung Business Bank, continued investments in new branches and higher staff levels.

Loan impairment and other credit risk provisions

Loan impairment and other credit provisions increased by EUR 293 million to EUR 1,704 million. The provisioning level increased in BU Latin America (EUR 244 million), BU North America (EUR 66 million), BU Europe (EUR 64 million), BU Netherlands (EUR 54 million), partly offset by lower provisions in Group Functions (decrease EUR 144 million).

Key notes:

- Continued strong loan growth in BU Latin America resulted in higher loan impairment and other credit risk provisions (increase EUR 244 million).
- Loan impairment and other credit risk provisions increased in BU North America (EUR 66 million) and BU Europe (EUR 64 million) following the lower level of releases than in the prior year and a change in the credit cycle.
- Provisions in BU Netherlands increased (EUR 54 million) as a result of impairment of facilities to a selected number of corporate clients.
- Provisions in Group Functions decreased (EUR 144 million) as 2006 included an impairment for the Futures business which was sold to UBS.

Effective tax rate

The overall (continued and discontinued businesses) effective tax rate for 2007 was 2.7% versus 11.9% in 2006 (non-GAAP: for 2007 was 4.7% versus 10.6% in 2006). Included in 2007 were significant tax-exempt gains on disposals, including the gain of sale on Capitalia (EUR 624 million, net 617 million), a lower corporate tax rate in the Netherlands, tax credits in some countries as well as substantial releases of tax liabilities resulting from the finalisation of prior-year tax returns and conclusions on a number of additional items.

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax increased EUR 6,103 million to EUR 8,177 million and included the following:

- The sale of ABN AMRO Mortgage Group, Inc., the US-based residential mortgage broker origination platform and residential mortgage servicing business, recording a result of EUR 110 million (net of tax results for the first two months and a gain on sale) in BU North America. This sale was announced by the Group on 22 January 2007. The settlement took place on 28 February 2007.
- The sale of ABN AMRO North America Holding Company, which principally consists of the retail and commercial activities of LaSalle Bank Cooperation (LaSalle) in BU North America. The net of tax results for the first nine months were EUR 777 million, and the gain on sale amounted to EUR 7,163 million, of which EUR 7,196 million was booked in the results of the BU North America and minus EUR 33 million in Group Functions. This sale was announced by the Group on 22 April 2007. The settlement took place on 1 October 2007.
- The classification as discontinued operations of Antonveneta (EUR 111 million losses).
- The classification as discontinued operations of BU Asset Management (EUR 186 million profit).
- The release of part of a provision recorded in connection with the sale of Bouwfonds in 2006 (EUR 52 million).

Results of operations for the years ended 31 December 2006 and 2005

Profit for the year 2006 increased by EUR 337 million, or 7.6%, to EUR 4,780 million. Profit from continuing operations decreased by EUR 614 million, or 18.5%, to EUR 2,706 million. This decrease reflected a mixed performance across the BUs. The major variances year-on-year were increases of results of operations in BU Latin America (EUR 66 million), BU Netherlands (EUR 82 million) and decreases of results of operations in BU North America (EUR 290 million), BU Asia (EUR 190 million), BU Europe excluding Antonveneta (EUR 151 million) and BU Group Functions (EUR 147 million). Profit from discontinued operations net of tax amounted to EUR 2,074 million, reflecting the divestment of the property development and management activities of Bouwfonds, the classification of Antonveneta and BU Asset Management as businesses held for sale, the disposal of ABN AMRO Mortgage Group, Inc. and the disposal of ABN AMRO North America Holding Company, which principally consists of the retail and commercial activities of LaSalle Cooperation (LaSalle). Profits from discontinued operations include the related operating results and applicable gain on the sale.

Operating income

Operating income increased by EUR 2,846 million, or 15.3%, to EUR 21,428 million (non-GAAP: operating income increased by EUR 1,251 million or 8.2%). This mainly relates to the increases of operating income of BU Group Functions (EUR 1,688 million, non-GAAP measure: decrease EUR 9 million), BU Europe (EUR 192 million; excluding the consolidation effect (non-GAAP): EUR 294 million), BU Latin America (EUR 714 million) and BU Asia (EUR 283 million).

Key notes:

- The increase in Group Functions was caused by higher operating income from consolidated private equity investments.
- Excluding the consolidation effect (non-GAAP measure), operating income in BU Europe increased primarily on the back of higher Global Markets income, as client income grew strongly.
- The increase in BU Latin America was mainly due to the continued growth in the retail and consumer finance loan portfolio, partly offset by the inclusion in 2005 of the book profit on the sale of Real Seguros (EUR 229 million).
- BU Asia grew its revenue as its Preferred Banking activities and credit card business continued to expand, especially in India, China, Hong Kong and Taiwan.

Net interest income

Net interest income increased by EUR 505 million, or 7.5%, to EUR 7,268 million, mainly due to increases in BU Latin America (EUR 725 million) and BU Europe (EUR 480 million; non-GAAP: EUR 408 million), partly offset by decreases in BU Netherlands (EUR 443 million) and BU Group Functions (EUR 201 million; non-GAAP: EUR 67 million).

Key notes:

- Net interest income in BU Latin America increased mainly due to the continued growth of the Brazil credit portfolio.
- The decrease in BU Netherlands reflected the fact that mortgage prepayment penalty income was affected by higher offsetting transactions in 2006.
- Net interest income in Group Functions decreased due to higher interest expenses from consolidated private equity investments. Excluding the consolidation effect (non-GAAP measure), net interest income decreased by EUR 67 million.

Net fee and commission income

Net fee and commission income increased by EUR 617 million, or 18.0%, to EUR 4,049 million, mainly due to an increase in BU Asia (EUR 267 million), BU Latin America (EUR 119 million), BU Netherlands (EUR 97 million) and BU Private Clients (EUR 83 million).

Key notes:

- The increase in BU Asia reflected the higher asset under administration levels, the higher fee levels on existing products and a further shift in the asset mix towards more profitable products.
- Net fees and commission income in BU Netherlands increased by EUR 97 million, resulting from higher commission on banking transactions, securities and asset management.

Net trading income

Net trading income increased by EUR 335 million, or 13.3%, to EUR 2,849 million, mainly due to increases in BU Latin America (EUR 163 million), BU Asia (EUR 144 million) and BU Netherlands (EUR 88 million), partly offset by a decrease in BU North America (EUR 90 million).

Key notes:

- The increase of net trading income in BU Latin America (EUR 163 million) was mainly due to the growth of commercial banking in Brazil of client-related trading income.
- Net trading income increased in BU Asia resulting from higher equity finance income in Hong Kong and Taiwan.
- The increase in BU Netherlands was mainly due to higher results on the sale of derivatives.
- The decrease in BU North America (EUR 90 million) was mainly due to lower trading results Global Markets.

Results from financial transactions

Results from financial transactions decreased by EUR 389 million, or 32.9%, to EUR 794 million, mainly due to decreases of results from financial transactions in Group Functions (EUR 353 million; non-GAAP: EUR 379 million) and BU Asia (EUR 85 million), partly offset by the increase of results from financial transactions in BU Netherlands (EUR 167 million).

Key notes:

- Decrease in Group Functions is mainly due to lower results on the sale of bonds and losses on credit default swaps due to tightening spreads, while 2005 included results on option position on Antonveneta.
- Results from financial transactions in BU Asia decreased mainly because of lower Global Client results from financial transactions.

Share of result in equity accounted investments

Share of result in equity accounted investments decreased by EUR 4 million to EUR 241 million, mainly due to Group Functions (EUR 47 million) because of lower results from ABN AMRO's interest in Antonveneta, which was consolidated in 2006, and Kereskedelmi és Hitelbank Rt., which was sold in 2006, partly offset by a higher contribution from ABN AMRO's investment in Capitalia.

Other operating income

Other operating income increased by EUR 106 million, or 13.1%, to EUR 914 million, mainly due to the Group Functions (increase EUR 445 million; non-GAAP: increase EUR 439 million), partly offset by BU Latin America (decrease EUR 320 million).

Key notes:

- The increase in Group Functions was due to the gain on sale of Kereskedelmi és Hitelbank Rt. (EUR 208 million) and the gain on sale of the Futures business (EUR 229 million).
- The decrease in BU Latin America was mainly due to the inclusion of the gain (EUR 229 million) on the sale of Real Seguros in 2005.

Income from consolidated private equity holdings

Income from consolidated private equity holdings increased by EUR 1,676 million, or 46.1%, to EUR 5,313 million, due to the increase in the number and in size of the consolidated investments in private equity.

Operating expenses

Operating expenses increased by EUR 3,032 million, or 21.8%, to EUR 16,945 million (non-GAAP: plus EUR 1,459 million, or 13.8%, to EUR 12,006 million), mainly due to increase of operating expenses Group Functions (EUR 2,004 million; non-GAAP: EUR 327 million), BU Europe (EUR 263 million; non-GAAP: EUR 367 million), BU Latin America (EUR 396 million), BU Asia (EUR 290 million) and BU North America (EUR 138 million), partly offset by lower operating expenses in BU Netherlands (EUR 92 million). In 2006, EUR 137 million restructuring charge was recorded for in relation to the services and IT alignment initiatives and reflected in BU Netherlands, BU North America, BU Latin America and BU Europe.

Key notes:

- The increase in Group Functions was caused by higher operating expenses of consolidated private equity investments and due to the inclusion of a release of post-retirement healthcare benefit provision (EUR 392 million) in 2005.
- Excluding the consolidation effect (non-GAAP measure) operating expenses in BU Europe increased mainly due to restructuring charges of EUR 68 million restructuring from Global Markets and Services, an increase in expenses linked to the growth in operating income, higher bonus expenses and higher costs for compliance related to Sarbanes-Oxley Act and other regulations.

- Operating expenses increased in growth markets in BU Latin America and BU Asia including branch openings and marketing campaigns. Operating expenses in BU Latin America were also impacted by a stronger

Brazilian real and the collective labour agreements that came into effect in September 2005 and September 2006.
- BU Netherlands continued to benefit from strict cost control measures, resulting in lower staff costs.

Loan impairment and other credit risk provisions

Loan impairment and other credit provisions increased by EUR 797 million to EUR 1,411 million. The provisioning level was substantially higher as provisioning for consumer loan portfolios went up in the BU Latin America (increase EUR 372 million) and the BU Asia (increase EUR 178 million).

Key notes:

- Higher loan impairment and other credit risk provisions in BU Latin America were due to the increase in absolute consumer loan volumes and higher delinquencies.
- The increase in BU Asia mainly reflects higher provisioning for credit card receivables in Taiwan, where the banking industry was significantly impacted by an increase in credit card defaults.

Effective tax rate

The overall effective tax rate for 2006 was 11.9% versus 18.1% in 2005. Included in 2006 are tax credits, tax charges due to changes in the tax law and tax-exempt gains which exceeded the 2005 tax rate levels, as well as changes in tax rates.

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax increased to EUR 2,074 million in 2006 from EUR 1,123 million in 2005.

Profit from discontinued operations net of tax of EUR 2,074 million in 2006 included:

- On 1 December 2006, the Group disposed of the property development and management activities of Bouwfonds, resulting in profits of EUR 505 million in BU Netherlands, EUR 338 million of which related to the net gain on the sale and EUR 167 million of which related results of operations.
- On 22 January 2007, the Group announced the sale of ABN AMRO Mortgage Group, Inc., ABN AMRO's US-based residential mortgage broker origination platform and residential mortgage servicing business recording a result of EUR 104 million in BU North America. The settlement took place on 28 February 2007.
- On 22 April 2007, the Group announced the sale of ABN AMRO North America Holding Company which principally consists of the retail and commercial activities of LaSalle Bank Cooperation (LaSalle) which recorded (EUR 1,104 million) in results of operations in BU North America and minus EUR 85 million in Group Functions. The settlement took place on 1 October 2007.
- The classification as discontinued operations of Antonveneta (EUR 192 million).
- The classification as discontinued operations of BU Asset Management (EUR 254 million).

Profit from discontinued operations net of tax of EUR 1,123 million in 2005 was due to the classification as discontinued operations of Bouwfonds (EUR 136 million) in BU Netherlands: the ABN AMRO Mortgage Group, Inc. (EUR 51 million) in BU North America: the ABN AMRO North America Holding Company which principally consists of the retail and commercial activities of LaSalle Bank Cooperation in BU North America (EUR 811 million) and in BU Group Functions (minus EUR 64 million); and the asset management business (EUR 189 million) in BU Asset Management.

Impact of the Current Credit Environment on the Group's Financial Position and Results of Operations

US residential mortgage related exposures

The Group is involved in investing in financial instruments, including asset-backed securities (ABSs) and other structured investments, backed by US residential mortgages and other collateral with exposure to the current US credit environment. Please refer to paragraph 'Risk factors' on page 60.

The following table provides an overview of the main US residential mortgage related exposures at 31 December 2007 in the trading book:

(in millions of euros)	Exposure	Fair Value adjustment through income	Net exposure
Retained Asset-Backed Securities CDOs:			
Super Senior Tranches	2,487	499	1,988
Equity / Mezzanine Tranches	290	290	-
Asset-Backed Securities Trading Inventory:			
Prime RMBS	280	56	224
Sub-Prime RMBS	98	48	50
ABS CDOs	68	62	6
Total	3,223	955	2,268

Wherever possible, the Group values all ABS positions using market prices. However, following rising mortgage delinquencies and expectations of declining house prices in the US, illiquidity in the market has meant that market data in this area has been increasingly difficult to source.

In line with our policy on fair value determination, where quoted market prices and recent market transactions are not available, valuation techniques are employed that involve benchmarking against market prices for similar instruments or the use of valuation models, giving priority to observable market inputs where available.

Retained Asset-Backed Securities CDOs

The Group is involved in buying mortgage-backed securities; including securities backed by US mortgages, and repackaging them into collateralised debt obligations (CDOs) for subsequent sale to investors. As a result of worsening credit conditions, the Group has retained the exposure to the super senior tranches of US related ABS CDOs.

At 31 December 2007, the Group's net exposure to unsold tranches of US related ABS CDOs totalled EUR 1,988 million to high grade CDOs, which include commercial loan collateral as well as prime and sub-prime mortgage collateral.

Throughout the second half of 2007, significant subjectivity arose in the valuation of US related CDOs due to growing illiquidity in the market and as a result, ABN AMRO moved to a model-based valuation approach. The balance sheet valuations of the super senior tranches of ABS CDOs take into consideration outputs from a proprietary model and market data. The model forecasts the expected cash flows of the underlying mortgages using assumptions about

future macroeconomic conditions (including house price appreciation and depreciation) and delinquencies on these underlying mortgages derived from publicly available data.

The resulting cash flows are discounted using a risk adjusted rate. Additionally, prices implied by the model have been evaluated against observable market data, such as the ABX index, a series of credit default swaps based upon bonds that consist of sub-prime mortgages.

Mezzanine and equity tranches of the US ABS CDOs have been written down to zero.

Further analysis of the Group's super senior tranche exposure is provided below:

Exposure (in millions of euros)	2,487
Weighted average attachment point	28%
% underlying RMBS sub-prime assets	77%
Collateral by rating:	
- investment grade	99%
- non-investment grade	1%
Net exposure (in millions of euros)	1,988
Effective weighted average attachment point post fair value movement	42%

Approximately 5% of ABN AMRO's positions in high grade ABS CDOs refer to mortgage loans of vintage 2005 and earlier, whilst 95% refer to 2006 and 2007 vintages. At 31 December 2007, 99% of these securities were investment grade.

Asset-Backed Securities Trading Inventory

There is a further net exposure of EUR 280 million to US residential mortgages through a trading inventory of residential mortgage-backed securities (RMBS) and ABS CDOs. The majority of this exposure relates to prime RMBS. Trading book exposures are marked to market using individual market prices, where available, or against market benchmarks.

Available-For-Sale Asset-Backed Securities

Within our available-for-sale assets are prime RMBS and high grade ABS CDOs with gross exposure to the US market in the amounts of EUR 159 million and EUR 1,988 million respectively. Since these assets are classified as available-for-sale, fair value movements of EUR 165 million are recognised directly in equity within unrealised gains and losses. If there are impairments to these assets, the cumulative gain or loss is transferred to income. At 31 December 2007, none of these assets were considered to be impaired.

Exposure to financial guarantors

Towards the end of 2007, monoline financial guarantors were adversely affected by their exposure to the US sub-prime mortgage market. At 31 December 2007 the Group had a gross direct exposure of EUR 1,632 million mainly relating to credit default swaps (CDSs) and high grade ABS CDOs. Against this amount a credit valuation adjustment of EUR 606 million has been taken of which EUR 379 million relates to non-investment grade financial guarantors.

Additionally, ABN AMRO has an indirect exposure to financial guarantors through financial guarantees (or 'wraps'), purchased or embedded within various securities in the trading and available-for-sale portfolios. The valuation of these securities at 31 December 2007 was largely dependant on the underlying asset quality, rather than the enhancement offered by the embedded guarantee.

Other Portfolios Affected by the Current Credit Environment

The Group's leveraged finance inventory, which is held at amortised cost, totalled EUR 2,457 million at 31 December 2007. Under normal market circumstances, these positions would have been syndicated, but are being retained in the loan book until market conditions become more favourable. These exposures have been assessed as not impaired.

The Group also originates commercial mortgages, predominately in the UK, Germany and France that in normal market circumstances would be considered for distribution. The holding of such mortgages totalled EUR 5,878 million at 31 December 2007. These exposures have been assessed as not impaired.

The Group also purchases portfolios of UK residential mortgages that are held at fair value. These mortgages are generally purchased at a discount and consist of non-conforming loans. Under normal market conditions, these loans would be subject to onward distribution. The holding of such mortgages totalled EUR 1,569 million at December 2007.

Movements in Own Credit

For the year ended 31 December 2007, ABN AMRO recorded a gain of EUR 435 million including EUR 267 million in net trading income and EUR 168 million in results on financial transactions from changes in the fair value of financial liabilities designated at fair value attributable to changes in ABN AMRO's own credit risk. The change in fair value applies to those financial liabilities designated at fair value where ABN AMRO's own credit risk would be considered by market participants and excludes instruments for which it is established market practice not to include an entity-specific adjustment for own credit. The fair value change was calculated based on a yield curve generated from observed external pricing for funding and quoted CDS spreads.

Group capital

The following table shows ABN AMRO's capital at 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Ordinary share capital	1,085	1,085	1,069
Ordinary share premium reserves	5,332	5,245	5,269
Treasury shares	(2,640)	(1,829)	(600)
Retained earnings	25,650	18,599	15,237
Net gains/(losses) not recognised in the income statement	148	497	1,246
Equity attributable to shareholders of the parent company	29,575	23,597	22,221
Minority interests	1,134	2,298	1,931
Equity	30,709	25,895	24,152
Subordinated liabilities	15,616	19,213	19,072
Group capital	46,325	45,108	43,224

Group capital at year-end 2007 was EUR 46,325 million, an increase of EUR 1,217 or 2.7%, compared with

2006. The increase of EUR 5,978 million, or 25.3% in equity attributable to shareholders of the parent company is mainly due to an increase in retained earnings and partially offset by an increase in treasury shares.

Group capital at year-end 2006 was EUR 45,108 million, an increase of EUR 1,884 million, or 4.4%, compared with 2005. The increase of EUR 1,376 million, or 6.2%, in equity attributable to shareholders of the parent company was mainly due to an increase in retained earnings, partly offset by movements in special components of equity relating to cash flow hedges and available-for-sale securities, currency translation differences and purchase of treasury shares.

The 2007 full-year addition to reserves resulting from profit attributable to the shareholders of the parent company less dividends paid was EUR 7,722 million (2006: EUR 3,252 million).

The movements in net gains/(losses) not recognised in the income statement include the net movement in the reserve for available-for-sale assets consisting of net unrealised losses in available-for-sale assets of EUR 392 million (2006: EUR 233 million) and net realised gains reclassified to the income statement of EUR 515 million (2006: EUR 602 million). The net movement in the cash flow hedge reserve consisted of the net unrealised gains on cash flow hedges of EUR 315 million (2006: EUR 735 million) and the realised losses reclassified to the income statement of EUR 54 million (2006: losses of EUR 215 million). Share-based payments grants resulted in a credit to equity of EUR 145 million including taxes (2006: EUR 111 million) .. The exercise of staff options resulted in a credit to equity of EUR 624 million (2006: EUR 143 million). The settlement of share options and awards in cash, as a result of the acquisition of ABN AMRO by the consortium banks, resulted in a debit to equity of EUR 743 million.

The number of ordinary shares outstanding, minus treasury shares, at the end of 2007 decreased by 9.7 million to 1,844.1 million. This decrease was the result of 55.5 million ordinary shares acquired from share buy backs, offset 27.6 million ordinary shares issued resulting from exercise of staff options offset and 18.2 million ordinary shares final stock dividend 2006 issued at an average price of EUR 35.61.

The number of ordinary shares outstanding, minus treasury shares, at the end of 2006 decreased by 24.1 million to 1,853.8 million. This decrease was the result of a 32.8 million ordinary shares final stock dividend 2005 issued at an average price of EUR 21.30, a 30.5 million ordinary shares 2006 interim dividend at an

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average price of EUR 23.40, 8.5 million shares issued due to the exercise of staff options during 2006 and share buy-backs of 95.9 million ordinary shares.

The EUR 1,164 million decrease of minority interests in 2007 is explained by net reductions and disposals of EUR 1,026 million, EUR 38 million currency translation losses and profit attributable to minority interest of EUR 127 million.

The EUR 367 million increase of minority interests in 2006 is explained by the currency translation loss of EUR 46 million, of which EUR 37 million relates to tier-1 capital ratio and a net addition of EUR 413 million.

In 2007, subordinated liabilities decreased by EUR 3,597 million (2006: increase EUR 141 million) to EUR 15,616 million (2006: EUR 19,213 million). The decrease in 2007 is a result of the sale of LaSalle (EUR 1,487 million), currency translation losses (EUR 848 million), reclassifications to liabilities of businesses held for sale (EUR 1,090 million), issuances (EUR 1,496 million) and redemptions (EUR 1,537 million). Issuances in 2007 include: USD 1 billion (EUR 768 million) floating rate lower tier-2 due 2017, non callable before 2012; BRL 550 million (EUR 197 million) floating rate lower tier-2 due 2013 and 2014; and BRL 885 million (EUR 329 million) floating rate lower tier-2 due 2014. Redemptions were EUR 1,537 million and include a USD 750 million (EUR 555 million) 7.125% note issued in 1977, a NLG 750 million (EUR 340 million) 6% note issued in 1997, a NLG 500 million (EUR 227 million) 8.25% note issued in 1992 and a EUR 200 million note issued in 1997.

