RBS Holdings N.V.
Form 20-F
March 30, 2011

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 December 31, 2010

OR

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

OR

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

Commission file number: 1-14624

RBS Holdings N.V.
(Exact name of Registrant as specified in its charter)

The Netherlands
(Jurisdiction of incorporation)

Gustav Mahlerlaan 10, 1082 PP Amsterdam, The Netherlands
(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
	New York Stock Exchange*

Guarantee of 5.90% Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust V	
Guarantee of 6.25% Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust VI	New York Stock Exchange**
Guarantee of 6.08% Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust VII	New York Stock Exchange***
5.90% Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust V	New York Stock Exchange
6.25% Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust VI	New York Stock Exchange
6.08% Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust VII	New York Stock Exchange
Leveraged CPI Linked Securities due January 13, 2020	NYSE Arca
Structured Hybrid Equity LinkeD Securities (SHIELDS) due January 16 2014 linked to the S&P 500 Index	NYSE Arca
RBS US Large Cap Trendpilot Exchange Traded Notes	NYSE Arca
RBS US Mid Cap Trendpilot Exchange Traded Notes	NYSE Arca
RBS Gold Trendpilot Exchange Traded Notes	NYSE Arca

* The guarantee is not listed for trading, but is listed only in connection with the registration of the corresponding Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust V.
** The guarantee is not listed for trading, but is listed only in connection with the registration of the corresponding Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust VI.
*** The guarantee is not listed for trading, but is listed only in connection with the registration of the corresponding Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Trust VII.

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

Indicate the number of outstanding shares of each class of common stock as of the close of the period covered by the annual report

(Title of each class)	(Number of outstanding shares)
Ordinary shares, par value €0.56 per share	3,306,843,332

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

x Yes o No

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.

o Yes x No

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.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

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. (Check one):

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

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

o U.S. GAAP
x International Financial Reporting Standards as issued by the International Accounting Standards Board
o Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

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).

o Yes x No

RBS Holdings N.V.
Annual Report and Accounts 2010

SEC Form 20-F cross reference

SEC Form 20-F cross reference continued

Chairman's Statement

The year 2010 was marked by the successful legal separation of the Dutch State acquired businesses included in the new ABN AMRO Bank N.V. (formerly known as ABN AMRO II N.V.) from the residual RBS acquired businesses on 1 April 2010. At the same time, 2010 was a year of economic uncertainty, requiring increased focus on business as usual in what still was a transitional year.

Results of operations in 2010
In a challenging business climate, the Group recorded a profit for the period of €1,108 million comprising a gain after tax of €123 million from continuing operations, and a gain after tax from discontinued operations of €985 million. The gain from discontinued operations was mainly attributable to the gain on the sale of the Dutch State acquired businesses.

Net Interest Income decreased in 2010 principally reflecting the significant changes in the structure of the balance sheet following transfers of businesses to The Royal Bank of Scotland plc ('RBS plc') in the course of 2009.

Non–interest income increased significantly from the loss reported in 2009 predominantly due to improvements in income from trading activities, where the business did not experience the large losses on trading counterparties as seen in 2009. In addition, the Core businesses' operating profit improved, which was largely due to progress in Global Banking & Markets, mainly attributable to movements in credit spreads on a portfolio of credit default swaps, in comparison to high losses in the prior period.

Non-Core's run-off programme remains on track, with sales of businesses in Latin America, Asia, Europe and the Middle East agreed in 2010. Loan impairments were lower for 2010 due to lower specific commercial and retail provisions in comparison to large specific provisions that were made in 2009.

Total equity as at the 31 December 2010 was €5 billion, a decrease of €14 billion compared to 31 December 2009. Share premium and retained earnings decreased as a result of dividend distributions by RBS Holdings N.V. to RFS Holdings B.V. for the benefit of Santander and the Dutch State.

Separation
RFS Holdings B.V. has now substantially completed the separation of the business units of RBS Holdings N.V. As part of this reorganisation, on 6 February 2010, the businesses of RBS Holdings acquired by the Dutch State were legally demerged and were transferred into a newly established company, ABN AMRO Bank N.V. (save for certain assets and liabilities acquired by the Dutch State that were not part of the legal separation and which will be transferred to ABN AMRO Bank N.V. as soon as possible).

Legal separation of ABN AMRO Bank N.V. occurred on 1 April 2010, with the shares in that entity being transferred by RBS Holdings to a holding company called ABN AMRO Group N.V., which is owned by the Dutch State.

As at 31 December 2010, RBS Group's shareholding in RFS Holdings was increased to 97.7%. As at 31 December 2010, the remaining assets and liabilities in RBS N.V. that have not yet been sold, wound down or alternatively transferred by the consortium members, the so-called 'Shared Assets', in which each of the consortium shareholders has a joint and indirect interest represent 0.3% of the Group's assets.

Following the legal separation, RBS Holdings N.V. has one direct subsidiary, RBS N.V., a fully operational bank within the RBS Group. RBS N.V. is independently rated and regulated by the Dutch Central Bank. As announced on 1 April 2010, RBS N.V. has appointed new Supervisory and Managing Boards. The members on these boards are the same for the RBS Holdings N.V. boards.

Capital
The Group continued to be well capitalised. At 31 December 2010, the Group's Total capital ratio was 15.8%, the Tier 1 capital ratio was 11.0% and the Core Tier 1 capital ratio was 8.7%.

On behalf of the Managing Board, I would like to thank all our employees and clients for their continued commitment during another eventful period.

Jan de Ruiter
Chairman of the Managing Board of RBS Holdings N.V.

Amsterdam, 28 March 2011

Business Review
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In the Report and Accounts and unless specified otherwise, the terms 'company' and 'RBS Holdings' mean RBS Holdings N.V. The term 'Group' refers to RBS Holdings and its consolidated subsidiaries. 'RBS N.V.' refers to The Royal Bank of Scotland N.V. The terms 'Consortium' and 'Consortium Members' refer to the banks The Royal Bank of Scotland Group plc ('RBS Group'), the Dutch State (successor to Fortis) and Banco Santander S.A. ('Santander') who jointly acquired RBS Holdings on 17 October 2007 through RFS Holdings B.V. ('RFS Holdings').

The Group publishes its financial statements in 'euro', the European single currency. The abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively. Reference to '$' is to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively.

Certain information in this report is presented separately for domestic and foreign activities. Domestic activities consist of transactions within the Netherlands. Geographic analysis is based on the location of the Group's entity in which the transaction is recorded.

The results, assets and liabilities of individual business units are classified as trading or non-trading based on their predominant activity. Although this method may result in some non-trading activity being classified as trading, and vice versa, any resulting misclassification is not material.

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.

International Financial Reporting Standards
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 ('EU') and IFRS as issued by the International Accounting Standard Board ('IASB'), which vary in certain significant respects from accounting principles generally accepted in the United States ('US'), or 'US GAAP'.

Restatements and changes in presentation
Divisional results for 2009 and 2008 have been restated to reflect the Group's new organisational structure that includes four reportable segments, Global Banking & Markets ('GBM'), Global Transaction Services ('GTS') and Central Items, together the 'Core' segments, and the Non-Core segment. The changes do not affect the Group's results. Comparatives have been restated accordingly.

Legal separation of ABN AMRO Bank N.V. took place on 1 April 2010. As a result the Group no longer consolidates the interests of ABN AMRO Bank N.V. and its results are classified as discontinued operations. Results for 2009 and 2008 have been re-presented accordingly.

The Group is majority owned by RBS Group and therefore the presentation of the financial statements has been aligned with that of RBS Group, the ultimate parent company. Further details of the reclassifications are provided in the financial statements on page 102. The changes do not affect the Group's accounting policies, results, total assets or total liabilities. The presentation of comparatives has been aligned accordingly.

Glossary
A glossary of terms is detailed on pages 232 to 236.