Issuances in 2006 amount to EUR 4,044 million and include GBP 750 million perpetual subordinated upper tier-2 notes issued on 17 February 2006 paying 5% fixed with a step-up from 17 February 2016, EUR 1.0 billion perpetual preference notes issued on 10 March 2006 and EUR 1.0 billion lower tier-2 Floating Rate Notes (three months Euribor) with a step-up on 14 September 2011 issued on 31 August 2006. Redemptions were EUR 4,430 million and include EUR 2.0 billion 6.5% perpetual subordinated upper tier-2 issued in 2001. The effect of foreign exchange rates reduced the total subordinated liabilities by EUR 980 million. The cost and availability of subordinated liabilities finance are influenced by credit ratings. A reduction in these ratings could increase the cost and reduce market access.

Credit ratings

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

	2007		2006	
	Long term	Short term	Long term	Short term
Standard & Poor’s	AA-	A-1+	AA–	A–1+
Moody’s	AA2	P-1	Aa3	P–1
Fitch	AA-	F1+	AA–	F1+
DBRS	AA	R-1	AA	R–1

Capital ratios

ABN AMRO applies capital adequacy ratios based on the Bank for International Settlements' guidelines and Dutch Central Bank directives. These ratios compare ABN AMRO's capital with its assets and off-balance sheet exposure, weighted according to the relative risk involved. Capital is also set aside for market risk associated with ABN AMRO's trading activities. The minimum tier-1 ratio required is 4% and the minimum total capital ratio is 8%. ABN AMRO comfortably meets these standards with a tier-1 ratio of 12.42% (2006: 8.45%), of which the core tier-1 ratio is 10.59% (2006: 6.18%), and a Bank for International Settlements total capital ratio of 14.61% (2006:11.14%) as at 31 December 2007.

The total capital base increased by 8.5% (2006: decreased by 7.7%) to EUR 33.9 billion at 31 December 2007

(2006: EUR 31.3 billion). Risk-weighted assets amounted to EUR 232.3 billion at year-end 2007 (2006: EUR 280.7 billion), a decrease of EUR 48.4 billion (2006: EUR 22.9 billion), or 17.2%, (2006: 11.3%) from the end of the previous year. Securitisation programs in 2007 increased by EUR 35.5 billion (2006: EUR 23.6 billion) to a total of EUR 124.6 billion (2006: EUR 89.1 billion).

The following table analyses ABN AMRO's capital ratios at 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Tier 1 capital	28,850	23,720	27,382
Tier 2 capital	9,383	9,372	9,851
Tier 3 capital	272	272	272
Supervisory deductions	(4,567)	(2,089)	(3,631)
Total capital base	33,938	31,275	33,874
Risk-weighted assets on balance	172,059	208,948	192,735
Off-balance	53,611	67,675	59,107
Market risks	6,642	4,081	6,012
Total risk-weighted assets	232,312	280,704	257,854
Tier 1 capital ratio	12.42%	8.45%	10.62%
Total capital ratio	14.61%	11.14%	13.14%

Offices and branches

At 31 December 2007, the Group operated 665 offices and branches in the Netherlands (2006: 664) and 3,631 offices and branches (2006: 3,868) in 55 other countries and territories (2006: 55). Of these offices and branches, 17 (2006: 449) were in North America, 2,212 (2006: 2,154) in Latin America and the Caribbean, 1,155 (2006: 1,144) were in Europe, 10 (2006: 8) were in the Middle East and Africa and 237 (2006:113) were in the Asia Pacific Region. Approximately 50% (2006: 48%) of the offices and branches are owned (based on square metres) and the remainders are under lease agreements.

RESULTS OF OPERATIONS BY BU

Changes to reporting structure and presentation

The results of operations for the years ended 31 December 2006 and 2005 reflect the reconstructed results of operations for the years ended 31 December 2006 and 2005 of the BUs assuming the reporting structure applicable in 2007 had been in place during 2006 and 2005.

As of 2007 the results of BU Global Clients are reported in the regional BUs. This approach has been taken to emphasise close cooperation and synergies between BU Global Clients and the regions. The results of Private Equity are included in Group Functions (previously Private Equity was reported separately).The results of International Diamond & Jewelry group are included in Group Functions (previously included in BU Private Clients). The results of Asset Management France are included in BU Asset Management (previously included in BU Private Clients). These changes are a reflection of the way the business was managed in 2007. The comparative figures of 2006 and 2005 have been restated to reflect these changes.

BU Netherlands

BU Netherlands employs approximately 21,900 full time equivalents and serves its consumer and commercial clients through a network of bankshops, advisory branches, dedicated mid-market corporate client units and large-corporate client units. BU Netherlands also operates via ATMs, integrated call centres, and internet and mobile channels.

Selected information

The table sets out selected information relating to BU Netherlands, for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Net interest income	3,399	3,121	3,564
Net fee and commission income	885	1,006	909
Net trading income	704	539	451
Results from financial transactions	33	167	0
Share of result in equity accounted investments	60	51	13
Other operating income	399	246	187
Operating income	5,480	5,130	5,124
Operating expenses	3,525	3,540	3,632
Operating result	1,955	1,590	1,492
Loan impairment and other credit risk provisions	406	352	268
Operating profit before tax	1,549	1,238	1,224
Income tax expense	249	281	349
Net operating profit	1,300	957	875
Profit from discontinued operations net of tax	52	505	136
Profit for the year	1,352	1,462	1,011
Total assets	223,067	206,295	201,641
Risk-weighted assets	95,990	81,227	83,675

Full-time equivalent staff	21,932	22,213	22,769
Number of branches and offices	643	643	683
Efficiency ratio (in %)	64.3%	69.0%	70.9%

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

Profit for the year decreased by EUR 110 million, or 7.5%, to EUR 1,352 million. Net operating profit from continuing operations increased by EUR 343 million, or 35.8%, to EUR 1,300 million, as the result of an increase of EUR 350 million in operating income, a decrease of EUR 15 million in operating expenses and a decrease of EUR 31 million in income tax expenses, partly offset by an increase of EUR 53 million in loan impairment and other credit risk provisions. Profit from discontinued operations net of tax declined by EUR 453 million, or 89.7%, to EUR 52 million.

Operating income

Operating income grew by EUR 350 million or 6.8% to EUR 5,480 million. This mainly increase was due to the gains on sale of Interbank/DMC and ABN AMRO Mellon, an increase in net interest income and higher revenues in Global Markets products, partly offset by lower commissions related to large corporate clients.

- Net interest income increased by EUR 278 million, or 8.9%, driven by healthy loan growth, increases in savings volumes, and improved margins on savings products, partly offset by pressure on loan margins in an increasingly competitive market. Lower prepayment penalties were offset by lower losses on unwinding transactions.
- Net fee and commission income decreased by EUR 121 million, or 12.0%, due to a decline in securities commissions and commissions related to large corporate clients, partly offset by higher payment and asset management commissions. Net trading income and results from financial transactions increased by EUR 31 million, or 4.4%, reflecting favourable market circumstances.
- Other operating income increased by EUR 153 million, or 62.2%, mainly due to the tax-exempt gains on the sales of Interbank N.V., DMC Groep N.V. (total EUR 56 million) and ABN AMRO's 50% share in ABN AMRO Mellon Global Securities Services B.V. (EUR 139 million).

Operating expenses

Operating expenses decreased by EUR 15 million, or 0.4%, to EUR 3,525 million reflecting lower administrative expenses (EUR 72 million) as well as lower internal settlement costs for automation, consultancy and commercial expenses (EUR 70 million) partly offset by higher performance-related bonuses (EUR 68 million). In 2007, a remaining restructuring allowance of EUR 58 million was released; whilst the 2006 operating expenses included a restructuring charge of EUR 48 million.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provision increased by EUR 54 million, or 15.3%, to EUR 406 million. This increase was mainly due to additions in the corporate clients portfolio, partly offset by improvements in the small and medium-sized enterprises and consumer credit portfolios.

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax decreased by EUR 453 million, or 89.7%, to EUR 52 million as 2006 included the results from and the gain on the sale of Bouwfonds, whereas 2007 contained the release of part of a provision related to the 2006 sale of Bouwfonds.

Results of operations for the years ended 31 December 2006 and 2005

Profit for the year increased by EUR 451 million, or 44.6%, to EUR 1,462 million. Profit from continuing operations increased by EUR 82 million, or 9.4%, to EUR 957 million, mainly as the result of a decrease of EUR 92 million in operating expenses, partly offset by an increase of loan impairment and other credit risk provisions of EUR 84 million. Profit from discontinued operations net of tax increased by EUR 369 million, reflecting a EUR 338 million net gain on the sale of the Bouwfonds property development and management activities and a EUR 31 million increase in results from operations (EUR 167 million in 2006 compared with EUR 136 million in 2005).

Operating income

Operating income was almost flat at EUR 5,130 million. Excluding a EUR 201 million year-on-year difference in net mortgage prepayment penalties, operating income increased by 4.2% to EUR 5,116 million, mainly driven by the consumer and commercial clients business, which increased revenues.

- Net interest income decreased by EUR 443 million, or 12.4%, which was affected by lower Global Client results and EUR 215 million of mortgage prepayment penalties in 2005, compared with only EUR 14 million in 2006 after neutralisation transactions. This negatively affected the year-on-year growth in net interest income by EUR 201 million.
- Net fee and commission income increased by EUR 97 million, or 10.7%, as a result of higher commission on banking transactions, securities and asset management.
- Net trading income increased by EUR 88 million, or 19.5%, mainly due to higher income on the sale of derivatives.
- Other operating income increased by EUR 59 million, or 31.6%, mainly due to gains on the disposal of real estate.

Operating expenses

Operating expenses decreased by EUR 92 million, or 2.5%, to EUR 3,540 million, mainly due to lower personnel costs as a result of a reduction in full-time equivalents (from 22,769 in 2005 to 22,213 in 2006), partly offset by EUR 48 million restructuring charges for the Services, Risk and Global Markets and higher Global Clients expenses.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 84 million, or 31.3%, to EUR 352 million, mainly due to higher provisions for the consumer credit portfolio and the small and medium-sized enterprises (SME) portfolio. The increase in provisioning was related to the overall loan growth and a shift in business mix, due to strong growth of consumer and SME credits, which is fully in line with the BU Netherlands' strategy.

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax increased by EUR 369 million, or 271.3% reflecting the EUR 338 million gain on the sale of the Bouwfonds property development and management activities and the EUR 31 million increase in results from operations (EUR 167 million in 2006 compared with EUR 136 million in 2005).

BU Europe

BU Europe covers 27 countries: 23 countries in Europe (excluding the Netherlands) along with Kazakhstan, Uzbekistan, Egypt and South Africa. BU Europe employs approximately 18,900 fte's, 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.

Selected information

The table below sets out selected information pertaining to BU Europe including Antonveneta for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	BU Europe			Consolidation effect			BU Europe (excluding consolidation effect) (non-GAAP measure)		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Net interest income/(expense)	608	375	(105)	–	–	(72)	608	375	(33)
Net fee and commission income	577	698	701	–	–	–	577	698	701
Net trading income/(loss)	(160)	1,405	1,451	–	–	–	(160)	1,405	1,451
Results from financial transactions	159	13	62	–	–	46	159	13	16
Share of results in equity accounted investments	4	–	3	–	–	–	4	–	3
Other operating income/(loss)	(23)	14	73	–	–	–	(23)	14	73
Income of consolidated private equity holdings	–	–	128	–	–	128	–	–	–
Operating income	1,165	2,505	2,313	–	–	102	1,165	2,505	2,211
Operating expenses	2,512	2,479	2,216	–	–	104	2,512	2,479	2,112
Operating result	(1,347)	26	97	–	–	(2)	(1,347)	26	99
Loan impairment and other credit risk provisions	75	11	(35)	–	–	–	75	11	(35)
Operating profit/(loss) before tax	(1,422)	15	132	–	–	(2)	(1,422)	15	134
Income tax expense	(364)	65	31	–	–	(2)	(364)	65	33
Net operating profit/ (loss)	(1,058)	(50)	101	–	–	–	(1,058)	(50)	101
Profit from discontinued operations net of tax	(111)	192	–	–	–		(111)	192	-
	(1,169)	142	101	–	–	–	(1,169)	142	101

Profit/(loss) for the year									
Total assets	500,391	407,174	320,244	–	–	–	500,391	407,174	320,244
Risk-weighted assets	75,026	73,792	34,610	–	–	–	75,026	73,792	34,610
Full-time equivalent staff	18,862	18,067	6,650	–	–	–	18,862	18,067	6,650
Number of branches and offices	1,083	1,090	63	–	–	–	1,083	1,090	63
Efficiency ratio (in %)	215.6%	99.0%	95.8%	–	–	–	215.6%	99.0%	95.5%

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

Profit for the year 2007 decreased by EUR 1,311 million to a loss of EUR 1,169 million. This reflects a decrease in operating income of EUR 1,340 million, an increase in operating expenses of EUR 33 million, an increase in loan impairment and other credit risk provisions of EUR 64 million, and a decrease in discontinued operations (Antonveneta) of EUR 303 million.

Operating income

Total operating income decreased by EUR 1,340 million to EUR 1,165 million mainly due to negative fair value adjustments taken in the second half year, related to the credit crisis that developed from the adverse conditions in the sub-prime mortgage market in the United States. BU Europe includes the global hub for Global Markets and therefore the impact of the adjustments has been realised in BU Europe. The negative value adjustments of EUR 1,561 million (EUR 1,139 million after tax) were comprised of a negative valuation adjustment on mono-line insurers of EUR 606 million (EUR 440 million after tax); and a negative valuation adjustment of EUR 955 million on Asset Backed Securities and CDO exposures (EUR 699 million after tax) offset by gains on own credit risk of EUR 267 million recorded in the trading portfolio and EUR 53 million recorded in result from financial transactions.

Operating expenses

Total operating expenses increased by EUR 33 million to EUR 2,512 million. The operating expenses included a restructuring release of EUR 34 million in 2007, and a restructuring charge of EUR 64 million in 2006 (total decrease of EUR 98 million). Non-staff costs were lower than in 2006 as the benefits from the savings initiatives announced in 2006 came through. The expenses related to bonusses increased with EUR 207 million following the guaranteed amounts and true-ups for Global Markets and Global Clients.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 64 million to EUR 75 million reflecting the change in the credit cycle.

Profit from discontinued operations net of tax

Loss from discontinued operations of Antonveneta was EUR 111 million net of purchase accounting from the valuation of intangible assets (amounting to EUR 1,194 million) and fair value adjustments of financial assets and liabilities. The intangible assets are amortised over a period of approximately eight years within operating expenses, however, amortisation of intangible assets ceased when Antonveneta was reported as discontinued operations. 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 adjusted realised gains on sales of related assets and liabilities.

Revenues of Antonveneta decreased due to negative revaluations of the investment portfolios of Antonveneta and Interbanca, and higher than average capital gains realised in 2006. Commercial client revenue growth was lower than targeted. Operating expenses increased due to a restructuring charge for early retirement (EUR 77 million), higher staff costs and additional investments as a result of the integration and the need to bring the compliance function up to ABN AMRO levels. Provisioning increased due to further impairments in the corporate client portfolio. The tax level was impacted by a new Italian budget law and non-tax deductible losses on participations. Profit for the period on a stand-alone basis was a negative EUR 24 million.

Results of operations for the years ended 31 December 2006 and 2005

Profit for the year 2006 increased by EUR 41 million to EUR 142 million. This reflects an increase of EUR 192 million in operating income (non-GAAP: plus EUR 294 million), an increase of EUR 263 million in operating expenses (non-GAAP: plus EUR 367 million), and an increase of EUR 46 million in loan impairment and other credit risk provisions and the first time consolidation of Antonveneta (EUR 192 million) reported in discontinued operations.

Operating income

Operating income increased by EUR 192 million, or 8.3%, to EUR 2,505 million. Excluding the consolidation effect (non-GAAP measure) operating income increased by EUR 294 million, or 13.3%, predominantly on the back of higher Global Markets income, as client income grew strongly.

Equity revenues benefited from increased client activity, particularly in derivative and structured products. Fixed Income Capital Markets had a strong year as it was able to successfully execute a number of deals for regional clients. Financial Markets also had a good year due to the introduction of a number of innovative new products.

The Private Investor Product offering, focused on Germany, Switzerland and Italy grew during the year. Mergers & Acquisitions and Equity Capital Markets revenues were up on the back of strong deal volumes.

Transaction Banking revenues increased due to a strong performance from Central and Eastern Europe, particularly cash flow advisory for Russian and Kazakh energy sector clients.

Other operating income in 2005 included the gain on the sale of the Bishopsgate office in London (EUR 43 million).

Operating expenses

Operating expenses increased by EUR 263 million, or 11.9%, to EUR 2,479 million. Excluding the consolidation effect (non-GAAP measure) operating expenses increased by EUR 367 million, or 17.4%, mainly due to EUR 64 million restructuring charges for Global Markets and Services, an increase in expenses linked to the growth in operating income, such as higher bonus accruals and higher costs for compliance with the Sarbanes-Oxley Act and other regulations.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 46 million to a charge of EUR 11 million due to lower releases.

Profit from discontinued operations net of tax

As ABN AMRO only took control of Antonveneta on 2 January 2006, ABN AMRO has not made a comparison between the profit for the years ended 31 December 2006 and 2005 for this entity. Profit for the year 2006 was EUR 192 million net of purchase accounting from the valuation of intangible assets (amounting to EUR 1,194 million) and fair value adjustments of financial assets and liabilities.

BU North America

On 22 January 2007, the Group announced the sale of the ABN AMRO Mortgage Group, Inc., ABN AMRO's US-based residential mortgage broker originating platform and the residential mortgage servicing business, to Citigroup. The closing of this transaction was 28 February 2007, and the results of the divested business are reported as discontinued operations net of tax.

On 23 April 2007, the Group announced the sale of ABN AMRO North America Holding Company (AANAHC), which principally consists of the retail and commercial activities of LaSalle Bank Cooperation (LaSalle) to Bank of America for USD 21 billion in cash. The results of the divested business are reported as discontinued operations net of tax. The sale of LaSalle closed on 1 October 2007.

Due to the sale of LaSalle and AAMG, the continuing operations of BU North America now essentially comprise the North America Global Markets and Global Clients operations.

Selected information

The table sets out selected information relating to BU North America for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Net interest income	117	143	179
Net fee and commission income	263	291	220
Net trading income	206	150	240
Results from financial transactions	5	(36)	35
Other operating income	43	21	18
Operating income	634	569	692
Operating expenses	776	801	663
Operating result	(142)	(232)	29
Loan impairment and other credit risk provisions	33	(33)	(148)
Operating profit/(loss) before tax	(175)	(199)	177
Income tax benfit	(85)	(199)	(113)
Net operating profit/(loss)	(90)	0	290
Profit from discontinued operations net of tax	8,077	1,208	862
Profit for the year	7,987	1,208	1,152
Total assets	79,241	166,590	151,532
Risk-weighted assets	4,905	74,066	80,531
Full-time equivalent staff	1,594	1,585	1,561
Number of branches and offices	7	441	442
Efficiency ratio (in %)	122.4%	140.8%	95.8%

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

Profit for the year increased by EUR 6,779 million to EUR 7,987 million. This is the result of an increase in operating income of EUR 65 million, a decrease in operating expenses of EUR 25 million, an increase in loan impairment and other credit risk provisions of EUR 66 million, an increase in income tax expense of EUR 114 million and an increase in profit from discontinued operations of EUR 6,869 million mainly due to the gain on sale of LaSalle. The US dollar depreciated 8.2% on average compared with the euro in 2007 (comparing the average rate in 2007 with the average rate in 2006).

Operating income

Operating income increased by 11.4% to EUR 634 million, mainly as a result of the positive impact on the Global Markets activities of the decline in interest rates and the weakening US dollar, despite the difficult market environment created by the sub-prime and credit crises in the second half of the year.

Operating expenses

Operating expenses decreased by 3.1% to EUR 776 million, with the successful drive for further improved cost management being partly offset by higher bonuses. The operating expenses included a restructuring charge of EUR 9 million in 2007 and "stranded" costs of EUR 122 million. The continuing operations include the global overhead costs allocated to LaSalle that continued to be incurred by ABN AMRO during 2007.

Loan impairment and other credit risk provisions

Provisions changed from a net release of EUR 33 million to a net charge of EUR 33 million due to developments related to a small number of corporate credits.

Income tax expense

Net tax credits decreased by EUR 114 million to a net tax credit of EUR 85 million.

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax increased by EUR 6,869 million to EUR 8,077 million mainly due to the gain on the sale of LaSalle (EUR 7,162 million, of which EUR 7,195 million was booked in the results of the BU North America and a negative amount of EUR 33 million in Group Functions), and the gain on the sale of ABN AMRO Mortgage Group (EUR 147 million).

Results of operations for the years ended 31 December 2006 and 2005

Profit for the year 2006 increased by EUR 56 million, or 4.9%, to EUR 1,208 million. Profit from continuing operations decreased by EUR 290 million to EUR 0 million, mainly as a result of a decrease in operating income of EUR 123 million, an increase in operating expenses of EUR 138 million, an increase in loan impairment and other credit risk provisions of EUR 115 million an a decrease in income tax expense of EUR 86 million. Profit from discontinued operations net of tax increased by EUR 346 million. The US dollar depreciated by 2.1% on average compared with the euro in 2006(comparing the average rate in 2006 with the average rate in 2005).

Operating income

Operating income decreased by EUR 123 million to EUR 569 million, which is mainly caused by a decrease of the net trading income.

Operating expenses

Operating expenses increased by EUR 138 million, or 20.8%, to EUR 801 million, partly due to restructuring charges.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 115 million, to EUR minus 33 million due to lower releases.

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax increased by EUR 346 million, or 40.1%, to EUR 1,208 million.

Operating income from discontinued operations increased, mainly due to an improved contribution from all business lines despite challenges in the yield curve. Furthermore, operating income increased due to the impact of the Talman settlement (EUR 110 million). In December 2006, BU North America, through LaSalle, received a favourable judgement in its claim against the US Government related to the 1992 acquisition of the Talman Home Federal Savings and Loan Association.

Operating expenses from discontinued operations increased, mainly due to restructuring charges and higher expenses related to investments in Group Service IT action tracks and increased compliance expenses.

Loan impairment and other credit risk provisions increased, from a net release to a charge, mainly as a result of lower recoveries and releases.

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 stand-alone and in-company branches, points-of-sale and ATMs. At year-end 2007, 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 been reported and managed together with Banco Real to form BU Latin America. Outside of 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 31,000 fte's. The Brazilian operations are BU Latin America's largest in the region by a substantial margin.

Selected information

The table sets out selected information relating to BU Latin America for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Net interest income	3,756	3,006	2,282
Net fee and commission income	560	538	419
Net trading income	157	231	68
Results from financial transactions	415	33	24
Share of result in equity accounted investments	48	55	37
Other operating income	90	49	369
Operating income	5,026	3,912	3,199
Operating expenses	2,829	2,333	1,937
Operating result	2,197	1,579	1,262
Loan impairment and other credit risk provisions	964	720	348
Operating profit before tax	1,233	859	914
Income tax expense	425	158	278
Net operating profit	808	701	636
Profit from discontinued operations net of tax	–	–	–
Profit for the year	808	701	636
Total assets	52,659	39,404	31,951
Risk-weighted assets	34,635	24,242	22,689
Full-time equivalent staff	31,015	28,205	26,501
Number of branches and offices	2,209	2,151	2,153
Efficiency ratio (in %)	56.3%	59.6%	60.6%

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

Profit for the year 2007 increased by EUR 107 million, or 15.3%, to EUR 808 million. This is mainly the result of an increase in operating income of EUR 1,114 million, partly offset by an increase of EUR 496 million in operating expenses, an increase of EUR 244 million in loan impairment and other credit risk provisions and an increase of EUR 267 million in income tax expense. The Brazilian Real appreciated by 3.2% on average compared with the Euro in 2007 (comparing the average rate in 2007 with the average rate in 2006).