Certain sections in, or incorporated by reference in, this Annual Report and Accounts contain 'forward-looking statements', such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'believes', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk ('VaR')', 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the Group's restructuring plans, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk weighted assets, return on equity, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile, the Group's future financial performance, the level and extent of future impairments and write-downs, the protection provided by the asset protection scheme back-to-back contracts with the Royal Bank of Scotland plc ('RBS plc'), and the Group's potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These 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. For example, certain of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: the financial condition of RBS Group; the global economy and instability in the global financial markets, and their impact on the financial industry in general and on the Group in particular; the financial stability of other financial institutions, and the Group's counterparties and borrowers; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain Non-Core assets and assets and businesses required as part of the EC State Aid restructuring plan of RBS Group; organisational restructuring; the ability to access sufficient funding to meet liquidity needs; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the Netherlands, the United States, United Kingdom, the rest of Europe and other countries in which the Group operates or a change in policy of the government of the Netherlands; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of the Dutch Central Bank, the Bank of England, the Board of Governors of the Federal Reserve System and other G7 central banks; pension fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; general geopolitical and economic conditions in the Netherlands and in other countries in which the Group has significant business activities or investments; changes in Dutch and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the protection provided to the Group pursuant to the asset backed protection scheme back-to-back contracts and their effect on the Group's financial and capital position; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in RBS Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

For a further discussion of certain risks faced by the Group, see Risk factors on pages 221 to 231.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Business Review

Description of business

Introduction

RBS Holdings N.V. was formerly named ABN AMRO Holding N.V. until it changed its name on 1 April 2010 as part of the legal separation of the Dutch State acquired businesses. The Group is an international banking group offering a wide range of banking products and financial services on a global basis.

In 2007, RFS Holdings B.V. ('RFS Holdings'), which was jointly owned by RBS Group, the Dutch State (successor to Fortis) and Santander (together the 'Consortium Members') completed the acquisition of RBS Holdings.

RFS Holdings has now substantially completed the separation of the business units of RBS Holdings. As part of this reorganisation, on 6 February 2010, the businesses of RBS Holdings acquired by the Dutch State were legally demerged and were transferred into a newly established company, ABN AMRO Bank N.V. (save for certain assets and liabilities acquired by the Dutch State that were not part of the legal separation and which will be transferred to the Dutch State as soon as possible).

Legal separation of ABN AMRO Bank N.V. occurred on 1 April 2010, with the shares in that entity having been transferred by RBS Holdings to a holding company called ABN AMRO Group N.V., which is owned by the Dutch State. Some assets and liabilities of the Dutch State acquired businesses could not be transferred to the new ABN AMRO Bank N.V. before legal separation and therefore remain temporarily in the Group. Assets represent 0.3% of the Group's assets as at 31 December 2010.

Following legal separation, RBS Holdings has one direct subsidiary, RBS N.V. (formerly named ABN AMRO Bank N.V.), a fully operational bank within the Group. RBS N.V. is independently rated and regulated by the Dutch Central Bank. Certain assets within RBS N.V. continue to be owned by the Dutch State or shared by the Consortium Members.

As at 31 December 2010, RBS Group's shareholding in RFS Holdings was increased to 97.7%. RFS Holdings is controlled by RBS Group, which is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. RBS Group is the ultimate parent company of the Group. The consolidated financial statements of the Group are included in the consolidated financial statements of RBS Group.

The Group had total assets of €200 billion and owners' equity of €5 billion at 31 December 2010. The Group's capital ratios were a Total capital ratio of 15.8%, a Core Tier 1 capital ratio of 8.7% and a Tier 1 capital ratio of 11.0%, as at 31 December 2010.

Organisational structure and business overview

Following the demerger and subsequent legal separation of the majority of the Dutch State acquired businesses into the new ABN AMRO Bank N.V., the Dutch State acquired businesses are classified as discontinued operations and no longer represent a separate segment. Profits from discontinued operations include the related operating results and the gain on sale. The comparative income statement figures for the years 2009 and 2008 have been re-presented. Any remaining Dutch State acquired assets and liabilities are presented as assets and liabilities of disposal groups as at 31 December 2010. Comparative balance sheet figures have not been re-presented.