Operating income

Operating income increased by EUR 1,114 million, or 28.5%, driven by the continued strong growth of the Brazil loan portfolio, gains in the local investment portfolio, as well as gains on the sale of stakes in Brazilian credit analysis provider Serasa, Brazilian stock exchange Bovespa, and Brazilian futures exchange Bolsa de Mercados & Futuros.

At constant foreign exchange rates, the Brazilian retail banking business grew operating income by 24%, fuelled by a 31% increase in the retail loan portfolio at interest spreads that on balance declined mainly due to the fact that growth in the SME portfolio was higher than in the higher-margin households portfolio.

Total operating income of the Aymoré consumer finance activities increased by 18% at constant foreign exchange rates on the back of continued strong loan growth that was partly offset by a decline in net interest margins. Commercial banking realised an increase in operating income of 49% at constant foreign exchange rates, mainly on the back of accelerated loan growth and investment banking activities.

Operating expenses

Operating expenses increased by EUR 496 million, or 21.3%, to EUR 2,829 million, reflecting the impact of a new collective labour agreement that came into effect in September 2007, higher bonus accruals, strong growth in business activities, and investments in the expansion of the distribution infrastructure in Brazil, with Banco Real opening 47 new branches, 13 mini-branches and 735 new ATMs during 2007.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 244 million, or 33.9%, reflecting continued strong loan growth.

Income tax expense

Income tax expense increased by EUR 267 million to EUR 425 million, as 2006 tax credits did not recur.

Results of operations for the years ended 31 December 2006 and 2005

Profit for the year 2006 increased by EUR 66 million, or 10.4%, to EUR 701 million. This was mainly the result of an increase of EUR 714 million in operating income, an increase of EUR 396 million in operating expenses and an increase of EUR 372 million in loan impairment and other credit risk provisions. The Brazilian real appreciated by 8.3% on average compared with the Euro in 2006 (comparing the average rate in 2006 with the average rate in 2005).

Operating income

Operating income increased by EUR 714 million, or 22.3%, to EUR 3,912 million, mainly due to the continued strong growth of the Brazil credit portfolio and a further improvement in non-interest income, partly offset by the inclusion in 2005 of the book profit on the sale of Real Seguros (EUR 229 million in other operating income).

At constant foreign exchange rates, the Brazilian retail banking business grew by 19.7%, fuelled by a 31.8% increase in the retail loan portfolio at slightly lower net interest margins.

For the Aymoré consumer finance activities, operating income was up by 34.4% due to strong loan growth. Average balances grew by 32.1%. Commercial banking, which contributed 6.2% to the operating income from Brazil, increased its operating income by 18.8% on the back of loan growth, higher client-related trading income and increased net fee and commission income.

Operating expenses

Operating expenses increased by EUR 396 million, or 20.4%, to EUR 2,333 million, mainly due to higher investments related to Group Services IT outsourcing projects, the impact of the successive new collective labour agreements (collective labour agreements that came into effect in September 2005 and September 2006) and an increase in performance-related bonuses. The operating expense growth should also be seen in the context of an 8% increase in the number of customers in Brazil to 13.1 million at year-end 2006, as well as further expansion in the network of

sales outlets.

Loan impairment and other credit risk provisions

Loan impairments and other credit risk provisions increased by EUR 372 million, or 106.9%, to EUR 720 million, reflecting an increase in delinquencies in Brazil, mainly in the first half of the year 2006, as a result of the strong increase in credit availability in Brazil that started in 2005 and the high growth in the loan portfolio.

Income tax expense

The overall effective tax rate for the year 2006 declined by 12.0 percentage points to 18.4% as a result of tax credits related to the acquisition of Banca Intesa's minority holding in Banco ABN AMRO Real.

BU 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, operating through branches and offices. BU Asia's client base includes commercial as well as consumer and private banking clients. It employs approximately 20,000 fte's, including support functions serving all BUs operating in the region.

Selected information

The table sets out selected information pertaining to BU Asia for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Net interest income	831	612	647
Net fee and commission income	1,083	797	530
Net trading income	389	358	214
Results from financial transactions	48	(7)	78
Share of result in equity accounted investments	66	62	73
Other operating income	11	47	44
Operating income	2,428	1,869	1,586
Operating expenses	1,803	1,419	1,129
Operating result	625	450	457
Loan impairment and other credit risk provisions	228	213	35
Operating profit before tax	397	237	422
Income tax expense	121	107	102
Net operating profit	276	130	320
Profit from discontinued operations net of tax	–	–	–
Profit for the year	276	130	320
Total assets	76,278	69,800	64,482
Risk-weighted assets	17,556	16,552	16,358
Full-time equivalent staff	19,834	14,141	11,827
Number of branches and offices	213	114	144
Efficiency ratio (in %)	74.3%	75.9%	71.2%

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

Profit for the year increased by EUR 146 million, or 112.3%, to EUR 276 million. This reflects an increase of EUR 559 million in operating income, an increase of EUR 384 million in operating expenses and an increase of EUR 15 million in loan impairment and other credit risk provisions.

Operating income

Operating income increased by EUR 559 million, or 29.9%, to EUR 2,428 million, driven by strong growth in

consumer banking and higher operating income in the commercial segment.

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

- Net fee and commission income increased by EUR 286 million, mainly due to growth in Mergers & Acquisition advisory fees, execution of Equity Capital Markets transactions, and higher transaction banking revenues.
- Net trading income increased by EUR 31 million to EUR 389 million, mainly as a result of Global Markets activities.

Operating expenses

Operating expenses increased by EUR 384 million, or 27.1% to EUR 1,803 million, due to higher staff costs and bonus accruals as a result of increased revenues, continued investments in the expansion of the branch network and the consolidation of Prime Bank and Taitung Business Bank. Since the end of 2006, 16 branches across China, India, Indonesia, Hong Kong and Malaysia have been opened, bringing the total number of branches in Asia to 186, including 91 branches from recent acquisitions. In 2007, operating expenses included a restructuring release of EUR 2 million, compared with a restructuring charge of EUR 14 million booked in 2006.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 15 million to EUR 228 million, reflecting strong growth in the consumer finance businesses, particularly in India and Indonesia. The provisioning level in Taiwan was significantly lower than in the previous year.

Results of operations for the years ended 31 December 2006 and 2005

Profit for the year decreased by EUR 190 million, or 59.4%, to EUR 130 million. This reflected an increase of EUR 283 million in operating income, an increase of EUR 290 million in operating expenses and an increase of EUR 178 million in loan impairment and other credit risk provisions.

Operating income

Operating income increased by EUR 283 million, or 17.8%, to EUR 1,869 million, mainly driven by strong client growth in consumer banking and higher operating income in the commercial segment.

Client growth in the consumer banking segment was mainly driven by the Van Gogh Preferred Banking business, a relationship banking approach to mass affluent clients serviced through a dedicated point of contact. The number of clients in Asia increased by 18% to 3.3 million and the number of credit cards in Asia increased by 19% to 2.8 million. The strongest-performing regions from a consumer banking perspective were India, China,

Hong Kong and Taiwan, United Arab Emirates and Indonesia. The higher operating income in the commercial business segment was mainly driven by growth in Hong Kong, United Arab Emirates, Pakistan and China. Australia grew by 59%, driven by strong growth in its infrastructure capital business.

- Net fee and commission income increased by EUR 267 million, or 50.4%, mainly due to payment services following the growth in the credit card business, as a result of large infrastructure and capital deals in Australia and due to higher Global Client results.
- Net trading income increased by EUR 144 million to EUR 358 million, mainly as a result of higher equity finance income in Hong Kong and Taiwan.
- Results from financial transactions decreased by EUR 85 million, or 109.0%, mainly due to lower Global Client results.

Operating expenses

Operating expenses increased by EUR 290 million, or 25.7%, to EUR 1,419 million, which was mainly fuelled by staff hirings (from 11,827 full-time equivalents in 2005 to 14,141 full-time equivalents in 2006), continued investments in the expansion of the branch network in support of ABN AMRO’s Van Gogh Preferred Banking growth ambitions, continued growth in the consumer and credit card business and EUR 14 million restructuring charges for Global Markets, Risk and Services.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 178 million to EUR 213 million, mainly reflecting higher provisions for the credit card receivables in Taiwan.

BU Private Clients

BU Private Clients offers private banking services to wealthy individuals and institutions with EUR 1 million or more in net investable assets. With Assets under Administration of EUR 140 billion in 2007, BU Private Clients is one of the top five private banks in Europe. BU Private Clients has more than 3,000 fte’s and operates in 16 countries.

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.

As of 1 January 2007, the International Diamond & Jewelry Group and Asset Management France are included in Group Functions and BU Asset Management respectively (both were previously included in BU Private Clients) to align with the way the business is managed. In the fourth quarter of 2007, BU Private Clients completed the sale of the UK Private banking unit to SG Hambros and the sale of Vermogensgroep back to its former shareholders.

Selected information

The table sets out selected information relating to BU Private Clients for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	2007	2006	2005
Net interest income	461	495	480
Net fee and commission income	677	610	527
Net trading income	75	57	38
Results from financial transactions	6	4	11
Share of result in equity accounted investments	–	2	1
Other operating income	168	75	100
Operating income	1,387	1,243	1,157
Operating expenses	915	883	850
Operating result	472	360	307
Loan impairment and other credit risk provisions	–	6	6
Operating profit before tax	472	354	301
Income tax expense	116	103	66
Profit for the year	356	251	235
Total assets	19,623	18,550	16,593
Risk-weighted assets	8,075	7,671	7,339
Assets under Administration (in billions of EUR)	140	142	131
Full-time equivalent staff	3,064	3,212	3,942
Number of branches and offices	95	96	85
Efficiency ratio (in %)	66.0%	71.0%	73.5%

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

Profit for the year increased by EUR 105 million, or 41.8%, to EUR 356 million. This reflected an increase in operating income of EUR 144 million, an increase in operating expenses of EUR 32 million and an increase in income tax expense of EUR 13 million. The 2007 results included the gain on the sale of its Latin American Private Banking operations in Miami and Montevideo, including the Latin American portfolios in Switzerland and Luxembourg (EUR 72 million net).

Operating income

Operating income increased by EUR 144 million, or 11.6%, to EUR 1,387 million primarily driven by increases in the Netherlands and Asia, as well as the gain on the sale of the Latin American Private Banking operations in Miami and Uruguay, including the Latin American portfolios in Switzerland and Luxembourg (EUR 77 million).

- Net interest income decreased by EUR 34 million, or 6.9%, mainly due to strong pressure on margins resulting from the flat yield curve over 2007. This specifically impacted margins on savings accounts.
- Non-interest income increased by 14.3% or EUR 178 million mainly driven by higher net fee and commission income, reflecting higher volumes in non-interest related products such as stocks, investment funds and structured products. Assets under Administration decreased by EUR 5.7 billion to EUR 140.4 billion, reflecting the sale of the Miami, Uruguay, Vermogensgroep and UK Private Banking operations. Financial market conditions, especially in the fourth quarter of 2007, resulted in portfolio value reduction which was offset by a net inflow of new money in

2007.

- Other operating income in 2007 included the gain on the sale of the Latin American Private Banking operations in Miami and Uruguay, including the Latin American portfolios in Switzerland and Luxembourg (EUR 77 million).

Operating expenses

Operating expenses increased by EUR 32 million, or 3.6%, to EUR 915 million, reflecting better cost management across all regions.

Results of operations for the years ended 31 December 2006 and 2005

Profit for the year increased by EUR 16 million, or 6.8%, to EUR 251 million. This reflected an increase in operating income of EUR 86 million, an increase in operating expenses of EUR 33 million and an increase in income tax expense of EUR 37 million.

Operating income

Operating income increased by EUR 86 million, or 7.4%, to EUR 1,243 million driven by increases across all regions (especially the Netherlands, France and Germany) and the successful integration of Bank Corluy into Private Clients Belgium.

- Net interest income grew by EUR 15 million, or 3.1%, on the back of higher volumes of client deposits.
- The increase in non-interest income was driven by net fee and commission income, which grew by EUR 83 million, or 15.7%, reflecting the client appetite for equity products and Private Investor Products. Assets under Administration increased by EUR 11 billion to EUR 142 billion, reflect an increase in net new assets and higher net asset values due to an improved performance by the financial markets and the inclusion of Vermogensgroep in 2006. The asset mix remained relatively stable with 69% in securities and 31% in cash.
- Other operating income in 2005 included the gain on the sale of Nachenius, Tjeenk & Co during 2005 (EUR 38 million).

Operating expenses

Operating expenses increased by EUR 33 million, or 3.9%, to EUR 883 million as a consequence of the merger of Banque Neuflize and Banque OBC in France, higher value-added tax in France following a change in legislation, higher expenses in Asia and Latin America to fund future growth and higher compliance costs. The 2005 results included EUR 45 million restructuring charges related to the merger of Banque Neuflize and OBC in France.

BU Asset Management

BU Asset Management is ABN AMRO’s global asset management business, managing approximately EUR 199 billion in specialist mandates and mutual funds. BU Asset Management has more than 1,800 fte’s 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.

Selected information

The table sets out selected information relating to BU Asset Management for the years ended 31 December 2007, 2006 and 2005.

As from December 2007 the results of BU Asset Management are classified under discontinued operations due the transfer of ABN AMRO Asset Management to Fortis, which is expected to be effective in the second quarter of 2008.

(in millions of euros)	2007	2006	2005
Profit from discontinued operations net of tax	186	254	189
Profit for the year	186	254	189
Total assets	1,419	1,402	1,199
Risk-weighted assets	876	870	823
Assets under Management (in billions of EUR)	199	193	176
Full-time equivalent staff	1,874	1,630	1,722
Number of branches and offices	24	22	33

As of 1 January 2007, Asset Management France has been transferred from BU Private Clients to BU Asset Management. The comparative segment figures for 2006 and 2005 have been restated.

Profit from discontinued operations net of tax for the years ended 31 December 2007 and 2006

Profit from discontinued operations net of tax decreased by EUR 68 million, or 26.8%, to EUR 186 million. This was mainly the result of an increase in operating income (EUR 86 million), an increase in operating expenses (EUR 123 million) and an increase in income tax expense (EUR 31 million).

The 2006 results included the gain on the sale of the Asset Management operations in Curacao (EUR 28 million), the gain on the sale of the domestic asset management operations in Taiwan (EUR 38 million) and the gain on the sale of the US mutual fund business (EUR 17 million). There were no divestments in 2007.

Operating expenses increased by EUR 123 million, mainly due to EUR 50 million transition and integration costs as well as higher bonus costs following improved performance.

The overall effective tax rate for the year increased from 22.3% in 2006 to 35.9% in 2007, mainly due to an impairment of a deferred tax asset (DTA) taken in 2007. The income tax rate was also influenced in 2006 by the tax-exempt gain on the sale of the asset management operations in Curacao, Taiwan and the United States.

Profit from discontinued operations net of tax for the years ended 31 December 2006 and 2005

Profit from discontinued operations net of tax increased by EUR 65 million, or 34.4%, to EUR 254 million. This was mainly the result of an increase in operating income (EUR 123 million), an increase in operating expenses (EUR 32 million) and an increase in income tax expense (EUR 26 million).

Operating income increased by EUR 123 million, reflecting the higher Assets under Management levels, the higher fee levels on existing products, a further shift in the asset mix towards more profitable products and the impact of divestments. The 2006 results included the gain on the sale of the Asset Management operations in Curacao (EUR 28 million), the gain on the sale of the domestic asset management operations in Taiwan (EUR 38 million) and the gain on the sale of the US mutual fund business (EUR 17 million). The 2005 results included the sale of operations in Kazakhstan (EUR 13 million).

Operating expenses increased by EUR 32 million. Lower expenses due to the sale of the trust business were more than offset by higher bonus accruals and the inclusion of International Asset Management Limited.

The overall effective tax rate for the year increased mainly due to lower levels of tax-exempt seed capital gains. The income tax expense was also influenced in 2006 by the tax-exempt gain on the sale of the asset management operations in Curacao, Taiwan and the United States. The income tax expense in 2005 was influenced by the inclusion of the tax-exempt gain on the sale of the trust business.

Group Functions

Group Functions delivers value-added support across the Group in areas from Risk to Finance and from Human Resources to Sustainability, while balancing global control with local flexibility and expertise. Group Functions includes the operating results of Group Services, Private Equity and International Diamonds & Jewelry Group (ID&JG) and the proprietary trading and futures results from Global Markets.

Group Functions including Private Equity and Services has approximately 3,000 employees.

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 (‘participaties’), and dedicated media and telecom sector investments. It operates from seven offices across Europe and Australia and has 43 employees. Due to the change in management control, the portfolio of investments managed by the independent management company will no longer be consolidated, but instead will be carried at fair value with value changes directly impacting the profit and loss account. The results from Private Equity are consolidated into Group Functions. The comparative segment figures for 2006 and 2005 have been restated.

Services

ABN AMRO’s Services organisation is responsible for delivering internal support services across ABN AMRO’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 ABN AMRO and building on the experience of the Group Shared Services (GSS) programme, which was initiated in 2004. It currently has approximately 1,000 employees.

Selected information

The table sets out selected information pertaining to Group Functions, for the years ended 31 December 2007, 2006 and 2005.

(in millions of euros)	IFRS			Consolidation effect (1)			Excluding consolidation effect (non-GAAP measure)		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Net interest income/(expense)	(820)	(484)	(283)	(220)	(342)	(208)	(600)	(142)	(75)
Net fee and commission income	230	109	126	–	–	–	230	109	126
Net trading income/(loss)	(95)	109	52	3	(3)	2	(98)	112	50
Results from financial transactions	882	620	973	46	15	(11)	836	605	984
Share of results in equity accounted investments	93	71	118	1	–	–	92	71	118
Other operating income	688	462	17	–	–	(6)	688	462	23
Income of consolidated private equity holdings	3,836	5,313	3,509	3,836	5,313	3,509	–	–	–
Operating income	4,814	6,200	4,512	3,666	4,983	3,286	1,148	1,217	1,226
Operating expenses	5,120	5,490	3,486	3,634	4,939	3,262	1,486	551	224
Operating result	(306)	710	1,026	32	44	24	(338)	666	1,002
Loan impairment and other credit risk provisions	(2)	142	140	–	–	–	(2)	142	140
Operating profit/(loss) before tax	(304)	568	886	32	44	24	(336)	524	862
Income tax expense/(benefit)	(510)	(149)	22	32	44	24	(542)	(193)	(2)
Net operating profit	206	717	864	–	–	–	206	717	864
Profit from discontinued operations net of tax	(27)	(85)	(64)	–	–	–	(27)	(85)	(64)
Profit for the year	179	632	800	–	–	–	179	632	800
Total assets	72,535	77,849	93,162	1,698	4,537	3,477	70,837	73,312	89,685
Risk-weighted assets	(4,751)	2,284	11,829	–	–	–	(4,751)	2,284	11,829
Full-time equivalent staff	16,248	35,384	31,717	13,168	30,881	27,775	3,080	4,503	3,942
Number of branches and offices	4	7	9	–	–	–	4	7	9

Efficiency ratio (in %)	106.4%	88.5%	77.3%	99.1%	99.1%	99.3%	129.4%	45.3%	18.3%

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

Private Equity made new investments totalling EUR 503 million in new investments in 2007. A total of EUR 1,227 million in proceeds was realised from divestments. As a result of investments, divestments and unrealised fair market value changes, currency and other effects, the value of the total portfolio under management by Private Equity decreased from EUR 2,309 million in 2006 to EUR 2,035 million in 2007.

The fair value of the unquoted buy-out portfolio at year-end 2006 amounted to EUR 1,729 million. The fair market value of the unquoted corporate investment portfolio amounted to EUR 533 million. The fair market value of the quoted portfolio was EUR 47 million.

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

Profit for the year decreased by EUR 453 million, or 71.7%, to EUR 179 million. This was the result of a decrease in operating income of EUR 1,386 million (non-GAAP: minus EUR 69 million), a decrease in operating expenses of EUR 370 million (non-GAAP: plus EUR 935 million) and an increase in tax benefit of EUR 361 million (non-GAAP: plus EUR 349 million).

Operating income

Operating income decreased by EUR 1,386 million, or 22.4%, to EUR 4,814 million. Non-GAAP: EUR 1,148 million, mainly due to lower proprietary trading results of the Global Markets activities reported in Group Functions and higher funding costs. This was partly offset by gains on the credit default swap portfolio that benefited due to the general widening of the credit spreads that occurred throughout the year (EUR 116 million), a gain on own credit risk (EUR 115 million), both recorded in result from financial transactions, and the gain on the sale of Capitalia whose shares were settled for Unicredit shares (EUR 624 million), recorded in other income.

- Net interest income decreased by EUR 336 million (non-GAAP: minus EUR 458 million), mainly due to higher funding costs as a result of higher interest rates and credit spreads.
- Net trading income decreased by EUR 204 million (non-GAAP: minus EUR 210 million) to a negative EUR 95 million (non-GAAP: minus EUR 98 million), mainly due to lower proprietary trading results.
- Other operating income increased by EUR 226 million to EUR 688 million due to a revaluation gain on ABN AMRO’s stake in Capitalia (EUR 624 million) and due to the inclusion in 2006 of the gain on sale of the Futures business (EUR 229 million) and the gain on sale of Kereskedelmi és Hitelbank Rt. (EUR 208 million).

Operating expenses

Operating expenses decreased by EUR 370 million (non-GAAP: increase of EUR 935 million). Operating expenses in 2007 included a provision for the U.S. Department of Justice investigation (EUR 365 million), transaction- related advisory fees (EUR 211 million), the break-up fee paid to Barclays (EUR 200 million), costs of accelerated vesting of share-based payments (EUR 117 million) and transition and integration costs (EUR 95 million). The results in 2006 included a EUR 5 million restructuring charge, whereas 2007 included a restructuring release of EUR 14 million.

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions decreased by EUR 144 million to a release of EUR 2 million. The 2006 results included a provision for the Futures business (EUR 72 million) and a loan impairment for the International Diamonds & Jewelry Group.

Income tax expense

Income tax expense declined by EUR 361 million (non-GAAP measure EUR 349 million) to a benefit of EUR 510 million (non-GAAP: EUR 542 million), mainly due to higher tax-exempt gains on disposals as well as a tax release.

Results of operations for the years ended 31 December 2006 and 2005

Profit for the year decreased by EUR 168 million, or 21.0%, to EUR 632 million. This was mainly the result of an increase of EUR 1,688 million in operating income, an increase of EUR 2,004 million in operating expenses, and a decrease of EUR 171 million in income tax expense.

Operating income

Operating income increased by EUR 1,688 million, or 37.4% to EUR 6,200 million, mainly due to higher income from consolidated private equity investments and higher unrealised fair market value returns from unconsolidated investments partially offset by increased interest expenses. Excluding the consolidation effect (non-GAAP measure) operating income decreased by EUR 9 million to EUR 1,217 million, mainly due to lower asset and liability management results and a lower contribution from ABN AMRO's share of result in equity accounted investments, partly offset by the gain on sale of Kereskedelmi és Hitelbank Rt. (EUR 208 million), the gain on sale of the Futures business (EUR 229 million), a provision for balance-sheet adjustments in 2005 (minus EUR 86 million in 2005) and higher operating income in Private Equity.

The lower asset and liability management income was due to higher funding costs as a result of higher Euro and US dollar interest rates, lower returns on the investment portfolio as a result of the flattening yield curve, and marked-to-market losses on capital and risk hedging (credit default swap portfolio) as a result of the tightening in credit spreads. The loss on capital and risk hedging (credit default swap portfolio) of EUR 261 million in 2006 will be recovered over time as the underlying asset mature.

- Net interest income decreased by EUR 201 million, due to higher interest expenses from consolidated private equity investments. Excluding the consolidation effect (non-GAAP measure), net interest income decreased by EUR 67 million and includes the funding costs from preferred shares.
- Results from financial transactions decreased by EUR 353 million to EUR 620 million. Excluding the consolidation effect (non-GAAP measure), results from financial transactions decreased by EUR 379 million, mainly due to lower results on sale of bonds and credit default swaps.
- Share of result in equity accounted investments decreased by EUR 47 million, due to the absence of the contribution of ABN AMRO's stake in Antonveneta, which was consolidated as from 2006, and Kereskedelmi és Hitelbank Rt., which was sold in 2006, partly offset by a higher contribution from ABN AMRO's stake in Capitalia.
- Other operating income increased by EUR 445 million to EUR 462 million. Excluding the consolidation effect (non-GAAP measure), other operating income increased by EUR 439 million, mainly due to the inclusion of the gain on sale of Kereskedelmi és Hitelbank Rt. (EUR 208 million) and the gain on sale of the Futures business (EUR 229 million).

Operating expenses

Operating expenses increased by EUR 2,004 million, or 57.5%, to EUR 5,490 million, mainly due to higher expenses from consolidated private equity investments. Excluding the consolidation effect (non-GAAP measure) operating expenses increased EUR 327 million to EUR 551 million. The results in 2006 included EUR 5 million restructuring charge, higher costs for compliance with the Sarbanes-Oxley Act, Basel II and other regulations. The results in 2005 included a release of the post-retirement healthcare benefit provision (EUR 392 million), a provision for compensating holidays not taken by staff (EUR 56 million) and the costs of the United States regulatory fine (EUR 67 million).

Loan impairment and other credit risk provisions

Loan impairment and other credit risk provisions increased by EUR 2 million to EUR 142 million, mainly due to higher provisions in the International Diamond & Jewelry Group, partly offset by lower provisions in Private Equity. The 2006 results included a provision for the Futures provisions (EUR 72 million) and the 2005 results included mainly provisions related to incurred-but-not-identified loan losses, which as from 2006 were allocated to the respective BUs.

Income tax expense

Income tax expense decreased by EUR 171 million to minus EUR 149 million. Excluding the consolidation effect (non-GAAP measure) income tax expense decreased by EUR 191 million to minus EUR 193 million, mainly due to substantial tax credits in the Netherlands and some other countries, the impact on deferred taxes of the change in the Netherlands tax rate and the impact of the tax-exempt gain on the sale of Kereskedelmi és Hitelbank Rt. (EUR 208 million). The results in 2005 included a tax release of EUR 100 million and the impact of a tax-exempt United States regulatory fine (EUR 67 million).

Profit from discontinued operations net of tax

Profit from discontinued operations net of tax decreased EUR 21 million to minus EUR 85 million, due to certain operating income and operating expenses, largely stranded costs, related to the sale of LaSalle.

RISK AND CAPITAL MANAGEMENT

Supervision and Regulation

Regulation in the Netherlands

General

Holding and its subsidiaries, on a worldwide basis, are regulated in the Netherlands by the Dutch Central Bank and the Netherlands Authority for the Financial Markets, or “AFM”.

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

The Bank is a “universal bank” under the terms of the Financial Supervision Act because it is engaged in the banking business as well as the securities business. Some of the provisions of the Financial Supervision Act may restrict the Bank’s ability to make capital contributions or loans to its subsidiaries and to make dividends and distributions to Holding.

Supervision of credit institutions

In general, under the Financial Supervision Act, credit institutions are supervised by the Dutch Central Bank. No enterprise or institution established in the Netherlands may pursue the business of a credit institution unless it has obtained prior authorisation from the Dutch Central Bank. Its supervisory activities under the Financial Supervision Act focus on supervision of solvency, liquidity and administrative organisation, including internal control and risk management. If, in the opinion of the Dutch Central Bank, a credit institution fails to comply with the rules and regulations concerning solvency, liquidity or administrative organisation, the Dutch Central Bank will so notify the credit institution, and it may instruct the credit institution to behave in a certain manner. If the credit institution does not respond to any such instructions to the satisfaction of the Dutch Central Bank, the Dutch Central Bank may exercise additional supervisory measures, which may include the imposition of fines. The Financial Supervision Act provides that each supervised credit institution must submit periodic reports to the Dutch Central Bank. In accordance with this requirement the Bank files monthly reports with the Dutch Central Bank. At least one monthly report for each given year must be certified by an external auditor. The report to be certified is selected by an external auditor at his or her discretion.

Solvency supervision

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

provided, and the country of origin of the debtor. The legally required minimum Capital Adequacy Ratio is currently 8% but in practice a minimum ratio of 10.5% is agreed with the Dutch Central Bank. The solvency rules are applied to the worldwide assets of Dutch credit institutions.

For ABN AMRO total capital consists of core capital (also referred to as Tier 1 capital) and secondary capital (also referred to as Tier 2 capital). ABN AMRO also is permitted to maintain an additional form of regulatory capital, Tier 3 capital, to support the market risks of financial instruments in ABN AMRO's trading book and foreign exchange risk of all business activities. Tier 1 capital consists of those parts of shareholders' equity and minority interests that qualify as Tier 1 capital and subordinated liabilities that qualify as Tier 1 capital. Secondary or Tier 2 capital is divided into upper Tier 2 capital and lower Tier 2 capital. Upper Tier 2 capital consists of revaluation reserves and perpetual subordinated liabilities; lower Tier 2 capital consists mainly of long-term subordinated liabilities. Tier 3 capital consists of subordinated liabilities that have a minimum original maturity of at least two years, are not subject to redemption prior to maturity without the prior written consent of the Dutch Central Bank (other than in the event of a winding-up of the Bank) and are subject to a provision which provides that neither interest nor principal may be paid if, prior to or as a result of such payment, ABN AMRO's Capital Adequacy Ratio would be less than the required minimum.

The amount of lower Tier 2 capital may not exceed 50% of the amount of Tier 1 capital, and the amount of Tier 2 capital included in total capital may not exceed the amount of Tier 1 capital. In addition, Tier 3 capital may not exceed 250% of the amount of Tier 1 capital that is necessary to support market and foreign exchange risks and the sum of Tier 2 and Tier 3 capital may not exceed Tier 1 capital. Goodwill and interests of more than 10% in non-consolidated banking and financial subsidiaries must be deducted from Tier 1 capital and total capital, respectively.

Capital adequacy framework (Basel II)

On 26 June 2004, the Basel Committee on Banking Supervision endorsed the publication of the 'International Convergence of Capital Measurement and Capital Standards: a Revised Framework', commonly referred to as Basel II. The Capital Requirements Directive (CRD), representing the translation of Basel II to EU legislation and replacing the Capital Adequacy Directive (CAD), was approved by the European Parliament in September 2005. This acceptance by the European Parliament cleared the way in Europe for the implementation of the CRD, with a published compliance date of 1 January 2008.

The implementation process of Basel II into Dutch legislation (Financial Supervision Act) and regulations was completed on 22 December 2006 when the Dutch Central Bank published its Supervisory rules.

ABN AMRO has implemented a combination of advanced and standarised approaches for Credit, Market and Operational risk as allowed under the regulatory framework, and is using these in the management of its business. ABN AMRO is in discussion with the Dutch Central Bank on transitional arrangement for it's businesses.

At the heart of Basel II is a series of best practice risk and capital management techniques that are the embodiment of ABN AMRO's existing approach to risk and capital management.

Exposure supervision

The Dutch Central Bank has issued specific rules with respect to large exposures to a single borrower or group of interconnected borrowers or in relation to certain other businesses that involve a concentration of risk. Large exposures generally include all assets and off-balance sheet items of a credit institution with respect to a single borrower or a group of connected borrowers which exceed 10% of a credit institution's total capital. Large exposures must be reported once every quarter to the Dutch Central Bank. There is a limit of 25% of total capital for a single large exposure as part of the banking book. Trading book positions may exceed this limit subject to additional solvency requirements. The aggregate amount of all large exposures of a credit institution may not exceed 800% of its total capital. In 2007, there were no exposures exceeding these thresholds.

In addition, under the Solvency rules, certain other exposures are limited as a percentage of total capital as follows: exposures to the Dutch central government, the Dutch local government and other central governments of the so-called "Zone A" countries[1], which include the Organisation for Economic Cooperation and Development countries, have no limit; exposures to local governments of Organisation for Economic Co-operation and Development countries are weighted at 50%; exposures to banks with a remaining maturity of up to or less than one year or more than one year are weighted at 20% and 50%, respectively; and exposures to others are weighted at 100%. Equity participations in insurance companies are exempt up to a level of 40% of total capital of the credit institution.

Facilities and loans to, and investments in, non-banks by credit institutions of 1% or more of total capital must be registered with the Dutch Central Bank. For banks, the threshold is 3% of total capital. Regulations of the Dutch Central Bank also bar a credit institution from lending (on either a secured or an unsecured basis) more than the lesser of 5% of its total capital and, if the loan is unsecured, five times the monthly salary for the borrower to any director or member of senior management of the credit institution without the prior approval of the Dutch Central Bank.

Liquidity supervision

ABN AMRO submits reports on its liquidity position on a monthly basis to the Dutch Central Bank, based on its liquidity supervision directive. The liquidity directive seeks to ensure that banks are in a position to cope with an acute short-term liquidity shortage under the assumption that banks would remain solvent. ABN AMRO is required to report the Group's liquidity position at consolidated level. In principle, the Dutch Central Bank liquidity directive covers all direct domestic and foreign establishments (subsidiaries/branches), including majority participations. Liquidity effects from off-balance sheet items, such as derivatives and irrevocable commitments, are measured in the liquidity reporting.

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

The available liquidity must always exceed required liquidity. Available liquidity and required liquidity are calculated by applying weighting factors to the relevant on- and off-balance sheet items.

The liquidity test includes all currencies. Compliance reports concerning liquidity requirements of foreign subsidiaries are submitted to appropriate foreign regulatory authorities as required. At consolidated level and in every country in which ABN AMRO operates, the Group adheres to the liquidity standards imposed by the applicable regulatory authorities.

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1 The Member States of the European Community and all other countries which are full members of the Organisation for Economic Cooperation and Development and the countries which have concluded special borrowing arrangements with the International Monetary Fund associated with the International Monetary Fund's General Arrangements to Borrow are considered "Zone A" countries. However, a country in the process of rescheduling its official external debt is excluded from this group for a period of five years. The "Zone A" countries currently comprise: Australia, Austria, Belgium, Bulgaria, Canada, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Monaco, the Netherlands, New Zealand, Norway, Poland, Portugal, Puerto Rico, Romania, Saudi Arabia, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Turkey, the United States and the United Kingdom.

The following states/regions are also regarded as "Zone A" countries: American Samoa, Channel Islands and Guernsey, Faeroer, Gibraltar, Greenland, Isle of Man, Jersey, Spitsbergen and Vatican City.

Structural supervision

Pursuant to the Financial Supervision Act ABN AMRO is prohibited to hold, acquire or increase a qualifying holding or exercise any control relating to a qualifying holding in among others, a bank in the Netherlands, except after obtaining a declaration of no-objection (DNO) from the Dutch Central Bank (or in certain specified cases from the Dutch Minister of Finance). Qualifying holding means a participation of at least 10% in the issued share capital of the related voting rights or similar influence. The DNO would be issued unless, among other things, the qualifying holding in the Bank concerned would lead to an influence which might jeopardize sound and prudent operations or the qualifying holding could or would lead to an undesirable development of the financial sector. Likewise a DNO is required for a bank in the Netherlands:

(i) to reduce its own funds by repayment of capital or distribution of reserves;
(ii) to acquire or increase a qualifying holding in a financial undertaking if the total assets of the financial undertaking would exceed 1% of its consolidated balance sheet total;
(iii) to acquire or increase a qualifying holding in a non-financial institution, if the consideration for the qualifying holdings exceeds 1% of its consolidated equity;
(iv) to acquire assets and assets from a third party, if the total amount of these assets or liabilities exceeds 1% of its consolidated balance sheet total;
(v) to merge with another company or institution, if the total capital of this company or institution would exceed 1% of its consolidated balance sheet total, or
(vi) to execute a financial or corporate reorganisation.

In these situations a DNO is issued to a bank, unless granting the DNO would or could lead to non-compliance by the bank with the provisions regarding solvency, with the principles of sound and prudent operations, or would or could lead to an undesired development of the financial sector.

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

According to the Dutch regulation a declaration of no objection will not be issued regarding qualifying holdings if the value of the equity participation would exceed 15% of a bank's total capital or if the participation would cause the value of the credit institution's aggregate qualifying holdings in non-financial institutions to exceed 60% of its total capital. Certain types of participations will be approved in principle, although in certain circumstances a DNO will have a limited period of validity, such as, in the case of a debt rescheduling or rescue operation or when the participation is acquired and held as part of an issue underwriting operation. The approval generally will be given where the value of the non-financial institution concerned or the value of the participation does not exceed certain threshold amounts.

Supervision of the securities and investment businesses

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

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

Regulation in the European Union

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

The financial services sector includes three major areas for which European regulatory policies apply: banking, capital markets, and asset management. EU initiatives also deal with a number of issues related to company and corporate governance.

The Consolidated Banking Directive (2006/48/EC) for credit institutions and banking services governs the free provision of banking services. Under this Directive, the Bank can offer banking on the basis of a single banking license ("European passport") through the establishment of a branch or cross-border in all the EU countries. The EU institutions have adopted in March 2007 a review of this Directive with regard to the procedure which supervisory authorities need to follow when assessing proposed mergers and acquisitions in the financial sector. Clear procedural rules and evaluation criteria for the prudential assessment of acquisition and increase of shareholdings are introduced. The Directive sets out a clear assessment timeframe with deadlines and provides for sound criteria against which supervisors are to assess for proposed Merger and Acquisition transactions.

The Directive 2006/48 also consolidates the Capital Requirements Directive which is the legal vehicle pursuant to which the Basel II framework has been implemented into EU Law (the Capital Requirements Directive). The Capital Requirements Directive is based on a three pillars structure (minimum capital requirements, a supervisory review process and market discipline) with the aim of creating a better risk-sensitive regime than the former system. The new regime has entered into force in stages starting in 1 January 2007.

In the area of securities legislation, the Market Abuse Directive (2003/6/EC) prohibits market manipulation and insider dealing in all securities admitted to trading on a EU regulated market. This Directive will be reviewed in 2008. The Prospectus Directive (3003/71/EC) regulates the process and the disclosure requirements for public offerings in and admissions to trading on an EU regulated market of securities,and allows European public offerings with one single prospectus. The European Commissions intends to review the Directive in 2008. The Transparency Directive (2004/109/EC) harmonises the transparency requirements for information about issuers whose securities are admitted to trading on a EU regulated market.

The other important piece of legislation in this area is the Markets in Financial Instruments Directive (MiFID), which has been implemented by financial institutions as of 1 November 2007. It regulates amongst others, the cross-border provision of investment services and regulated markets and replaces the 1993 Investment Services Directive which established the single passport for investment firms. It streamlines supervision on the basis of home country control and enhances the transparency of markets. It harmonises conduct of business rules, including best execution, conflicts of interests and client order handling rules. The Directive abolishes the concentration rule, which leads towards a more competitive regime between order execution venues.

It also imposes market transparency rules for investment firms, regulated markets and multilateral trading systems and both pre and post-trade but only for shares. Seen the late implementation of MIFID by the first of November 2007, the Committee of European Securities Regulators has published a set of documents informing stakeholders about the status of the legal requirements until implementation is done in all Member States.

In the post-trading field, the European Commission has pushed the industry to agree on a clearing and settlement Code of Conduct, signed by the stock exchanges on November 2006. The Code aims at enhancing transparency and increasing competition in the post-trading sector. A complete assessment of the Code by the European Commission is expected in 2008.

Likewise, political initiatives in the area of retail financial services and payment services have been launched. Currently, the revised proposal for a Directive on Consumer Credit (the latest proposal was published in December 2005) is being discussed in the EU. The proposed Directive introduces consumer protection provisions and at the same time aims at the creation of a single market for consumer credit in the EU. Adoption is expected early 2008. In October 2007, The EU institutions formally adopted the Payment Services Directive. This Directive will open up the payment services to competition from new licensed payments institutions and increase consumer protection by introducing information requirements and uniform operational rules for payment service providers. This Directive applicable in the EU to all payments in Euro and other Member States currencies lays the basis for the creation of a Single Market in payments. The deadline for implementation of the Directive into national law is 1 November 2009.

In the area of asset management, the EU has enacted legislation on pension and investment products. On investment funds, there are two ‘UCITS Directives’, the first regulating the product (e.g., types of assets in which to invest) and the second one giving management companies a “European passport” to operate throughout the EU. The Commission will come up with proposals for legislative amendments in 2008 to do targeted changes to the current EU framework for investment funds. The European Commission had adopted an implementing Directive 52007/16/EC on criteria for assessing whether different types of financial instruments are eligible for inclusion in the UCITS funds. In the field of supplementary pensions, a Directive has liberalised the market for supplementary pension schemes by allowing pension providers to operate on an EU-wide basis and establishing “prudent person principles” for asset allocation.

EU Member States were required to implement the third Money Laundering Directive into national law by December 2007. The aim of the Directive is to transpose the Financial Action Task Force’s (FATF) forty recommendations. It follows a risk-based approach under which all measures aimed at preventing money laundering must be applied on a proportionate basis, depending on the type of customer, business and other considerations.

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

Applicable from September 2007, the Data Retention Directive requires electronic communications providers to store data on phone-calls, e-mails and Internet use for a period between 6 and 24 months to help track down terrorism and organised crime.

In the field of Company Law and Corporate Governance, the two main guiding principles for EU legislative actions are to improve transparency and empower shareholders. Soft law instruments have been used to

promote good corporate governance (e.g. corporate governance codes). To improve transparency in company accounts, the European Commission adopted recommendations on Directors' Remuneration and role of non-executive or supervisory directors with a view to improving the on-going disclosure requirements for listed companies. In order to restore credibility of financial reporting and to enhance protection against the type of scandals involving Parmalat and Ahold, the Directive on statutory audit (2006/43) designed to strengthen corporate governance and auditor responsibilities was adopted and should be implemented into national law by June 2008. It aims at reinforcing and harmonising the statutory audit function throughout the EU by setting out principles for public supervision in all Member States. It also introduces a requirement for external quality assurance and clarifies the duties of statutory auditors. In June 2006, the EU adopted a Directive (2006/46) which amends existing Accounting Directives to ensure collective board members responsibility and more disclosure on related-parties transactions, off-balance sheet vehicles and corporate governance. The Second Company Law Directive (2006/68) covering the formation, maintenance and alteration of capital was amended in September 2006 in order for public limited companies to take certain measures affecting the size, structure and ownership of their capital. In January 2006 the European Commission presented a proposal on the exercise of shareholders' rights, which mainly seeks to abolish share blocking, improve the flow and transparency of the information and remove all legal obstacles to electronic participation in general meetings. This new Directive on shareholders rights was adopted in July 2007.

Regulation in the United States

The Bank's operations in the United States are subject to extensive regulation and supervision by both federal and state banking authorities. The Bank is a bank holding company within the meaning of the US Bank Holding Company Act of 1956, which restricts its non-banking activities in the United States. However, Holding elected to become a financial holding company on 11 March 2000.

Regulations in the rest of the world

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

Legal and regulatory proceedings

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

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

Regulatory sanctions

As previously reported, in December 2005 ABN AMRO entered into a Cease & Desist Order (Order) and an Order to File Reports with the Dutch Central Bank, the Federal Reserve Board, the US Department of the Treasury's Office of Foreign Assets Control (OFAC) and the Financial Crime Enforcement (Fincen), the State of Illinois Department of Financial and Professional Regulation and the New York State Banking Department.

Responding to these Orders has been a top priority for senior management. Significant resources and management time, primarily from Group Compliance, have been devoted to this issue. A measure of the progress made was by the Dutch Central Bank's announcement on 26 July 2007 that it had revoked its part of the Order. US regulators continue to monitor the sustainability of the improvements made.

The Order to File Reports (Transaction Reviews) required ABN AMRO to appoint an independent third party to review payment messages and their compliance to OFAC regulations. ABN AMRO appointed Clifford Chance to conduct these independent Transaction Reviews and the fourth and final review was delivered to US regulators in December 2007.

Ongoing investigations

As previously disclosed, the United States Department of Justice has been conducting a criminal investigation into the Bank’s dollar clearing activities, OFAC compliance procedures and other Bank Secrecy Act compliance matters. The Bank has cooperated and continues to cooperate fully with the investigation. Although no written agreement has yet been reached and negotiations are ongoing, the Bank has reached an agreement in principle with the Department of Justice that would resolve all presently known aspects of the ongoing investigation.

Under the terms of the agreement in principle, the Bank and the United States would enter into a deferred prosecution agreement relating to the issues that are the subject of the current criminal investigation. In the deferred prosecution agreement, the Bank would waive indictment and agree to the filing of an information in the United States District Court charging it with certain violations of federal law based on information disclosed in an agreed factual statement. The Bank would also agree to continue cooperating in the United States’ ongoing investigation and to settle all known civil and criminal claims currently held by the United States for the sum of USD 500 million. The precise terms of the deferred prosecution agreement are still under negotiation.

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

Iran

In April 2006 the bank established a Steering Committee to oversee any activities or relationships connected with Iran. Cognisant of its legal duties, the bank has continued to adopt a conservative approach to conducting business with Iran. As a matter of policy, the bank does not initiate new US dollar transactions with an Iranian element, and does not engage in U-turns that would otherwise be exempt from OFAC regulations other than in exceptional circumstances which require approval from Group Compliance (e.g. to exit a relationship). The bank continues its policy against maintaining or opening US dollar accounts involving Iran. Following these internal policies, there have been no new US dollar exposures with Iran since February 2006 and the existing US dollar exposure has been further reduced to a negligible level.