The Group comprises four reportable segments, namely Global Banking & Markets ('GBM'), Global Transaction Services ('GTS') and Central Items, together the 'Core' segments, and the Non-Core segment.

Global Banking & Markets (GBM) represents the business providing an extensive range of debt and equity financing, risk management and investment services as a leading banking partner to major corporations and financial institutions around the world. The GBM business within the Group is organised along four principal business lines: Global Lending, Equities, Short Term Markets & Funding and Local Markets.

Global Transaction Services (GTS) provides global transaction services, offering global trade finance, transaction banking and international cash management.

Central Items includes group and corporate functions, such as treasury, capital management and finance, risk management, legal, communications and human resources. Central Items manages the Group's capital resources, statutory and regulatory obligations and provides services to the branch network.

Non-Core contains a range of separately managed businesses and asset portfolios that the Group intends to run-off or dispose of, in line with RBS Group strategy for Non-Core assets. It also includes the remaining assets and liabilities in RBS N.V. that have not yet been sold, wound down or alternatively transferred to the Consortium Members, the so-called 'Shared Assets', in which each of the consortium shareholders has a joint and indirect interest.

Business divestments
As part of the annual results release on 26 February 2009, RBS Group outlined further updates to its strategic restructuring plan, initially announced in RBS Group's 2008 annual results. The Group has been restructured into Core and Non-Core components. RBS Group expects to substantially run down or dispose of the businesses, assets and portfolios within the Non-Core division by 2013 and has announced the sales of businesses in Latin America, Asia, Europe and the Middle East.

Competition
The Group faces strong competition in all the markets it serves. Whilst bank restructuring in response to the financial crisis has seen some reduction in risk appetite from market participants, demand has also reduced as many customers have sought to de-lever and the economy has proved slow to recover.

Competition for corporate and institutional customers in the Netherlands is from banks and from large foreign financial institutions who are also active and offer combined investment and commercial banking capabilities. In asset finance, the Group competes with banks and specialised asset finance providers. In European and Asian corporate and institutional banking markets the Group competes with the large domestic banks active in these markets and with the major international banks. In the small business banking market, the Group competes with other European clearing banks, specialist finance providers and building societies.

Business Review

Risk factors

Set out below are certain risk factors which could affect the Group's future results and cause them to be materially different from expected results. The Group's results are also affected by competition and other factors. These risk factors, discussed in more detail in Additional information (pages 221 to 231), should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

- The Group is reliant on RBS Group.
- The Group's businesses, earnings and financial condition have been and will continue to be affected by the global economy and instability in the global financial markets.
- An extensive restructuring and balance sheet reduction programme of RBS Group is ongoing and may adversely affect the Group's business, results of operations, financial condition, capital ratios and liquidity.
- Lack of liquidity is a risk to the Group's business and its ability to access sources of liquidity has been, and will continue to be, constrained.
- The financial performance of the Group has been affected by deteriorations in borrower credit quality and it may continue to be impacted by any further deteriorations, including as a result of prevailing economic and market conditions, and legal and regulatory developments.
- The actual or perceived failure or worsening credit of the Group's counterparties has adversely affected and could continue to adversely affect the Group.
- The Group's earnings and financial condition have been, and its future earnings and financial condition may continue to be, affected by depressed asset valuations resulting from poor market conditions.
- Changes in interest rates, foreign exchange rates, credit spreads, bond, equity and commodity prices, basis risks associated with hedging transactions, volatility and correlation risks and other market factors have significantly affected and will continue to affect the Group's business and results of operations.
- The Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its credit ratings.
- The Group's business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements.
- The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.
- The Group operates in markets that are highly competitive and consolidating. If the Group is unable to perform effectively, its business and results of operations will be adversely affected.
- As a further condition to RBS Group receiving HM Treasury support, the Group is prohibited from making discretionary coupon payments on, and exercising call options in relation to, certain of its existing hybrid capital instruments, which may impair the Group's ability to raise new capital through the issuance of securities.

- The Group could fail to attract or retain senior management, which may include members of the Group's Supervisory Board and Managing Board, or other key employees, and it may suffer if it does not maintain good employee relations.