Risk factors

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

Markets may experience periods of high volatility accompanied by reduced liquidity

The financial and credit markets have been experiencing a sustained period of high volatility, severe dislocations and liquidity disruptions. Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity, such as the asset price deterioration in the U.S. subprime residential mortgage market. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading risks as they would be under more normal market conditions. Moreover, under these conditions market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale, such as crowded trades. ABN AMRO's risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. Severe market events have historically been difficult to predict, however, and ABN AMRO could realize significant losses if further unprecedented extreme market events were to occur. Please refer to paragraph "Impact of Current Credit Environment" on page 24.

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

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

Defaults by another larger financial institution could adversely affect financial markets generally

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, clearing or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity problems, losses or defaults by other institutions. This is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which ABN AMRO interacts on a daily basis, and therefore could adversely affect ABN AMRO.

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

ABN AMRO is entering a period of transition and change, which will last for an indeterminate period and which poses additional risks to ABN AMRO's business including ABN AMRO's ability and that of ABN AMRO's

shareholders to manage the sale and break up of the bank in an efficient manner while minimizing the loss of business, ABN AMRO's ability to retain key personnel during the transition and enhanced operational and regulatory risks during this period.

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

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

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

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

For 2007, 4.7% of ABN AMRO's operating income and 4.7% of ABN AMRO's operating expenses were denominated in US dollars and 23.5% of ABN AMRO's operating income and 14.6% of ABN AMRO's operating expenses were denominated in Brazilian Real. For 2006, 14.9% of ABN AMRO's operating income and 14.4% of ABN AMRO's operating expenses were denominated in US dollars and 13.6% of ABN AMRO's operating income and 10.2% of ABN AMRO's operating expenses were denominated in Brazilian real. The figures are not restated for discontinued operations. For a discussion of how interest rate risk and foreign exchange rate fluctuation risk is managed, see "Quantitative and Qualitative Disclosures about Market Risk" as well as Note 39 to ABN AMRO's consolidated financial statements.

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

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

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

ABN AMRO is subject to banking and financial services laws and government regulation in each of the jurisdictions in which ABN AMRO conducts business. Banking and financial services laws, regulations and policies currently governing ABN AMRO and ABN AMRO's subsidiaries may change at any time in ways which have an adverse effect on ABN AMRO's business. If ABN AMRO fails to address, or appear to fail to address, these changes or initiatives in an appropriate way, ABN AMRO's reputation could be harmed and ABN AMRO could be subject to additional legal risk. This could, in turn, increase the size and number of claims and damages asserted against ABN AMRO or subject ABN AMRO to enforcement actions, fines and penalties. As previously reported, in July 2004 ABN AMRO signed a Written Agreement with the US regulatory authorities concerning ABN AMRO's dollar clearing activities in the New York branch. In addition, in December 2005, ABN AMRO agreed to a Cease and Desist Order with the Dutch Central Bank and various US federal and state regulators. This involved an agreement to pay an aggregate civil penalty of USD 75 million and a voluntary endowment of USD 5 million in connection with deficiencies in the US dollar clearing operations at the New York branch and Office of Foreign Asset Control ("OFAC") compliance procedures regarding transactions originating at the Dubai branch. ABN AMRO and members of ABN AMRO's management continue to provide information to law enforcement authorities in connection with ongoing criminal investigations relating to ABN AMRO's dollar clearing activities, OFAC compliance procedures and other Bank Secrecy Act compliance matters. The Cease and Desist Order with the Dutch Central Bank was lifted on 26 July 2007. Although no written agreement has yet been reached and negotiations are ongoing, the Bank has reached an agreement in principle with the US Department of Justice that would resolve all presently known aspects of the ongoing investigation. Under the terms of the agreement in principle, the Bank and the United States would enter into a deferred prosecution agreement in which the Bank would waive indictment and agree to the filing of information in the United States District Court charging it with certain violations of federal law based on information disclosed in an agreed factual statement. The Bank would also agree to continue cooperating in the United States' ongoing investigation and to settle all known civil and criminal claims currently held by the United States for the sum of USD 500 million. The precise terms of the deferred prosecution agreement are still under negotiation. These compliance issues and the related sanctions and investigations have had, and will continue to have, an impact on the Bank's operations in the United States, including limitations on expansion. 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, but regulatory and law enforcement authorities have been imposing severe and significant monetary and other penalties against a number of banking institutions for violations of the Bank Secrecy Act and related statutes.

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

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

ABN AMRO is subject to credit, market and liquidity risk, which may have an adverse effect on ABN AMRO's credit ratings and ABN AMRO's cost of funds

ABN AMRO's banking businesses establish instruments and strategies that ABN AMRO uses to hedge or otherwise manage ABN AMRO's exposure to credit, market and liquidity risk. To the extent ABN AMRO's assessments of migrations in credit quality and of risk concentrations, or ABN AMRO's assumptions or estimates used in establishing ABN AMRO's valuation models for the fair value of ABN AMRO's assets and liabilities or for ABN AMRO's loan loss reserves, prove inaccurate or not predictive of actual results, ABN AMRO could suffer higher-than-anticipated losses. In 2007 volatility in the financial markets increased caused by the problems in the sub-prime mortgage markets and certain other affected asset classes. Further developments in these markets may affect ABN AMRO's financial performance.

Any downgrade in ABN AMRO's ratings may increase ABN AMRO's borrowing costs, limit ABN AMRO's access to capital markets and adversely affect the ability of ABN AMRO's businesses to sell or market their products, engage in business transactions – particularly longer-term and derivatives transactions – and retain ABN AMRO's current customers. This, in turn, could reduce ABN AMRO's liquidity and have an adverse effect on ABN AMRO's operating results and financial condition.

Systemic risk could adversely affect ABN AMRO's business

In the past, the general credit environment has been adversely affected by significant instances of fraud. Concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions because the commercial soundness of many financial institutions may be closely related as a result of their credit, trading, clearing or other relationships. This risk is sometimes referred to as 'systemic risk' and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom ABN AMRO interacts on a daily basis, and could have an adverse effect on ABN AMRO's business.

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

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

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

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

misleading.

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

It is inherently difficult to predict the outcome of many of the litigations, regulatory proceedings and other adversarial proceedings involving our businesses, particularly those cases in which the matters are brought on behalf of various classes of claimants, seek damages of unspecified or indeterminate amounts or involve novel legal claims. In presenting our consolidated financial statements, management makes estimates regarding the outcome of legal, regulatory and arbitration matters and takes a charge to income when losses with respect to such matters are probable and can be reasonably estimated. Changes in our estimates may have an adverse effect on ABN AMRO's results.

ABN AMRO's ownership structure and the laws of the Netherlands may contain restrictions on shareholder rights and holders of American Depositary Receipts ("ADRs") are not able to exercise certain shareholder rights

ABN AMRO's Articles of Association and the laws of the Netherlands may contain restrictions on shareholder rights that differ from US practice. For instance, a holder of ADRs is not treated as one of ABN AMRO's shareholders and is not able to exercise certain shareholder rights. JPMorgan Chase, as Depositary, is the holder of ABN AMRO's ordinary shares underlying the ADRs. An ADR holder will have those rights contained in the Deposit Agreement between us, the Depositary and the ADR holders. These rights are different from those of the holders of ABN AMRO's ordinary shares, including with respect to the receipt of information, the receipt of dividends or other distributions and the exercise of voting rights. In particular, an ADR holder must instruct JPMorgan Chase to vote the ordinary shares underlying the ADRs. As a result, it may be more difficult for ADR holders to exercise those rights. In addition, there are fees and expenses related to the issuance and cancellation of the ADRs.

You may have difficulty enforcing civil judgments against us

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

Capital Adequacy Framework and risk coverage

ABN AMRO uses a comprehensive and robust Capital Adequacy Framework to ensure that risks are identified, managed and controlled. The following paragraphs contain a process description of the Capital Adequacy Framework in the wider context of the relationship between risk, capital and earnings.

Capital Adequacy Framework

The Capital Adequacy Framework considers quantitative as well as qualitative criteria and is risk based. The objective is to incorporate the measurement, allocation and management of capital throughout the bank based upon the chosen Group strategy. A top-down approach is run in parallel with complementary bottom-up processes to ensure value creating opportunities are identified and appropriately provided for. The design of this framework is driven by processes rather than by the organisational structure of ABN AMRO. The design of the Capital Adequacy Framework is illustrated in Figure 1.

Figure 1: The Capital Adequacy Framework

Strategy - Strategic Objectives

The Managing Board has formulated the following objectives related to the Capital Adequacy Framework.

ABN AMRO should:

- maintain a capital structure consistent with its ratings targets;
- meet all regulatory requirements as well as the bank's stated capital ratio targets;
- meet the desired return targets; and
- maintain market confidence in ABN AMRO Risk Management capabilities.

The strategy is translated into policies, as explained below.

Policy - Risk Appetite, Performance Management and Capital Planning

The strategic objectives with regard to the Capital Adequacy Framework, as set by the Managing Board, are input for the policies on Risk Appetite, Performance Management and Capital Planning. These policies are interdependent as they are based on the same objectives.

Risk Appetite

Risk appetite is defined as the maximum risk ABN AMRO is willing to accept in executing its chosen business strategy, in order to protect itself against events that may have an adverse impact on its profitability, the capital base or share value.

The Risk Appetite includes all risks the bank takes and is quantified by setting limits (hard, excess leads to immediate action) and checkpoint levels (soft, breach leads to closer scrutiny and potentially setting of hard limits).

The Limits and Checkpoints are set across the dimensions of capital, earnings volatility and concentration risk. This is further explained in the paragraph Capital Management.

The limits and checkpoints are reviewed at least annually, using input from the Risk Outlook as well as direction from the Managing Board or BU management teams. The Risk Outlook is a process to identify main trends and risks that ABN AMRO is potentially exposed to this process engages business and risk management in a forward looking risk dialogue.

The overall Risk Appetite at Group level is cascaded down into each Business Unit (BU). BUs are free to set additional limits as they see fit, as long as consistency with the overall framework is maintained.

Performance Management

The policies on Performance Management aim to increase shareholder value by optimising the way the Managing Board steers the business. This includes structuring the way resources are allocated and establishing performance targets. Performance is measured and risk levels are managed consistently across each BU.

The allocation process takes place through the Strategic Management Process. This process allows for dynamic resource allocation to those businesses which provide superior returns.

Capital Planning

Capital Planning ensures that the demand for capital is justified by sufficient returns to achieve the Group Return on Equity target and that there is sufficient capital available to meet the capital demands. The Capital Planning defines the tools to manage the capital supply, taking into account the drivers of capital demand.

Drivers of Capital Demand	Tools to Manage the Capital Supply
Regulatory Requirements	Share Issuance
Risk Appetite	Retained Earnings
Rating Objectives	Hybrid / Tier 2 Issuance
Capital Distribution	Securitisations / Credit Derivatives
Business Growth	Hedging of FX Capital Components

A forward-looking view is incorporated into the Capital Planning towards capital requirements and capital supply developments. Both the BU business plans as agreed in the annual Strategic Management Process, and also the financial targets as set by the Managing Board are taken into account. The expected need for capital is then finally determined and demand and supply of capital will be actively managed throughout the year.

Processes - Measurement, Management and Allocation

The policies as described in the previous paragraph are translated into three different, but inter-related processes: Measurement, Management and Allocation, for the execution within the Capital Adequacy Framework.

Capital Measurement

Capital Measurement includes the measurement of risk resulting in an estimate of the demand for capital in terms of Risk Weighted Assets and Economic Capital. Specific metrics have been developed to measure all the risks the bank is exposed to.

Capital Metrics

ABN AMRO has defined the following capital metrics:

- Available Capital: the amount of capital used for the determination of capital adequacy from an economic standpoint.
    - Regulatory Capital (RC): the minimum regulatory capital is 8% of RWA (Risk Weighted Assets)
- Economic Capital (EC): EC is a measure of risk that indicates how much capital the bank should possess to sustain unexpected losses with a high degree of certainty, given the exposures of the bank. ABN AMRO uses a confidence level of 99.95% in these calculations.

· Assigned Risk Capital (ARC): ARC is the amount of capital that is allocated to the business units of the bank, based on their respective risk exposures. It is comprised of 'Core EC' (equivalent to approximated 80% of total EC in 2007) and 'EC for additional risks'. The target Return on Equity is translated into a Return on Assigned Risk Capital (RoARC) target.

- Core EC covers the following 5 risk types: Credit and Country Risk, Operational Risk, Market Risk of trading book positions, Interest Rate Risk in the banking book and Business Risk. In addition, the Bank holds EC for additional risks, such as pension liability risk and model and parameter risk.
- ABN AMRO is active in many locations in the world and is involved in many different business activities. Therefore regional and industry diversification, as well as the diversification between different risk types, is taken into account in calculating Economic Capital.
- ABN AMRO calculates Economic Capital using its own internally developed methodology. The Economic Capital models of the bank have been designed in such a way that Economic Capital expresses the capital that is required for the target credit rating.
- Actual results and capital developments are measured against the actual and forecasted capital position on an ongoing basis.

Earnings metrics

- Average Loss under Stress (ALS) as a function of Operating Result: Average Loss under Stress is defined as the average loss of the 10% worst loss scenarios that may occur during the next year. As the bank's EC models aim to provide a through-the-cycle estimate of potential losses during the next year, Average Loss under Stress can be interpreted as an estimate of the loss that the bank can expect to incur if next year is the worst year in a typical 10-year economic cycle. Average Loss under Stress is monitored relative to operating profit. Economic Capital and Average Loss under Stress complement each other as they reflect different time horizons. The shorter time-horizon of Average Loss under Stress makes it easier to interpret and use as management tool. Average Loss under Stress represents a form of stress test (bottom of business cycle): a recession scenario with a probability of occurring once every 10 years.
-

Return on Assigned Risk Capital (RoARC): The RoARC calculations are based on net profit and ARC consumption.

Concentration risk metrics

- Loss at Default (LAD): LAD is a measure of single obligor risk and is an estimate of the amount of expected loss in the event of default.
- Value at Risk: Value at Risk is a statistically based estimate of the potential loss arising from the change in fair value of a portfolio due to adverse market movements. It expresses the maximum amount an entity expects to lose over a certain holding period and to a certain confidence level. Value at Risk does not provide an absolute maximum loss.

Stress testing

Stress tests show the effects of simultaneous events which cannot (or not sufficiently) be accounted for in 'normal' stand-alone risk measurements.

Capital Management

The primary objectives of the Capital Management function include the following:

- Maintain a capital structure consistent with ABN AMRO's rating targets.
- Ensure that the demand for capital is justified by sufficient returns to achieve the Group's Return on Equity target and that there is sufficient capital available to meet the capital demands.
- Comply with regulatory requirements i.e. minimum 10.5% Total Capital ratio and the Group's announced Capital Ratio targets (currently 6% Core Tier 1 and 8% Tier 1).
- Improve the liquidity of Risk Weighted Assets to ensure the balance sheet remains flexible.
- Increase strategic and tactical flexibility in deployment of capital.
- Meet the strategic funding needs of ABN AMRO.
- Improve Group and BUs RoARC (i.e. through risk transfer transactions).

The Capital Management Group prepares a monthly capital outlook. Should potential imbalances be identified, the capital outlook will include a proposal for appropriate actions and execution to correct the imbalances (i.e. either the need to relief capital, or raise capital).

It is a policy of ABN AMRO to ensure all subsidiaries are sufficiently capitalised, as determined by the relevant governing jurisdiction, so as to cover the risks entailed in the conduct of their business.

Capital Allocation

Capital Allocation within the bank is embedded in the annual Strategic Management Process. The underlying objective of this process is to ensure that capital is allocated in a way that maximises value creation from a Group perspective. Dialogues between the Group and the BUs take place to focus on either delivery of committed performance or management of future performance.

To optimise capital usage and pricing, the bank has made available tools to the business to calculate returns on Economic Capital by transaction and relationship.

Governance & Control

The three processes described (measurement, management and allocation) create a framework that optimally monitors and controls the internal capital adequacy of the bank. The overall responsibility of the Capital Adequacy Framework lies with the Managing Board and the Supervisory Board. Group Finance and Group Risk Management are working

together on the policies and processes. The inter-relationship between risk, capital and earnings ensures that any decision on one of these elements cannot be isolated in its effects from one another and must be managed holistically.

Hence, the policies and processes described in the previous sections are integrated in order to create a framework to optimally support the usage and allocation of capital within ABN AMRO: Economic Capital, Assigned Risk Capital, Risk Weighted Assets and Available Capital.

Capital Measurement: The Policy-Group Risk Committee and Group Asset and Liability Committee, both subcommittees of the Managing Board, determine the risk policies, procedures and methodologies for measuring and monitoring risk. The departments within Group Risk Management and Group Asset and Liability Management have an overall responsibility to monitor the adherence to all risk policies. Moreover, the business is responsible for operating in compliance with the Risk Philosophy as described in the next paragraph.

Capital Allocation: The Strategic Management Process is governed by the Managing Board. The Managing Board is responsible for optimising economic value creation and the approval of performance targets, the allocation of resources and the agreement of performance contracts with the business units.

Capital Management: The Capital Management process is governed by the Group Asset and Liability Committee. The Group Asset and Liability Committee is responsible for the development of the Bank's policies on liquidity risk, the hedging of capital invested in countries, managing capital ratios and the total capital requirement and new equity issuance needs.

Risk Coverage

Risk Philosophy

ABN AMRO's risk philosophy sets out bank wide criteria for the acceptance, monitoring, control and management of risk ensuring that the bank adheres to the following concepts:

- Risk Awareness; Risks are identified, understood, and measured at all levels in the organisation.
- Defined Risk Appetite; Risk accepted by the institution is within the tolerance level set by the Managing Board in accordance with the Group Strategy, existing capital constraints, sustainable earnings and maintenance of desired credit ratings for the Bank.
- Clarity and Transparency; Risk decisions are clear, explicit, and consistent with strategic business objectives.
- Risk-Reward Alignment; One of the bank's core competencies is to take and manage risks. The bank's risk decisions should be based upon the appropriate risk-reward balance.
- Compliance; Decisions that may legally and morally commit the bank must be in compliance with internal approval procedures, the relevant regulations, and be conform the ethical values as reflected in ABN AMRO's sustainable business policies.

In the following paragraphs a description is given of the risk types and the way ABN AMRO measures and manages these within the bank.

Credit Risk and Country Risk

ABN AMRO defines Credit Risk as the risk of a loss because a counterparty or an issuer may fail to fulfil its obligations to the bank. This covers actual payment defaults as well as losses in value resulting from a decrease in the credit quality of the counterparty or issuer.

ABN AMRO defines Country Risk as the risk of loss due to country specific events or circumstances. Country risk can materialise by way of credit, market and operational losses. With respect to credit risk, a specific country risk is that the government imposes transfer and/or convertibility measures that prevent an obligor to repay its foreign currency obligations to the bank. Hence the risk of non or late payment may be caused by the inability of an obligor

(i.e. credit risk) or by government measures (i.e. transfer and convertibility risk). Given the relation between credit and country risk the two are managed in an integrated manner.

Management

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

To manage concentration risks, limits and/or checkpoints are set on the maximum Credit and Country Risk Economic Capital in the relevant countries, industry clusters or product segments. Additionally, notional limits are put in place for Cross-Border Risk and Sovereign Risk. Notional limits are also set on a number of portfolios as a straightforward and practical way to manage the maximum exposure in these portfolios (e.g. shipping, leveraged finance).

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

Measurement

Inputs to the Credit Economic Capital calculation are derived from ABN AMRO’s rating systems. Rating tools are available for all ABN AMRO’s major loan portfolios. They consist of a Uniform Counterparty Rating and a Loss Given Default classification. The Uniform Counterparty Rating reflects the estimated probability that the counterparty will default, while the Loss Given Default classification reflects the level of loss that ABN AMRO would expect to suffer on a facility if the counterparty defaults. The Loss Given Default classification is determined for each facility on the basis of seniority, collateral and an assessment of the legal environment.

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

Please refer to the Financial Statements – Note 38 for quantitative information on maximum credit exposure and credit risk concentrations from loans and receivables in commercial and consumer client segments.

Interest Rate Risk (banking book)

ABN AMRO defines Interest Rate Risk as the risk that the value of ABN AMRO’s financial assets, other than those categorised as trading assets (the banking book), decreases and/or that the value of the bank’s liabilities increases, because of changes in interest rates. Interest Rate Risk arises primarily from the fact that the maturity of the bank’s assets typically exceeds the maturity of the bank’s liabilities (a ‘maturity mismatch’). The interest rate sensitivity of ABN AMRO’s trading books is measured under Market Risk.

Management

The overall objective is to manage current and future earnings sensitivity due to interest rate risk exposure.

For the purposes of Economic Capital, Value at Risk is calculated on the overall interest rate risk position. However, the ongoing management of Interest Rate Risk goes beyond simply looking at the overall Value at Risk, as using this measure only does not lead to an optimal management of the Interest Rate Risk exposures in the banking book.

Measurement

Several tools are used to monitor and limit the Interest Rate Risk exposures in ABN AMRO's banking book. The methods employed include earnings simulation, duration and Present Value per Basis Point limits.

ABN AMRO uses estimation techniques to calculate a set of forward-looking pre-defined interest rate scenarios, such as movements in the yield curve level and shape. In combination with Balance Sheet simulation models the Bank calculates "Earnings at Risk" and the "Change in Value of Equity".

ABN AMRO 's position is managed to ensure these two metrics are within defined limits under the pre-defined scenarios. Any required corrective action is taken through steering actions relating to the underlying portfolio.

These model-based scenario analyses require assumptions about client behaviour. ABN AMRO uses statistical and mathematical models to express this behaviour in ABN AMRO's simulation.

For interest rate risk positions that are less complex, the risk is controlled by (bucketed) Present Value per Basis Point limits.

Market Risk (trading book)

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

There are several major sources of Market Risk including interest rate, foreign exchange, equity price, commodity price, credit spread, volatility risks and correlation risks.

Management

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

ABN AMRO manages Market Risk primarily through the use of a set of historical and hypothetical scenarios, stressing relevant risk factors and estimating the potential Profit & Loss under stress, as well as through the calculation of the 99-percentile loss (or Value at Risk) on open positions.

The bank then looks to manage these potential exposures on a daily basis within pre-defined limits for each of the major types of Market Risk.

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

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

control liquidity risk in trading books.

Measurement

The Value at Risk 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.

Please refer to Financial Statements Note 38 for the quantification of Value at Risk per risk category.

Although the Value at Risk represents a good estimate of potential losses under normal market circumstances, it fails to capture extreme circumstances. The Group uses historical simulation models in computing Value at Risk. This approach , in common with many Value at Risk models, assumes that the risk factor changes observed in the past are a good estimate of those likely to occur in the future and is, therefore, limited by the relevance of the historical data used. This limitation of Value at Risk models means that ABN AMRO must supplement it with other measurements of risk. These include a series of stress scenarios that shed light on the behaviour of ABN AMRO’s portfolio and the impact on ABN AMRO’s financial results under extreme market movements. Stress scenarios have been developed internally to reflect specific characteristics of the bank’s portfolios and are performed on a daily basis for each trading portfolio and at several aggregation levels. These stress scenarios include stepped movements in one or more risk factors (e.g. parallel shifts in interest rate curves) and multiple factor tests that are based on actual historical events or plausible hypothetical scenarios.

Operational Risk

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

Management

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

Measurement

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

Risk Self-Assessment - A structured approach that helps line management to identify and assess risks and take mitigating actions for risks which are identified as unacceptable. Risks are assessed with the assistance of facilitators, who are usually Operational Risk Management staff.

Internal and external loss data - ABN AMRO’s Firm-wide Operational Risk Technology Environment allows for the systematic registration of ABN AMRO’s Operational Risk losses. This tool assists senior management in their analysis of Operational Risk. Additionally, external loss data is used to perform benchmark analyses. In this context, ABN AMRO is a founding member of the Operational Risk exchange, an international data consortium.

Operational Risk Assessment Process - The Operational Risk Assessment Process is a comprehensive approval process that includes an explicit assessment of the operational risk associated with change, irrespective whether the

change relates to a new business proposal, a change to the organisation, the implementation of a system or some other change. The process includes sign-off by relevant parties (including Group Compliance, Group Legal and Group Finance) and approval by an appropriate committee.

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

Key Operational Risk Control - A framework that provides clear descriptions of the typical key risks and the required controls for a set of defined standard processes. These descriptions contribute to improved risk awareness and provide input for the Risk Self-Assessment.

Business Risk

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

Management

Business Risk is driven by the volatility of the revenue stream and the extent to which costs are fixed or vary with revenues. For this reason, Business Risk is managed through the regular business processes. Operational leverage (fixed costs as a percentage of total costs) is part of the regular cost management function.

Business Risk can be reduced either by increasing variable cost or decreasing revenue volatility. Operational leverage can be increased at all levels in the organisation. Volatility is endemic to any business and can only be influenced by changing the business mix. As a consequence, volatility will primarily be managed at Business Unit level or Group level.

Measurement

The Value at Risk model that the Bank has developed to measure Business Risk has as its key factors the volatility of revenues and the cost structure of the Business Unit or activity.

Liquidity Risk

Complementing the Capital Adequacy Framework view, risk appetite is also expressed through the Liquidity Risk Framework employed by the bank. This framework is used to manage Liquidity Risk.

Liquidity may be defined as a bank’s ability to ensure the availability of funds to meet all on- and off-balance sheet commitments at a reasonable price.

ABN AMRO defines Liquidity Risk in turn as the risk to earnings and capital arising from a bank’s potential inability to meet its liabilities when they become due, without incurring unacceptable losses. Conversely, Liquidity Risk also manifests itself in the form of opportunity losses due to holding excess liquidity relative to liabilities.

Management

ABN AMRO takes a two-tiered approach to Liquidity Risk Management:

- Going Concern Liquidity Management: The management of the day-to-day liquidity position within specified parameters to ensure all liabilities can be met on a timely basis.
- Event Risk Liquidity Management: Ensuring that in the event of either a firm-specific or general market event, the bank is able to generate sufficient liquidity to withstand a short term liquidity crisis.

The overall liquidity risk is kept at such a level, that the bank is able to resume its business after a specified crisis.

Event Risk Liquidity Management includes the following tools:

- Stress test: a quantitative analysis of the liquidity impact of several (market and firm-specific) liquidity crises.
- Liquidity Buffer: Mitigation of this event risk is achieved through the provision of standby liquidity in the form of unencumbered, central bank eligible, collateral.
- Contingency Funding Plans (CFPs): Describes the steps and procedures taken in the event of a crisis. CFPs are in place at Group, BU and country level. The effectiveness of the CFPs are tested with periodic dry-runs.

Measurement

The monitoring and control of Liquidity Risk on an ongoing basis includes:

- Balance sheet Ratio Analysis: The relationship between the sub-components of the balance sheet at a given point in time indicating the underlying balance sheet liquidity.
- Measurement of Cash Flow Gap: The gap between expected cash inflows and outflows determined within a series of time brackets.
- Diversification of Funding Schedule: An analysis of funding sources broken down by customer, instrument and product.

Legal Risk

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

Management

To maintain its strong reputation for integrity and sustainability, ABN AMRO needs to manage Legal Risk in a rigorous and consistent way across all its businesses requiring the involvement and oversight of the legal and the compliance function.

With this in mind, beginning 2006 a consolidated Group Legal function was created to oversee ABN AMRO’s Legal Risks worldwide and act as a central reporting point for ABN AMRO’s teams of in-house lawyers. Next to this, a new Global Legal Mandate was put into place to help business make the most effective use of the Bank’s legal recourses.

The Compliance function within the Bank performs the independent oversight role on behalf of the Managing Board. This includes those core processes and related policies and procedures that seek to ensure the Bank is in conformity with industry-specific laws and regulations in letter and spirit, thereby helping to maintain the Bank’s reputation.

Measurement

Under the Capital Requirements Directive (Basel II) Operational Risk includes Legal Risk.

Reputational Risk

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

Management

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

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

ABN AMRO's philosophy is that the primary responsibility for applying sustainability criteria to business selection and approval processes rests with ABN AMRO's client-facing staff. For this reason ABN AMRO has created tools to support ABN AMRO's staff.

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

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

Financial reporting risk

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

Management

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

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

(i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of ABN AMRO and its consolidated entities;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of ABN AMRO are being made only in accordance with authorisations of management and directors of ABN AMRO; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of ABN AMRO's assets that could have a material effect on the financial statements.

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

Measurement

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

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BOARDS AND COMMITTEES

Supervisory Board

In 2007 ABN AMRO Group was faced with the reality of the likely end of its existence as an independent organisation. Following its successful tender offer, a consortium consisting of RBS, Fortis and Santander acquired on 17 October 2007 85.6% of ABN AMRO Holding N.V. Through subsequent purchases the consortium increased its stake in ABN AMRO to 99.3%.

The consortium paid EUR 37.78 per ABN AMRO ordinary share and per ADR, a sum comprised of EUR 35.60 in cash plus 0.296 new RBS shares and EUR 0.59 in cash per Depositary Receipt of Financing Preference Shares. This implies a total consideration paid to ABN AMRO shareholders of EUR 69.8 billion.

The offer for ABN AMRO was made and paid through RFS Holdings BV, the consortium's acquisition vehicle, which in March owns more than 99% of the bank. The consortium intends to acquire 100% of ABN AMRO's issued and outstanding share capital in the shortest possible time through the appropriate legal process.

We are grateful to our management and staff around the world for all their continued professional focus on our business during a protracted period of uncertainty. Despite the unprecedented conditions of uncertainty and change experienced by ABN AMRO during the year, its operational performance has held up. Measures taken by management have had a clear impact. For a review of the 2007 performance please refer to the "Chairman's review".

Financial statements

This Annual Report includes the financial statements, signed by the Managing Board and the Supervisory Board and audited by Ernst & Young.

ABN AMRO proposes to shareholders that they adopt the 2007 financial statements and discharge the Managing Board and Supervisory Board in respect of their management and supervision respectively. In view of the acquisition by the consortium no further dividend will be declared.

Composition of the Supervisory Board

Following the change of control, the Supervisory Board continued to be chaired by Arthur Martinez. At the Extraordinary General meeting of Shareholders on 1 November 2007 Jean-Paul Votron, Chief Executive of Fortis, Sir Fred Goodwin, Chief Executive of RBS, and Juan-Rodriguez Inciarte, General Manager of Santander were appointed to the Supervisory Board for a term of four years. On that same date David Baron de Rothschild, Marcus Pratini de Moraes, Paulo Scaroni, Lord Sharman of Redlynch and Gerhard Randa stepped down as members of the Board.

Louise Groenman resigned at the Annual General Meeting of Shareholders on 26 April 2007 at which time Ana Maria Llopis Rivas was appointed to the Supervisory Board.

Managing Board

At the Extraordinary General meeting of Shareholders on 1 November 2007 Rijkman Groenink stepped down as chairman and member of the Managing Board and was succeeded as chairman of the Managing Board by Mark Fisher. At the same time Karel De Boeck, Marta Elorza Trueba, Brian Crowe, Paul Dor, John Hourican, Javier Maldonado and Jan-Peter Schmittmann were appointed as members of the Managing Board.

Hugh Scott-Barrett stepped down from the Managing Board as from 1 August 2007. Huibert Boumeester assumed Mr. Scott-Barrett's former responsibilities as CFO. Piero Overmars stepped down as member of the Managing Board on 1 January 2008 and Huibert Boumeester stepped down as a member of the Managing Board on 1 March 2008. Joost Kuiper retired from the bank with effect from 29 February 2008.

The responsibilities of the members of the Managing Board as per 25 March 2008 as follows:

- Mark Fisher
  Chairman of the Managing Board, Group Audit, Group Compliance & Legal

- Wilco Jiskoot
  Vice-Chairman, Private Equity, Customer Relations

- Karel De Boeck
  Vice-Chairman, Group Human Resources, Group Communications, Group Public Affairs, Transition

- Ron Teerlink
  Services, Market Structures

- Marta Elorza Trueba
  Antonveneta, BU Latin America

- Brian Crowe
  BU Global Clients, BU Global Markets, BU Transaction Banking

- Paul Dor
  BU Asset Management, BU Private Clients

- John Hourican
  CFO, Group Finance, Group Risk Management

- Javier Maldonado
  Non-core assets

- Jan-Peter Schmittmann
  BU Netherlands

- Michiel de Jong (nominated)
  BU Asia, BU Europe

- Brad Kopp (nominated)
  BU North America

Full Board activities

The Supervisory Board met on fourteen occasions during the period under review and in addition conducted a substantial number of conference calls. The high frequency of meetings and conference calls was attributable to the pending corporate transactions.

In accordance with best practice provision III.1.5 of the Dutch Corporate Governance Code, ABN AMRO hereby reports that Lord Sharman of Redlynch did not attend five of the thirteen meetings and discussions of the Supervisory Board. As the majority of the meetings and discussions he did not attend related to a possible recommendation of either bid for ABN AMRO, and in his opinion this would have constituted a conflict of interest in view of other positions he held, he decided not to take part therein. Most of the meetings were preceded by executive sessions of the

Supervisory Board. During its executive sessions the Supervisory Board evaluated the functioning and the remuneration of the Managing Board and its individual members. As at the end of 2006 it had evaluated its own composition, its functioning and the functioning of its individual members and had discussed its conclusions, the Supervisory Board did not do this again in 2007, also in light of the changes in the composition of the Supervisory Board following the change of control.

The Chairman and the Company Secretary prepared the agenda for the meetings of the Supervisory Board with the assistance of the Chairman of the Managing Board. Regular agenda items included aspects of the corporate strategy including acquisitions and divestments, compliance and regulatory issues, financial performance, control and risk issues, BU strategies, performance contracts, corporate governance and the organisational

structure including senior appointments. The financial performance of ABN AMRO was extensively discussed at the Supervisory Board meetings preceding the publication of quarterly or (semi-)annual results. Relevant executives discussed findings of internal and external auditors. These meetings were preceded by meetings of the Audit Committee, which advised the full Supervisory Board on the approval of the financial results. Comprehensive information provided by the Managing Board and reviewed by the Audit Committee with the assistance of internal and external auditors gave the Supervisory Board a clear picture of the bank's risks, results, capital and liquidity position, both absolutely and relative to agreed targets and the bank's chosen peer group. All Supervisory Board committees continued to report their deliberations and findings to the full Board for further discussion and, where appropriate, decisions.

At its meeting in January 2007 the Supervisory Board reviewed and approved the Group Performance Contracts for 2007 as well as the 2007 Managing Board Strategic Agenda. The Employee Engagement Survey 2006 was presented and reviewed providing the basis for a discussion on the functioning of the Top Executive Group including the Managing Board and the performance of its individual members. The performance measurement and compensation of the members of the Managing Board were reviewed and decided upon following recommendations from the Nomination and Compensation Committee.

As well as reviewing and adopting the 2006 results and the dividend proposal at its February meeting, the Board reviewed regulatory, control and audit issues, including SOXA 404 compliance and the results of the Managing Board's assessment of these issues.

The approach by some hedge funds and the possible consequences and remedies were also discussed. Later in March, the letter from The Children's Investment Fund (TCI) and further regulatory issues were reviewed in a conference call.

In its March meeting the Board reviewed and approved the 2006 financial statements and reviewed the related auditors and SOXA statements and reports.

The Board extensively discussed the bank's strategic situation in the light of the shareholders' approaches, and approved the continuation of the merger talks with ING and, if unsuccessful, with Barclays. It was also agreed to put that the TCI motions should be placed on the agenda of the Annual General Meeting of Shareholders.

A Transaction sub-committee of the Supervisory Board was set up in order to maintain almost daily contact with the Managing Board on behalf of the Supervisory Board with the Managing Board during the ensuing months.

During various meetings in April, the Board debated - among other issues - stand-alone strategies, a merger with Barclays, a sale of LaSalle Bank and the approach from the consortium of RBS, Fortis and Santander. It decided to recommend a merger with Barclays to shareholders and approved the sale of LaSalle Bank to Bank of America.

The many meetings and conference calls conducted during May centred on the continuing merger discussions with Barclays, the situation with regard to the consortium and its acquisition proposals for LaSalle and the bank as a whole, the ruling of the Enterprise Chamber and the consequences of all these developments on the bank's clients, staff and other stakeholders. Regulatory issues also remained on the Board's agendas.

In June the Supervisory Board regularly reviewed the ongoing developments with regard to the competing proposals of Barclays and the consortium. To aid these discussions, the Board was presented with analyses of the consequences of a break-up of the bank as contained in the bid by the consortium.

The Board reviewed and approved the half-year financial report 2007 and the interim dividend proposal in July and dealt with a number of audit, risk and regulatory matters. It reviewed alternative strategic options for the bank as fallback scenarios in case one or both bids fall away. Following the launch of the formal consortium offer and of the revised Barclays offer, the merits of both bids were reviewed frequently by the Supervisory Board to come jointly with the Managing Board to a ‘reasoned opinion’ on both offers taking into account the best interests of the company’s shareholders and all stakeholders into account. This opinion which was made public prior to the informative Extraordinary General Meeting of Shareholders, held on 20 September, reflected to a more neutral stance, influenced by the ongoing discussions with the consortium and the substantial price difference between the two offers.

In October the Board nominated new Supervisory and Managing Board members following the change of control of ABN AMRO to the consortium and approved the resignation of the Supervisory Board members and of the chairman of the Managing Board.

At the Extraordinary General meeting of Shareholders on 1 November 2007 these nominations and resignations were adopted by shareholders. In December the Supervisory Board reviewed the Transition Plan before this was sent to The Dutch Central Bank.

Senior Executive Vice Presidents

The Managing Board consulted the Supervisory Board on the appointment of Robert Moore as Senior Executive Vice President BU North America with effect from 1 May 2007.

As a result of this appointment, as well as the other organisational changes and retirements, the number of Senior Executive Vice Presidents decreased by 3 to 19.

Supervisory Board committees

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

Audit Committee activities

During most of 2007, the Audit Committee of the Supervisory Board was chaired by Lord Sharman of Redlynch. Other members included Marcus Pratini de Moraes, André Olijslager and Arthur Martinez.

Since the Extraordinary General Meeting of Shareholders on 1 November 2007 the composition of the Committee has been as follows: André Olijslager (chairman), Gert-Jan Kramer, Ana Maria Llopis Rivas and Arthur Martinez.

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

The Audit Committee was convened six times during the course of 2007. Five of these meetings were regular meetings, while one was an extraordinary meeting called for the purpose of approving financial statements for early release. Each meeting of the Audit Committee was followed by an executive session with the head of Group Audit.

The Audit Committee reviewed, discussed and advised the Supervisory Board with regards to the annual and interim financial statements, the Annual Report, the external auditors' long-form report, the internal auditors' management letter (including the Managing Board's related comments), the structure (including changes, and operation of the internal risk management and control systems), the capital adequacy framework and the impact of the US Sarbanes-Oxley Act, in particular as to ABN AMRO's compliance with the requirements of Section 404 of this Act. These topics were discussed in the presence of internal and external auditors and senior representatives from Group Finance.

Ernst & Young reported on its independence to the Audit Committee. Ernst & Young has reviewed its engagements with ABN AMRO and confirmed to the Audit Committee that these have not impaired Ernst & Young's ability to act as independent auditors of ABN AMRO. During the course of 2007 the Audit Committee actively monitored and reviewed the various potential outcomes of the ongoing corporate developments to determine how they might potentially affect the independence of external audit firms.

The Audit Committee, in the presence of senior representatives from Group Risk Management, also reviewed and discussed ABN AMRO's overall risk profile (including Credit Risk and Country Event Risk, Interest Rate Risk, Market Risk, Liquidity Risk, Operational Risk and Business Risk), the quality of the loan portfolio and the bank's large exposures and provisioning for loan losses. It also reviewed the newly introduced Enterprise Risk Management Framework and related reporting, also in addition, the Committee reviewed various risk reports, produced both internally and by third parties, outlining the unique risk profile arising directly as a result of the corporate development activities, in order to ensure that the company's risk profile was aligned with its risk appetite. Litigation to which ABN AMRO is (potentially) related was also reviewed during the year in the presence of the head of Group Legal. The financial performance and the impact of the credit crisis on this were also discussed.

The Audit Committee reviewed, discussed and approved the Group Audit Strategy 2007-2010. Furthermore the Audit Committee reviewed and approved the 2007 Audit Plan prepared by Group Audit, as well as staff matters including training and recruitment. In addition, the Audit Committee discussed the operational and internal control aspects covered by Group Audit in its audit. In the middle of the year, Group Audit provided a revised assessment of Audit Risk which reflected the impact of corporate activities. This was reviewed and approved by the Audit Committee.

In 2007, the Audit Committee reviewed its pre-approval policy for audit and non-audit services provided by the external auditor. Following this review the Audit Committee pre-approved the nature and the budget for audit, audit-related and non-audit services, in line with this policy.

Nomination & Compensation Committee activities

The membership of the Nomination & Compensation Committee of the Supervisory Board remained unchanged in 2007. The Committee consists of the following three members: Arthur Martinez (chairman), Trude Maas-de Brouwer and Anthony Ruys.

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

During 2007, the Nomination & Compensation Committee prepared several proposals for consideration by the Supervisory Board. This year these proposals were mostly related to the treatment of the Long Term Incentive Plans in the event of a change of control of ABN AMRO and the Managing Board composition.

The Nomination & Compensation Committee met five times in 2007 and held one meeting via telephone. As in previous years the Committee was assisted by Towers Perrin, an external remuneration consultancy, which provides the Committee with market-related information and professional advice on commonly applied reward elements, best practice and expected developments. These services to the Nomination & Compensation Committee are provided under an arrangement that is separate from Towers Perrin's other consultancy services to ABN AMRO.

Managing Board compensation

Basic reward philosophy

Two principles guide the compensation policy that applies to Managing Board members. Firstly, the package must be competitive so that ABN AMRO can recruit both internally and externally and retain expert and experienced Managing Board members. Secondly, there must be a strong emphasis on actual performance measured against demanding short-term and longer-term targets.

The Managing Board reward package as it became effective in 2005 consisted of three main direct elements of reward: salary, bonus and the expected value of long-term incentive awards, each with an approximately equal weight. In 2006 the Nomination & Compensation Committee reviewed the structure of the remuneration package in light of the Managing Board compensation policy principles outlined above and of the practices observed among ABN AMRO's main peers and competitors. These are defined as other major Dutch companies and other European-parented banks. As a result of this review, the Nomination & Compensation Committee believed that, going forward, it would be necessary to increase the number of awards under the Long Term Incentive Plans. The Committee was advised, on the basis of a review of the expected value of the applicable long term incentive awards by the Committee's remuneration consultant Towers Perrin, that the combined expected value of the two long term incentive awards Performance Share Plan ("PSP") and Share Investment & Matching Plan ("SIMP") fell below the intended level and also below the mid market level of awards provided by other European banks. This evaluation prompted the Nomination & Compensation Committee to propose to increase the number of shares awarded under the PSP in 2007 and to also reconsider the performance measures that are used. The Supervisory Board and finally the General Meeting of Shareholders on 26 April 2007 approved the proposed changes with retrospective effect from 1 January 2007.

Award levels under the annual PSP grant for 2007 were increased by 25% and a new performance measure was introduced in addition to the two existing measures, which are relative Total Return to Shareholders (TRS) and Return on Equity (RoE). The new measure, earnings per share (EPS), is explicitly linked to sustained growth and is therefore regarded as a valuable new element. As a consequence of the use of three performance measures the awards under the PSP were split into three equal parts, one third based on relative TRS, one third on RoE and one third on EPS growth.

2007 reward package

Base salary

The base salary of ABN AMRO’s Managing Board members is compatible with the base salaries of the managing boards of a European benchmark peer group and also in line with the salary structure for all ABN AMRO’s top executives. With effect from 1 January 2007 the Managing Board salaries were adjusted upwards by 1% to compensate for the effects of inflation.

Cash bonus

The cash bonus that applies to Managing Board members is expressed as a percentage of their base salary and is based on stretch performance targets for the relevant year, set within the framework of the long-term financial targets of the Group.

The bonus outcome on the basis of the set performance targets is based on the following schedule:

Rating 1 –	substantially below target	– 0%
Rating 2 –	close to target	– 0 - 150%
Rating 3 –	on target	– 150%
Rating 4 –	well above target	– 150 - 200%

After the percentage of the bonus is set on the basis of the assessment of the quantitative targets, the Nomination & Compensation Committee reserves the discretion to adjust the bonus outcome within a band of plus or minus 20% of annual gross salary on the basis of the assessment of the qualitative criteria that have been set.

2007 bonus

The Nomination & Compensation Committee decided, considering the special circumstances in 2007 to set the bonus percentage for the Managing Board at 150%. This decision was approved by the Supervisory Board on 19 February 2008. The CFO who left ABN AMRO’s service as from 1 August 2007 is not eligible for a bonus. Details of the 2007 reward packages are included in note 43 to the financial statements.

Future reward package

In the light of the changes in the composition of ABN AMRO's Managing Board the Nomination & Compensation Committee has decided not to conduct the regular annual review of the structure of the Managing Board’s remuneration package. The current packages for the members of the Managing Board originating from ABN AMRO will remain unchanged with one exception.

As a consequence of the cash settlement of all ABN AMRO's Long-Term Incentive Plans on 17 October 2007, no outstanding awards under the former group Long Term Incentive Plans (LTIPs) remain. Since the LTIPs form a consistent part of the Managing Board's reward packages, the consortium partners will propose the introduction of a new transitional Long Term Incentive PLan for the period prior to the final break-up of the company between the three consortium partners.

The Managing Board’s salaries in 2008 will be increased with 2.5%, by way of reflecting inflation, to the rounded off amount of EUR 683.000 for the Managing Board Members on ABN AMRO terms and conditions.