- Each of the Group's businesses is subject to substantial regulation and oversight. Significant regulatory developments could have an effect on how the Group conducts its business and on its results of operations and financial condition.

- The Group is and may be subject to litigation and regulatory investigations that may impact its business.

- The Group may be required to make further contributions to its pension schemes if the value of pension fund assets is not sufficient to cover potential obligations.

- The Group is subject to enforcement risks relating to the United States Department of Justice's criminal investigation of its dollar clearing activities.

- The legal demerger of ABN AMRO Bank N.V. (as it was then named) has resulted in a cross liability that changes the legal recourse available to investors.

- Operational risks are inherent in the Group's operations.

- The Group is exposed to the risk of changes in tax legislation and its interpretation and to increases in the rate of corporate and other taxes in the jurisdictions in which it operates.

- The Group's operations have inherent reputational risk.

- The Group's business and earnings may be affected by geopolitical conditions.

- The recoverability and regulatory capital treatment of certain deferred tax assets recognised by the Group depends on the Group's ability to generate sufficient future taxable profits and there being no adverse changes to tax legislation, regulatory requirements or accounting standards.

- There are limits on the coverage provided by the APS back-to-back contracts and uncovered exposures and risks may have a material adverse impact on the Group's business, financial condition, capital position, liquidity and results of operations.

- The extensive governance, asset management and information requirements under the APS conditions, which the Group is required to comply with, or to ensure that RBS plc can comply with, pursuant to the APS back-to-back contracts may have an adverse impact on the Group. In addition, any changes or modifications to the APS conditions may have a negative impact on the expected benefits of the contracts and may have an adverse impact on the Group.

- Any changes to the expected regulatory capital treatment of the APS back-to-back contracts, may negatively impact the Group's capital position.

- Fulfilling the disclosure obligations of the Group under the APS back-to-back contracts may give rise to litigation and regulatory risk.

Business Review

Key financials

for the year ended 31 December	2010 €m	2009* €m	2008* €m
Total income	3,872	1,397	(5,337)
Profit/(loss) before impairment losses	492	(3,224)	(13,181)
Operating profit/(loss) before tax	425	(4,847)	(16,101)

at 31 December		2010 €m	2009 €m	2008 €m
Total assets		200,382	469,345	666,817
Loans and advances to customers		44,496	219,958	272,510
Deposits		86,890	246,046	306,223
Owners' equity		4,948	18,880	17,077
Capital ratio	– Core Tier 1	8.7%	16.9%	10.1%
	– Tier 1	11.0%	19.9%	10.9%
	– Total	15.8%	25.5%	14.4%

*2009 and 2008 comparatives have been re-presented for the classification of the Dutch State acquired businesses as discontinued operations.

Business Review

Summary consolidated income statement for the year ended 31 December 2010

	2010	2009*	2008*
	€m	€m	€m
Net interest income	1,427	1,834	2,835
Fees and commissions receivable	1,152	1,506	1,681
Fees and commissions payable	214	(483)	(374)
Other non-interest income/(loss)	1,079	(1,460)	(9,479)
Non-interest income/(loss)	2,445	(437)	(8,172)
Total income/(loss)	3,872	1,397	(5,337)
Operating expenses	(3,380)	(4,621)	(7,844)
Profit/(loss) before impairment losses	492	(3,224)	(13,181)
Impairment losses	(67)	(1,623)	(2,920)
Operating profit/(loss) before tax	425	(4,847)	(16,101)
Tax (charge)/credit	(302)	465	2,736
Profit/(loss) from continuing operations	123	(4,382)	(13,365)
Profit/(loss) from discontinued operations, net of tax	985	(18)	16,960
Profit/(loss) for the year	1,108	(4,400)	3,595
Attributable to:			
Non-controlling interests	(2)	(1)	15
Shareholders of the parent company	1,110	(4,399)	3,580

*2009 and 2008 comparatives have been re-presented for the classification of the Dutch State acquired businesses as discontinued operation.