Succession planning

During the year, the Nomination & Compensation Committee and the full Supervisory Board discussed the subject of Managing Board succession planning, although in the second part of 2007 these discussions were more focused on the composition of the new Managing Board.

Compliance Oversight Committee activities

The Compliance Oversight Committee consists of three members all of whom are members of the Supervisory Board. In 2007 the members were Arthur Martinez, Trude Maas-de Brouwer and Rob van den Bergh.

The Committee met five times in 2007. Each meeting was followed by an executive session with the Global Head of Group Compliance & Legal. During its meetings in 2007, the Committee discussed and closely monitored the actions following the Enforcement Actions against ABN AMRO by the US and Dutch regulators. On a quarterly basis the Committee discussed the Group Compliance Reports, elaborating on global regulatory developments and key Group Compliance initiatives.

In line with its Charter – set out in the Rules Governing the Supervisory Board's Principles and Best Practices - the Compliance Oversight Committee conducted its second self-assessment of its own effectiveness. It was concluded that the functioning of the Committee was perceived to be 'effective' and 'in line with expectations' by all members.

Contacts with Dutch Central Works Council

In accordance with the covenant concluded in 2003 with the Dutch Central Works Council, members of the Supervisory Board, Louise Groenman, Gert-Jan Kramer, André Olijslager and Anthony Ruys, attended by rotation four meetings of the Central Works Council. Arthur Martinez also had a constructive meeting with representatives of the Central Works Council on a possible merger with Barclays and the plans and consequences of the acquisition by the Consortium. Also the nomination of Ana Maria Llopis Rivas was subject of a meeting with Arthur Martinez. The Dutch Central Works Council was also consulted on the nomination of the three new Supervisory Board members, Jean-Paul Votron and Juan Rodriquez Inciarte and Sir Fred Goodwin after the acquisition by the Consortium.

A joint meeting of the Supervisory Board, the Managing Board and the Central Works Council was held on 27 February 2008.

CORPORATE GOVERNANCE

Corporate governance at ABN AMRO is defined by the way ABN AMRO organises and conducts the relationship between the Managing Board, the Supervisory Board and ABN AMRO's shareholders.

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

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

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

As a Netherlands-based and listed company, ABN AMRO adheres to the Dutch Corporate Governance Code. Also, as a company registered with the US Securities and Exchange Commission (SEC) and listed on the New York Stock Exchange, ABN AMRO is subject to US securities laws and the applicable corporate governance rules imposed by the New York Stock Exchange.

Supervisory Board

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

The Supervisory Board is in principle an independent body. Members of the Supervisory Board are appointed by the General Meeting of Shareholders. The Supervisory Board nominates one or more candidates for each vacant seat. Details of the Supervisory Board's nomination process can be found on page 91.

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

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

Under the Dutch Corporate Governance Code, all members of the Supervisory Board must be independent. However, ABN AMRO is currently deviating from that standard, as ABN AMRO has three Supervisory Board members who can be considered not to be independent within the scope of the Dutch Corporate Governance Code. For more information ABN AMRO refers to page 89.

In case of a (potential) conflict of interest of material significance between a member of the Supervisory Board and the company, the Chairman of the Supervisory Board shall be notified. Details of the Supervisory Board’s remuneration package can be found in note 43 to the financial statements.

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

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

On ABN AMRO’s website you may also find detailed curriculum vitae of each of the Supervisory Board members. In addition, a curriculum vitae for each new member of the Supervisory Board is included in ABN AMRO’s Annual Report published in the year in which he or she is appointed.

Audit Committee

The Audit Committee of the Supervisory Board reviews and advises the Supervisory Board and subsequently the Managing Board on the quarterly statements, the Annual Report, the annual financial statements and the internal and external auditors’ management letters. It regularly reviews the overall risk profile, the quality of the loan portfolio and ABN AMRO’s large exposures. In addition, the Audit Committee reviews the consistency of ABN AMRO’s accounting policies, the internal audit function, the Group Audit Charter, and internal risk management and control systems. The Audit Committee also reviews ABN AMRO’s risk management policy and reports on litigation and acquisitions. In accordance with the Group Audit Charter, the head of Group Audit has a direct reporting line to the chairman of the Audit Committee.

Auditor independence is a particularly important issue for the Audit Committee. It formally evaluates the independence of the external auditor, the measures used to control the quality of the external auditor’s work, and the annual audit budget. The Audit Committee’s policy on auditor independence governs the appointments, compensation, and oversight of the external auditor. The external audit firm is appointed or reappointed by the General Meeting of Shareholders for a period of five years on the advice of the Supervisory Board. To ensure its independence, the Auditor Independence Policy prohibits the external auditors from providing certain non-audit services to the Bank.

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

Nomination & Compensation Committee

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

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

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

Compliance Oversight Committee

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

The Compliance Oversight Committee discusses compliance risk profiles on a regular basis. In addition, the Committee reviews the compliance plan developed by Group Compliance and approved by the Managing Board, and monitors its implementation. The Committee is also responsible for supervising the functioning of Group Compliance, and, in particular, for ensuring that Group Compliance is appropriately staffed, compensated, resourced, and supported by other units of ABN AMRO. The Head of Group Compliance & Legal has a direct reporting line to the Chairman of the Compliance Oversight Committee.

Managing Board

The members of the Managing Board of ABN AMRO Holding N.V. collectively manage the company and are responsible for its strategy, structure and performance. The members are appointed by the General Meeting of Shareholders. The Supervisory Board nominates one or more candidates for each vacant seat. If the Supervisory Board nominates two or more candidates for a vacant seat, the nomination list is binding. However, the General Meeting of Shareholders may resolve that such a list is not binding by a vote of at least two-thirds of the votes, which must also represent more than half of the economic value of the issued capital. Such a majority vote is also required to appoint a Managing Board member, other than in accordance with a binding or non-binding nomination by the Supervisory Board. The members of the Managing Board are accountable both collectively and individually for all decisions taken

by the Managing Board.

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

Corporate governance in the Netherlands

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

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

Dutch Corporate Governance Code

The Dutch Corporate Governance Code (the Code) took effect on 1 January 2004.

ABN AMRO is pleased to confirm that ABN AMRO – and, where relevant, the Trust Office – applies the principles and (applicable) best practice provisions of the Code, with the exception of the following best practice provisions: II.1.1, II.2.7, II.3.3, III.2.1, III.5.11, III.6.2 and IV.1.1. It remains ABN AMRO's belief that it is in ABN AMRO's best interest and in the best interest of ABN AMRO's various stakeholders, to apply different best practices in these specific areas.

Best practice provision II.1.1 states that a managing board member is appointed for a maximum period of four years and that a member may be reappointed for a term of not more than four years at a time.

With the exception of Wilco Jiskoot and Joost Kuiper ABN AMRO applies best practice provision II.1.1 to the current members of ABN AMRO's Managing Board, who have been appointed in line with best practice provision II.1.1 for a maximum period of four years and may be reappointed for a term of not more than four years at that time. Wilco Jiskoot and Joost Kuiper have been appointed for an indefinite period in accordance with the statutory obligations applicable at the time of their appointment.

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

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

For some other members of the Managing Board ABN AMRO does not fully apply this best practice provision. The underlying employment contracts of the three members who were appointed to the Managing Board with effect from 1 January 2006, which are Senior Executive Vice President employment contracts under Dutch law, continue. However, all entitlements under these contracts, including the entitlements under the redundancy clause, have been suspended during membership of the Managing Board, and replaced by another employment contract applicable to Managing Board members. ABN AMRO has not included a redundancy clause in these contracts and shall apply best practice provision II.2.7 as follows: in the event of a termination of the Managing Board membership, the suspended employment contract will be reinstated. If it is deemed necessary to terminate that contract in the future, this will happen in accordance with Dutch labour law.

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

This principle has been elaborated in best practice provisions II.3.1 to II.3.4. Following the acquisition by RBS, Fortis and Santander through the Dutch vehicle RFS Holdings B.V. of nearly all of the shares of the company, a nomination was made for the new structure and membership of the Managing Board and Supervisory Board of the company. These changes were confirmed at the Extraordinary General Meeting on 1 November 2007.

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

Best practice provision III.2.1 states that all supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2.
A description of independence is given in best practice provision III.2.2. As mentioned under principle II.3 above, following the acquisition by the consortium banks a new structure and membership for the Supervisory Board was put in place. The new Supervisory Board members are Jean-Paul Votron, Chief Executive of Fortis, Sir Fred Goodwin, Chief Executive of RBS, and Juan Rodriquez Inciarte, Group Executive Vice President and Head of Santander Consumer Finance.

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

Best practice provision III.5.11 states that the remuneration committee shall not be chaired by the chairman of the supervisory board or by a former member of the management board of the company, or by a supervisory board member who is a member of the managing board of another listed company.

As mentioned on page 88 ABN AMRO's Supervisory Board has a combined remuneration and selection and appointment committee, entitled the Nomination & Compensation Committee. As ABN AMRO attaches great value to the coordinating role of the Chairman of the Supervisory Board, especially in respect of the selection

and nomination process of Supervisory Board and Managing Board members, the Chairman of the Supervisory Board will continue to chair the Nomination & Compensation Committee.

Principle III.6 states that any conflict of interest or apparent conflict of interest between the company and supervisory board members shall be avoided.
This principle has been elaborated in best practice provision III.6.1 to III.6.7. ABN AMRO's explanation of principle II.3 applies mutatis mutandis to the three new Supervisory Board members, Jean-Paul Votron, Sir Fred Goodwin and Juan Rodriquez Inciarte, who likewise have taken and will take part in discussions or decision-making that involves or will involve a subject or transaction relating to the separation and transfer of the ABN AMRO businesses to the respective consortium companies. As this may constitute a conflict of interest within the scope of best practice provision III.6.1, ABN AMRO does not apply best practice provision III.6.2 with respect to these subjects and transactions, but otherwise ABN AMRO reports that best practice provisions III.6.1 to III.6.3 inclusive have been complied with, where applicable.

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

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

ABN AMRO does not have a statutory two-tier status ('structuurregime'). ABN AMRO's Supervisory Board has decided, for the time being, to make non-binding nominations for the appointment of its members and for the appointment of members of the Managing Board. This means that the appointment of a candidate for the Supervisory Board or the Managing Board – if made on the basis of a non-binding nomination – requires an absolute majority in the General Meeting of Shareholders, in which case ABN AMRO applies best practice provision IV.1.1. If a candidate for the Supervisory Board or the Managing board is proposed on the basis of a binding nomination, in accordance with its Articles of Association, the binding nature of the nomination can be set aside by the General Meeting of Shareholders passing a resolution with at least two-thirds majority of the votes cast representing more than half of the economic value of the capital. Candidates that have been nominated by the shareholders require a similar majority in order to be appointed. This means that in the event that the Supervisory Board decided in the future to make binding nominations (or a binding nomination) or in the event of a nomination by shareholders, ABN AMRO would not apply best practice provision IV.1.1.

In accordance with ABN AMRO's Articles of Association, the following procedure has to be followed for the dismissal of members of the Managing Board and Supervisory Board. A distinction has been made between situations in which the Supervisory Board submits a proposal to the General Meeting of Shareholders to dismiss a member of the Managing Board or Supervisory Board and situations in which the proposal to dismiss a member of the Managing or Supervisory Board is submitted at the initiative of shareholders. The first of these situations

requires an absolute majority of the General Meeting of Shareholder, and in this case ABN AMRO applies best practice provision IV.1.1. In the event of the second situation arising, a two-third majority of the votes cast, representing more than half of the economic value of the capital, is required. For this reason, ABN AMRO will continue to apply these procedures with regard to the nominations for the appointment and dismissal of Supervisory Board and Managing Board members.

Internal risk management and control systems

Best practice provision II.1.4 of the Code states that the Managing Board shall declare in the annual report that the internal risk management and control systems are adequate and effective; it shall provide clear substantiation of this. In the annual report, the Managing Board shall report on the operation of the internal risk management and control system during the year under review. In doing so, it shall describe any significant changes that have been made and any major improvements that are planned, and shall confirm that they have been discussed with the audit committee and the supervisory board.

In its first report of December 2005 on compliance with the Dutch Corporate Governance Code, the Corporate Governance Code Monitoring Committee made recommendations concerning the application of best practice provision II.1.4. The Corporate Governance Code Monitoring Committee differentiates between financial reporting risks and other risks, such as operational, strategic, legislative and regulatory risks.

With regard to financial reporting risks the Managing Board declares that:

- There is reasonable assurance that ABN AMRO's financial reporting does not contain any errors of material importance.
  - ABN AMRO's risk management and control systems have worked properly in 2007.
- There are no indications that ABN AMRO's risk management and control systems will not work properly in 2008.

The other risks, such as operational, strategic, legislative and regulatory risks, and additional risks ABN AMRO has identified and manages are described in different sections of this Annual Report, including the chapters Risk and the Capital Management (starting on page 52).

The statements made above and references to other risks do not imply that ABN AMRO's risk management and control systems provide certainty as to the realisation of operational and financial business objectives, nor that these systems can at all times prevent misstatements, inaccuracies, errors, fraud and non-compliance with rules and regulations.

Taking the disclaimer above into account, the Managing Board believes that best practice provision II.1.4 of the Dutch Corporate Governance Code, taking into account the recommendations of the Corporate Governance Code Monitoring Committee, is fulfilled.

ABN AMRO's internal control system is in line with the recommendations of the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

Corporate governance in the United States

As an SEC-registered company, listed on the New York Stock Exchange, ABN AMRO is subject to US securities laws, including the Sarbanes-Oxley Act, and certain corporate governance rules imposed by the New York Stock Exchange. Following the introduction of the Sarbanes-Oxley Act, ABN AMRO established a Disclosure Committee that formalised the roles, tasks and disciplines that were already in place for ensuring the accuracy and completeness of information disclosed to the market.

ABN AMRO's report on internal control over financial reporting under section 404 of the US Sarbanes-Oxley Act is included in this annual report 2007 that is also a Form 20-F as filed with the SEC.

The New York Stock Exchange listing rules

As a foreign issuer with American Depositary Shares listed on the New York Stock Exchange, ABN AMRO is allowed to follow its home country practices with respect to most corporate governance matters, but ABN AMRO are generally obliged to disclose any significant ways in which ABN AMRO's corporate governance practices differ from the New York Stock Exchange standards applicable to US companies. The main exception to this is that ABN AMRO must fully comply with the SEC rules relating to the composition, responsibilities and operation of audit committees.

For more information on ABN AMRO's Supervisory Board's Audit Committee see page 87.

The following are the significant differences between ABN AMRO's corporate governance practices and the New York Stock Exchange standards applicable to US companies:

- Like many public Dutch companies, ABN AMRO has a two-tier governance structure. As described here in more detail, ABN AMRO's Managing Board is composed of ABN AMRO's principal officers and is responsible for the day-to-day management of ABN AMRO's affairs. The Managing Board functions under the supervision of ABN AMRO's Supervisory Board, which must approve specified decisions of the Managing Board. Members of the Managing Board and other officers and employees are excluded from membership of the Supervisory Board. Members of the Managing Board and Supervisory Board are appointed by the General Meeting of Shareholders upon a nomination by the Supervisory Board.
- Both sets of practices require that a majority of the members of the board of directors must be independent, but the relevant definitions of independence differ. In some cases ABN AMRO's definition is stricter; for example, ABN AMRO has a longer 'look-back' period for former executive directors. In other cases, the definition applied by the New York Stock Exchange is stricter.
- Unlike the New York Stock Exchange rules, ABN AMRO's corporate governance practices permit the Supervisory Board's sub-committees to have a member who is not independent. At this moment, however, all members of the sub-committees of ABN AMRO's Supervisory Board are, in fact, independent.

The responsibility for ABN AMRO's corporate governance practices lies with the Managing Board and the Supervisory Board as a whole, and is not delegated to a sub-committee of the Supervisory Board. In general, ABN AMRO believes that ABN AMRO's current corporate governance practices are consistent in principle with the New York Stock Exchange standards applicable to US companies.

Management's report on internal control over financial reporting

Under Section 404 of The Sarbanes-Oxley Act of 2002, ABN AMRO is required to assess the effectiveness of its internal control over financial reporting as of 31 December 2007 and report, based on that assessment, whether ABN AMRO's internal controls over financial reporting are effective.

The management of ABN AMRO is responsible for establishing and maintaining adequate internal control over financial reporting for ABN AMRO as defined in Rule 13(a) - 15 (f) under the Securities Exchange Act of 1934, as amended.

ABN AMRO's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. For ABN AMRO generally accepted accounting principles

refers to International Financial Reporting Standards as adopted by the EU and IFRS as issued by the IASB.

ABN AMRO's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of ABN AMRO and its consolidated entities; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of ABN AMRO are being made only in accordance with authorisations of management and directors of ABN AMRO; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of ABN AMRO's assets that could have a material effect on the financial statements.

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

ABN AMRO's management assessed the effectiveness of ABN AMRO's internal control over financial reporting as of 31 December 2007. In making this assessment, ABN AMRO used the criteria established by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. ABN AMRO's assessment included documenting, evaluating and testing of the design and operating effectiveness of its internal control over financial reporting. The management of ABN AMRO reviewed the results of its assessment with the Supervisory Board and its Audit Committee.

The transition of ABN AMRO to its new Consortium owners may have an impact on the control environment in 2008. This is incorporate and monitored as part of the transition management.

Based on this assessment, management concluded that, as of 31 December 2007, ABN AMRO's internal control over financial reporting was effective.

The effectiveness of ABN AMRO's internal control over financial reporting as of 31 December 2007 has been audited by Ernst & Young, an independent registered public accounting firm, as stated in their report appearing on this page.

Date 25 March 2008

By: /s/ Mark Fisher		By: /s/ John Hourican	
Name:	Mark Fisher	Name:	John Hourican
Title:	Chairman of the Managing Board	Title:	Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Supervisory Board and the Managing Board of ABN AMRO Holding N.V.

We have audited ABN AMRO Holding N.V.'s internal control over financial reporting as of 31 December 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ABN AMRO Holding N.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the Management's Report On Internal Control Over Financial Reporting on page 93. Our responsibility is to express an opinion the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, ABN AMRO Holding N.V. maintained, in all material respects, effective internal control over financial reporting as of 31 December 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated balance sheets of ABN AMRO Holding N.V. and subsidiaries as of 31 December 2007 and 2006, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended 31 December 2007 and our report dated 25 March 2008 expressed an unqualified opinion thereon.

Amsterdam, 25 March 2008

/s/ Ernst & Young Accountants

ABN AMRO's employees

Human capital builds financial capital

As at 31 December 2007, ABN AMRO employed 102,556 people working in over 50 countries. Given this diverse environment, it is essential that ABN AMRO has robust policies and practices in place to support ABN AMRO's employees and ensure ABN AMRO is positioned as an 'employer of choice'. Key elements of ABN AMRO's approach to human resources management include ABN AMRO's Corporate Values and Business Principles as well as ABN AMRO's compliance, sustainability, and diversity and inclusion policies. This approach ensured that ABN AMRO continued to attract and retain top talent in 2007, developing those individuals both professionally and personally, while stimulating them throughout their careers.

Managing change

When ABN AMRO was acquired in 2007, there was an immediate need to increase ABN AMRO's organisational readiness for change. Human Resources was responsible for developing and rolling out pre-acquisition toolkits and workshops to help internal stakeholders such as managers and executives deal with uncertainty and change. In addition to the 'soft currency' approach, ABN AMRO took a series of harder stabilisation measures to ensure that the value of ABN AMRO was preserved. ABN AMRO is proud that ABN AMRO maintained a strong focus on clients and delivery of products and services throughout this period of uncertainty.

SECTION 4 FINANCIAL STATEMENTS

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ACCOUNTING POLICIES

Corporate Information

ABN AMRO Holding N.V. is the parent company of the ABN AMRO consolidated group of companies (referred to as the 'Group', 'ABN AMRO' or 'ABN AMRO Group'). The Group provides a broad range of financial services on a worldwide basis, including consumer, commercial and investment banking.

On 17 October 2007 RFS Holdings B.V. ("RFS"), a company whose shares are held by The Royal Bank of Scotland Group plc ("RBS"), Banco Santander S.A. ("Santander"), Fortis N.V. and Fortis SA/N.V. ("Fortis"), acquired 85.6% of ABN AMRO Holding N.V. Through subsequent purchases RFS increased its stake in ABN AMRO to 99.3% as per 31 December 2007. RFS is controlled by RBS, which is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. From this date RBS is the ultimate parent company of ABN AMRO Holding N.V.

ABN AMRO Holding N.V. is a public limited liability company, incorporated under Dutch law on 30 May 1990, and registered at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands. The Group 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 has to publish an annual report on Form 20-F (Form 20-F) that conforms to the rules of the Securities and Exchange Commission (SEC) applicable to foreign registrants. This annual report meets those rules and a cross reference table to the sections of the Form 20-F is included on page 231 of this report.

The consolidated financial statements of the Group for the year ended 31 December 2007 incorporate figures of ABN AMRO, its controlled entities and interests in associates. The consolidated financial statements were signed and authorised for issue by the Supervisory Board and Managing Board on 20 February 2008. The articles of association of ABN AMRO do not give shareholders or others the power to amend the financial statements after issuance. However the right to request an amendment of the financial statements is embedded in the Netherlands Civil Code. Interested parties have the right to ask the Enterprise Chamber of the Amsterdam Court of Appeal for a revision of the financial statements.

Statement of compliance

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

Summary significant accounting policies

Basis of preparation

The consolidated financial statements are prepared on a mixed model valuation basis as follows:

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

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

Certain amounts in the prior periods have been reclassified to conform to the current presentation.

Changes in accounting policies

IFRS standards

IFRS 7 Financial Instruments: Disclosures was issued in August 2005 and is applied by ABN AMRO from the financial year 2007. IFRS 7 requires additional disclosures in the financial statements to evaluate the significance of financial instruments and the nature and extent of risks arising from financial instruments.

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

IFRIC interpretation 8 Scope of IFRS 2 was issued in January 2006 and became effective for the Group on 1 January 2007. It requires IFRS 2 Share-based 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 became effective for the Group on 1 January 2007. 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 subsequent reassessment prohibited unless there is a change in terms of the contract that significantly modifies the cash flows. This interpretation is consistent with our accounting policies and has no impact on the financial position or results of the Group.

IFRIC interpretation 10 Interim Financial Reporting & Impairment was issued in July 2006 and becomes effective for the Group on 1 January 2007. 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 has no impact on the financial position or results of the Group.

Other changes

The Group revised the presentation of interest income and expense related to trading activities. Trading book interest is reported in net trading income and no longer reported within net interest income. Trading income now comprises gains and losses on financial instruments held for trading, both realised and unrealised, interest income and dividends as well as the related funding costs. The disclosures for 2006 and 2005 financial information has been reclassified, where necessary, to conform with the presentation adopted in 2007.

Critical accounting policies

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

Allowance for loan losses

Allowances for loan losses are made 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 modelling and estimates. Certain aspects require judgment, such as the identification of loans that are deteriorating, the determination of the

probability of default, the expected loss, the value of collateral and current economic conditions. Though we consider the allowances for loan losses to be adequate, the use of different estimates and assumptions could produce different allowances for loan losses, and amendments to allowances may be required in the future, as a consequence of changes in the value of collateral, the amounts of cash to be received or other economic events. For a further discussion on our allowance for loan losses, see note 18 to our consolidated financial statements.

Fair value of financial instruments

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

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

The Group refines and modifies its valuation techniques as markets and products develop and the pricing for such products becomes more or less transparent. Financial markets are sometimes subject to significant stress conditions where steep falls in perceived or actual asset values are accompanied by a severe reduction in market liquidity, such as recent events in the US sub prime residential mortgage market. In such cases, observable market data may become less reliable or disappear altogether. Where there is doubt over the reliability of the market data or it is no longer available, other valuation techniques are used. These alternative techniques would incorporate proprietary information as additional input and may include scenario analysis and discounted cash flow calculations.

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

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

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 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 judgments concerning estimates of how the acquired asset will perform in the future using a discounted cash flow analysis. Additionally, estimated cash flows may extend beyond ten years and, by their nature, are difficult to determine. Events and factors that may significantly affect the estimates include, among others, competitive forces, customer behaviours and attrition, changes in revenue growth trends, cost structures and technology, and changes in discount rates and specific industry or market sector conditions. 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 taking place after 1 January 2004. Goodwill on acquisitions prior to this date was charged against equity. The cost of an acquisition is measured at the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's share of the fair value of the identifiable net assets (including certain contingent liabilities) acquired is recorded as goodwill.

In a step acquisition, where 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.

Equity accounted investments

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

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

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

Jointly controlled entities

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

Non-current assets held for sale and discontinued operations

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

The results of discontinued operations (an operation held for sale that represents a separate major line of business or a geographical area of operation) are presented in the income statement as a single amount comprising the net 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.

Transactions eliminated on consolidation

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

Currency translation differences

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

Transactions in a currency that differs from the functional currency of the transacting entity are translated into the functional currency at the foreign exchange rate at transaction date. Monetary assets and liabilities

denominated in foreign currencies at reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities accounted for at cost, if denominated in foreign currency at the reporting date are retranslated to the functional currency at the exchange rate that date 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 reporting date. The income and expenses of foreign operations are translated to the Euro at the rates prevailing at the end of the month. Currency translation differences arising on these translations are recognised directly in equity (‘currency translation account’). Exchange differences recorded in equity, arising after transition to IFRS on 1 January 2004, are included in the income statement on disposal or partial disposal of 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 does not include interest income and expense in relation to trading balances which is included within net trading income.

Income from debt and other fixed-income instruments is recognised using the effective interest method in interest income. Dividend income from other equity instruments is recognised in results from financial transactions when the right to receive such income is established.

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.
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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, interest income, dividends received from trading instruments as well as related funding costs. Dividend income from trading instruments is recognised when entitlement is established.

Trading income also includes changes in value arising from changes in credit, including write-offs, for trading instruments.

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.

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

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

Financial assets and liabilities

Measurement classifications

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

Financial instruments held for trading are those that the Group holds primarily for the purpose of short-term profit-taking. These include shares, interest-earning securities, 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.

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 reduces a measurement inconsistency that would otherwise arise. In this regard unit-linked investments held for the account and risk of policyholders and the related obligation to policyholders are designated at fair value with changes through income.
- It relates to a portfolio of financial assets and/or liabilities that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy. This is applied to equity investments of a private equity nature.

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

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

Recognition and derecognition

Traded instruments are recognised on trade date, defined as the date on which the Group commits to purchase or sell the underlying instrument. 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 and the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire, substantially all risk and rewards are transferred or not substantially all risk and rewards are transferred nor retained although control is transferred. If a servicing function is retained, which is profitable, a servicing asset is recognised. A financial liability is derecognised when the obligations specified in the contract are discharged, cancelled or expire.

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

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

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

Measurement

All trading instruments and financial assets and liabilities designated at fair value are measured at fair value, with transaction costs related to the purchase as well as fair value changes taken to income directly. The measurement of liabilities held at fair value includes the effect of changes in own credit.

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

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

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

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

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

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

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

Professional securities transactions

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

basis, and the collateral levels are adjusted in accordance with the underlying transactions. Fees and interest received or paid are recognised on an effective interest basis and recorded as interest income or interest expense.

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

Netting and collateral

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

Hedge accounting

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

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

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

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

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

Fair value hedges

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

When a fair value hedge of interest rate risk is terminated, any 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. The cumulative gain or loss recognised in equity is transferred to the income statement on the disposal of the foreign operation.

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 obligor’s 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.

Renegotiated loans

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

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 from financial transactions.

Held-to-maturity and available-for-sale debt investments are assessed and any impairment is measured on an individual basis.

Property and equipment

Own use assets

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

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

· Land	Not depreciated
· Buildings	25 to 50 years
· Equipment	5 to 12 years
· Computer installations	2 to 5 years.

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

Leasing

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

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

Intangible assets

Goodwill

Goodwill is capitalised and 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. If the recognition of the assessed fair value of acquired assets and liabilities at the time of acquisition took place on the basis of provisional amounts any changes in the assessed fair value of acquired assets and liabilities at the time of acquisition identified within one year following the acquisition are corrected against goodwill. Any revisions identified after one year are recorded in income.

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

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

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 and stated at cost less accumulated amortisation and any adjustment for impairment losses. Expenditure that enhances or extends the performance of computer software beyond its original specification is recognised as a capital improvement and added to the original cost of the software. Software is amortised over 3 to 7 years.

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

Other intangible assets

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and any adjustment for impairment losses. Other intangible assets are comprised of separately identifiable items arising from acquisition of subsidiaries, such as customer relationships, and certain purchased trademarks and similar items. Amortisation is charged to the income statement 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 in excess of 10% is recognised in income over the expected remaining years of service of the employees participating in the plans. Differences between the pension costs determined in this way and the contributions payable are accounted for as provisions or prepayments. Commitments relating to early retirement of employees are treated as pension commitments.

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

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. For cash settled schemes the fair value of the plan is determined for each reporting period and the changes are recognised in the income statement. In addition, the Group recognises the effects of modifications that increase the total fair value of the share-based payment arrangements or are otherwise beneficial to the employee in the income statement.

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 non-market vesting conditions are met.

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

Provisions

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

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

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

Other liabilities

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

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: 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 net change in the fair value of cash flow hedging instruments, net of taxes, related to hedged transactions that have not yet occurred.

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

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

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

Cash flow statement

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

The cash flow statement, based on the indirect method of calculation, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking activities, investment activities and financing activities. Movements in loans and receivables and inter-bank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in and sales of subsidiaries and associates, property and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as

financing activities. Movements due to currency translation differences as well as the effects of the consolidation of acquisitions, where of material significance, are eliminated from the cash flow figures. The cash flows of discontinued operations are separately reported in the period in which the operation qualifies as a held-for-sale business.

Future changes in accounting policies

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 'Share-based Payment'. The adoption of this interpretation has no impact on the financial position or results of the Group.

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

IFRIC interpretation 13 'Customer Loyalty Programmes' becomes effective for financial years beginning on or after 1 July 2008. This interpretation addresses how companies, that grant their customers loyalty award credits (often called 'points') when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the points. The adoption of this interpretation will not have a significant impact on the financial position or results of the Group.
IFRIC Interpretation 14 IAS 19 'The Limit of a Defined Benefit Asset Minimum Funding Requirements and their Interaction' addresses three issues:

- How entities should determine the limit placed by IAS19 Employee Benefits on the amount of a surplus in a pension fund they can recognise as an asset,
- How a minimum funding requirement affects that limit, and
- When a minimum funding requirement creates an onerous obligation that should be recognised as a liability in addition to that otherwise recognised under IAS 19.

This interpretation becomes effective for annual periods beginning on or after January 2008. The adoption of this interpretation will not have a significant impact on the financial position or results of the Group.

Consolidated income statement for the year ended 31 December

(in millions of euros)	2007	2006	2005
Interest income	29,829	25,417	21,793
Interest expense	21,477	18,149	15,030
Net interest income 3	8,352	7,268	6,763
Fee and commission income	5,222	4,871	4,181
Fee and commission expense	947	822	749
Net fee and commission income 4	4,275	4,049	3,432
Net trading income 5	1,276	2,849	2,514
Results from financial transactions 6	1,548	794	1,183
Share of result in equity accounted investments 19	271	241	245
Other operating income 7	1,376	914	808
Income from consolidated private equity holdings 41	3,836	5,313	3,637
Operating income	20,934	21,428	18,582
Personnel expenses 8	7,581	6,608	5,884
General and administrative expenses 9	6,168	5,713	4,679
Depreciation and amortisation 10	987	940	831
Goods and materials of consolidated private equity holdings 41	2,744	3,684	2,519
Operating expenses	17,480	16,945	13,913
Loan impairment and other credit risk provisions 18	1,704	1,411	614
Total expenses	19,184	18,356	14,527
Operating profit before tax	1,750	3,072	4,055
Income tax (benefit)/expense 11	(48)	366	735
Profit from continuing operations	1,798	2,706	3,320
Profit from discontinued operations net of tax 45	8,177	2,074	1,123
Profit for the year	9,975	4,780	4,443
Attributable to:			
Shareholders of the company	9,848	4,715	4,382
Minority interest	127	65	61
Earnings per share attributable to the shareholders of the parent company (in euros) 12			
From continuing operations			
Basic	0.92	1.43	1.83
Diluted	0.92	1.42	1.83
From continuing and discontinued operations			
Basic	5.32	2.50	2.43
Diluted	5.32	2.49	2.42

Numbers stated against items refer to notes. The notes to the consolidated financial statements are an integral part of these statements.

Consolidated balance sheet at 31 December

(in millions of euros)	2007	2006
Assets		
Cash and balances at central banks 13	16,750	12,317
Financial assets held for trading 14	242,277	205,736
Financial investments 15	96,435	125,381
Loans and receivables- banks 16	175,696	134,819
Loans and receivables- customers 17	396,762	443,255
Equity accounted investments 19	871	1,527
Property and equipment 20	2,747	6,270
Goodwill and other intangibles 21	1,424	9,407
Assets of businesses held for sale 45	60,458	11,850
Accrued income and prepaid expenses	12,580	9,290
Other assets 22	19,213	27,212
Total assets	1,025,213	987,064
Liabilities		
Financial liabilities held for trading 14	155,476	145,364
Due to banks 23	239,334	187,989
Due to customers 24	330,352	362,383
Issued debt securities 25	174,995	202,046
Provisions 26	6,544	7,850
Liabilities of businesses held for sale 45	39,780	3,707
Accrued expenses and deferred income	12,244	10,640
Other liabilities 28	20,163	21,977
Liabilities (excluding subordinated liabilities)	978,888	941,956
Subordinated liabilities 30	15,616	19,213
Total Liabilities	994,504	961,169
Equity		
Share capital 31	1,085	1,085
Share premium	5,332	5,245
Treasury shares 31	(2,640)	(1,829)
Retained earnings	25,650	18,599
Net gains/(losses) not recognised in the income statement	148	497
Equity attributable to shareholders of the parent company	29,575	23,597
Equity attributable to minority interests	1,134	2,298
Total equity	30,709	25,895
Total equity and liabilities	1,025,213	987,064
Guarantees and other commitments 34	55,140	51,279
Committed credit facilities 34	104,137	145,418

Numbers stated against items refer to the notes. The notes to the consolidated financial statements are an integral part of these statements.

Consolidated statement of changes in equity for the year ended 31 December

(in millions of euros)	2007	2006	2005
Share capital			
Balance at 1 January	1,085	1,069	954
Issuance of shares	–	–	82
Exercised options and warrants	–	16	–
Dividend paid in shares	–	–	33
Balance at 31 December	1,085	1,085	1,069
Share premium			
Balance at 1 January	5,245	5,269	2,604
Issuance of shares	–	–	2,611
Share-based payments	145	111	87
Dividends paid in shares	(58)	(135)	(33)
Balance at 31 December	5,332	5,245	5,269
Treasury shares			
Balance at 1 January	(1,829)	(600)	(632)
Share buy back	(1,847)	(2,204)	32
Utilised for dividends paid in shares	412	832	–
Utilised for exercise of options and performance share plans	624	143	–
Balance at 31 December	(2,640)	(1,829)	(600)
Other reserves including retained earnings			
Balance at 1 January	18,599	15,237	11,580
Profit attributable to shareholders of the parent company	9,848	4,715	4,382
Cash dividends paid to shareholders of the parent company	(1,540)	(807)	(659)
Dividend paid in shares to shareholders of the parent company	(586)	(656)	–
Settlement of share option and awards in cash 44	(743)	–	–
Other	72	110	(66)
Balance at 31 December	25,650	18,599	15,237
Net gains/(losses) not recognised in the income statement			
Currency translation account			
Balance at 1 January	408	842	(238)
Transfer to income statement relating to disposals	293	(7)	(20)
Currency translation differences	(104)	(427)	1,100
Subtotal – Balance at 31 December	597	408	842
Net unrealised gains/(losses) on available-for-sale assets			
Balance at 1 January	364	1,199	830
Net unrealised gains/(losses) on available-for-sale assets	(392)	(233)	717
Realised losses (gains) reclassified to the income statement	(515)	(602)	(348)
Subtotal Balance at 31 December	(543)	364	1,199
Cash flow hedging reserve			
Balance at 1 January	(275)	(795)	(283)
Net unrealized gains/(losses) on cash flow hedges	315	735	(386)
Net losses/(gains) reclassified to the income statement	54	(215)	(126)
Subtotal Balance at 31 December	94	(275)	(795)

Net gains /(losses) not recognised in the income statement at 31 December	148	497	1,246
Equity attributable to shareholders of the parent company at 31 December	29,575	23,597	22,221
Minority interest			
Balance at 1 January	2,298	1,931	1,737
Additions/reductions	(853)	145	136
Acquisitions/disposals	(300)	203	(136)
Profit attributable to minority interests	127	65	61
Currency translation differences	(138)	(46)	133
Equity attributable to minority interests at 31 December	1,134	2,298	1,931
Total equity at 31 December	30,709	25,895	24,152

The notes to the consolidated financial statements are an integral part of these statements

Consolidated cash flow statement for the year ended 31 December

(in millions of euros)	2007	2006	2005
Operating activities			
Profit for the year	9,975	4,780	4,443
Less: Profit from discontinued operations	8,177	2,074	1,123
Profit from continuing operations	1,798	2,706	3,320
Adjustments for significant non-cash items included in income			
Depreciation, amortization and impairment	987	940	831
Loan impairment losses	2,253	1,638	850
Share of result in equity accounted investments	(271)	(241)	(245)
Movements in operating assets and liabilities			
Movements in operating assets 35	(176,827)	(85,072)	(85,755)
Movements in operating liabilities 35	176,433	66,328	62,785
Other adjustments			
Dividends received from equity accounted investments	81	72	61
Net cash flows from operating activities from continuing operations and businesses held for sale	4,454	(13,629)	(18,153)
Net cash flows from operating activities from discontinued operations	(9,275)	9,298	(317)
Investing activities			
Acquisition of investments	(182,950)	(152,608)	(114,289)
Sales and redemption of investments	180,506	147,728	100,285
Acquisition of property and equipment	(753)	(970)	(1,847)
Sales of property and equipment	606	247	1,037
Acquisition of intangibles (excluding goodwill)	(490)	(737)	(374)
Disposal of intangibles (excluding goodwill)	14	11	7
Acquisition of subsidiaries and equity accounted investments	(501)	(240)	(1,693)
Disposal of subsidiaries and equity accounted investments	1,152	258	480
Net cash flows from investing activities from continuing operations and businesses held for sale	(2,416)	(6,311)	(16,394)
Net cash flows from investing activities from discontinued operations	12,954	(8,751)	1,209
Financing activities			
Issuance of subordinated liabilities	1,523	1,979	2,975
Repayment of subordinated liabilities	(1,381)	(3,319)	(1,615)
Issuance of other long-term funding	39,412	34,570	35,316
Repayment of other long-term funding	(30,804)	(11,338)	(6,331)
Proceeds from the issue of shares	–	–	2,491
Net (decrease)/increase in treasury shares	(1,223)	(2,061)	32
Other	(1,723)	174	75
Dividends paid	(1,540)	(807)	(659)
Net cash flows from financing activities from continuing operations and businesses held for sale	4,264	19,198	32,284
Net cash flows from financing activities from discontinued operations	(2,101)	(976)	(1,189)

Movement in cash and cash equivalents continuing operations	6,462	(742)	(2,363)
Cash and cash equivalents at 1 January	5,123	5,865	8,228
Cash and cash equivalents at 31 December 35	11,585	5,123	5,865
Movement in cash and cash equivalents from businesses held for sale	(160)	-	100
Cash and cash equivalent at 1 January	203	203	103
Cash and cash equivalents at 31 December 35	43	203	203
Movement in cash and cash equivalents from discontinued operations	1,578	(429)	(297)
Cash and cash equivalents at 1 January	(454)	(25)	272
Cash and cash equivalents at 31 December 35	1,124	(454)	(25)

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 operating segments are consistent with the Group's management and internal reporting structure applicable in the financial year.

As from 1 January 2007, the result of BU Global Clients is reported in the regional BUs. In addition Asset Management France and the International Diamonds and Jewelry Group have been transferred from BU Private Clients to BU Asset Management and Group Functions respectively.

As from 1 July 2007 the results of the Group's private equity investment portfolio is reported in Group Functions. This coincides with the loss of control of a large part of the underlying investments which is now held by an independent management company (see note 2 – acquisitions and disposals of subsidiaries).

The changes in segment reporting were made to align the segment reporting with the way the business is managed.

The comparative segment figures of 2005 and 2006 have been restated.

Measurement

Measurement of segment assets, liabilities, income and results is based on the Group's accounting policies. Segment assets, liabilities, income and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Transactions between segments are conducted at arm's length.

Operating segments

The operating segments are described as follows:

Netherlands

BU Netherlands serves a diverse client base comprised of 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 centre and ATMs throughout the Netherlands. BU Netherlands focuses increasingly on mass affluent customers and commercial mid-market clients. BU Netherlands also encompasses the ABN AMRO Hypotheken Groep including the former Bouwfonds mortgage activities.

Europe

BU Europe provides its consumer and commercial clients with a range of financial products and services. BU Europe combines activities in 27 countries: 23 countries in Europe (excluding the Netherlands) along with Kazakhstan, Uzbekistan, Egypt and South Africa.

Antonveneta is rooted in northeastern Italy, and focuses on consumer and commercial mid-market clients. Antonveneta is presented as discontinued operations on the basis of the sale and purchase agreement with Banca dei Paschi die Siena.

North America

The core of BU North America was LaSalle Bank ('LaSalle'), headquartered in Chicago, Illinois. LaSalle was sold on 1 October 2007 to the Bank of America. The remaining activities include a broad range of activities that support our large multinational client base and a limited number of specialty banking activities.

Latin America

BU Latin America has a presence in nine Latin American countries: Brazil, Argentina, Chile, Colombia, Ecuador, Mexico, Paraguay, Uruguay and Venezuela, with 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 financial services through an extensive network of branches, points-of-sale and ATMs. BU Latin America also has a presence in the Brazilian consumer finance business through its Aymoré franchise, focused on vehicle and other consumer goods financing.

Asia

BU Asia operates in 16 countries and territories including Indonesia, Singapore, China and Japan through branches and offices. The client base includes both commercial and consumer clients.

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 global asset management business. BU Asset Management offers 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. Consumer and third-party clients account for a further part, and the remainder is in discretionary portfolios managed for BU Private Clients. This BU is presented as discontinued operations (see note 45).

Group Functions

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 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, including Private Equity investments, the International Diamonds and Jewellery Group and records any related profits or losses. Private Equity investments are presented as held for sale.

Operating segment information for the year ended 31 December 2007

	Netherlands	Europe	North America	Latin America	Asia	Private clients	Asset manage-ment	Group functions	Total
Net interest income – external	1,732	4,209	67	4,102	542	(1,106)	–	(1,194)	8,352
Net interest income-other segments	1,667	(3,601)	50	(346)	289	1,567	–	374	–
Net fee and commission income - external	968	1,141	289	511	802	553	–	11	4,275
Net fee and commission income-other segments	(83)	(564)	(26)	49	281	124	–	219	–
Net trading income	704	(160)	206	157	389	75	–	(95)	1,276
Result from financial transactions	33	159	5	415	48	6	–	882	1,548
Share of result in equity accounted investments	60	4	–	48	66	–	–	93	271
Other operating income	399	(23)	43	90	11	168	–	688	1,376
Income of consolidated private equity holdings	–	–	–	–	–	–	–	3,836	3,836
Total operating income	5,480	1,165	634	5,026	2,428	1,387	–	4,814	20,934
Total operating expenses	3,525	2,512	776	2,829	1,803	915	–	5,120	17,480
Loan impairment and credit risk provisions	406	75	33	964	228	–	–	(2)	1,704
Total expenses	3,931	2,587	809	3,793	2,031	915	–	5,118	19,184
Operating profit/(loss) before taxes	1,549	(1,422)	(175)	1,233	397	472	–	(304)	1,750
	249	(364)	(85)	425	121	116	–	(510)	(48)

Income tax expenses									
Profit/(loss) from continuing operations	1,300	(1,058)	(90)	808	276	356	–	206	1,798
Profit/(loss) from discontinued operations net of tax	52	(111)	8,077	–	–	–	186	(27)	8,177
Profit/(loss) for the year	1,352	(1,169)	7,987	808	276	356	186	179	9,975
Other information at 31 December 2007									
Total assets	223,067	500,391	79,241	52,659	76,278	19,623	1,419	72,535	1,025,213
Of which equity accounted investments	327	21	–	52	465	6	–	–	871
Total liabilities	216,559	495,479	78,610	47,035	73,404	17,966	825	64,626	994,504
Capital expenditure	353	129	58	238	87	20	–	216	1,101

Operating segment information for the year ended 31 December 2006

	Netherlands	Europe	North America	Latin America	Asia	Private clients	Asset manage-ment	Group functions	Total
Net interest income –external	3,038	2,647	180	3,108	348	(1,008)	–	(1,045)	7,268
Net interest income-other segments	83	(2,272)	(37)	(102)	264	1,503	–	561	–
Net fee and commission income – external	972	989	228	499	664	581	–	116	4,049
Net fee and commission income-other segments	34	(291)	63	39	133	29	–	(7)	–
Net trading income	539	1,405	150	231	358	57	–	109	2,849
Result from financial transactions	167	13	(36)	33	(7)	4	–	620	794
Share of result in equity accounted investments	51	–	–	55	62	2	–	71	241
Other operating income	246	14	21	49	47	75	–	462	914
Income of consolidated private equity holdings	–	–	–	–	–	–	–	5,313	5,313
Total operating income	5,130	2,505	569	3,912	1,869	1,243	–	6,200	21,428
Total operating expenses	3,540	2,479	801						