2010 compared with 2009

Operating profit/(loss) before tax

Operating profit before tax for the year was €425 million compared with a loss of €4,847 million in 2009. This increase, results from an improvement in operating income following significant fair value losses in 2009, a reduction in operating expenses and lower loan impairments reflecting the gradual improvement in market conditions.

Total income

Total income increased 177% to €3,872 million compared with €1,397 million in 2009. This increase is principally due to the 2009 Non-Core losses on counterparty Credit Valuation Adjustments ('CVA') and Collateralised Debt Obligations ('CDO').

Net interest income decreased by €407 million, reflecting further reductions in interest earning assets, which were transferred to The Royal Bank of Scotland plc ('RBS plc'). In addition interest income reduced by €162 million due to reductions in the balance sheet following Non-Core disposals in Asia and Latin America. The GBM business recorded a decrease in interest income of €367 million, as it continues to encounter significant margin pressures and higher liquidity costs than in 2009. The decrease in net interest income was partially offset by an adjustment made to the carrying value of the Tier 1 hybrid capital securities of €273 million. RBS Group's legal ownership of RFS Holdings was increased to 98% on 31 December 2010 thereby giving RBS Group majority legal ownership. The RFS restructure, legally bound the Group to comply with the EC Burden Sharing restrictions already applied to RBS Group. These restrictions result in an adjustment to the carrying value of these amortised cost securities.

Non-interest income/(loss) increased to €2,445 million from a loss of €437 million in 2009, primarily due to the increase in other operating income and income from trading activities. The increase in other operating income is mainly attributable to the non reoccurrence of the fair value losses on a portfolio of credit default swaps, used to hedge the loan book following the tightening of the credit spreads in the first half of 2009. These losses amounted to €2,024 million in 2009. The increase in trading income mainly relates to the non reoccurrence of high losses on counterparty CVAs of €1,279 million in the prior year against monoline insurers. Additionally, write-offs on CDOs in 2010 were €211 million lower. Exposures to monoline insurers and CDOs were substantially risk transferred to RBS plc in the first half of 2009. In addition, fee and commissions payable improved by €697 million largely due to a true-up in the fee calculation for the asset protection scheme ('APS') back-to-back agreement between RBS N.V. and RBS plc of €625 million. The APS back-to-back fee charged to the income statement for 2010 was €249 million. For further details on the APS back-to-back agreement see page 78. The increase in non-interest income is partially offset by a decrease in fees and commissions receivable due to reduced business origination and activity following transfers of businesses to RBS plc.

Operating expenses

Operating expenses decreased from €4,621 million in 2009 to €3,380 million. This reflects the transfer of businesses to RBS plc and Non-Core disposals, thus reducing the scale of operations and number of employees within the Group. Additionally the 2009 results included charges related to costs incurred on the sale of businesses in Asia and the related goodwill impairments.

Impairment losses

Impairment losses were €67 million for the year ended 31 December 2010, compared with €1,623 million in 2009. Large specific provisions were made in 2009 including a specific impairment for LyondellBasell Industries. For further details on the LyondellBasell provision please see the discussion within Non-Core on page 23. For 2010 there are lower specific commercial and retail provisions, especially on consumer and card lending in Asia and Middle East.

In 2010, the Group made total claims of €470 million under the APS back-to-back agreement with RBS plc. Total recoveries on previously claimed impairments amounted to €561 million, resulting in a net repayment to RBS plc of €91 million.

Tax

The effective tax rate for 2010 was 71.0% compared with 9.6% in 2009. This was mainly due to the revision of the tax rate in the UK.

Business Review

2010 compared with 2009 continued

Profit/(loss) from discontinued operations
Discontinued operations recorded a €985 million profit after tax compared with a €18 million loss after tax for the prior year. The results from discontinued operations are mainly attributable to the gain on the sale by the Group of the Dutch State acquired businesses included in the new ABN AMRO Bank on 1 April 2010.

2009 compared with 2008

Operating profit/(loss) before tax
Operating loss before tax for the year was €4,847 million compared with a loss of €16,101 million in 2008.

Total income
Total income increased to €1,397 million compared with a loss of €5,337 million in 2008.

Net interest income decreased by €1,001 million to €1,834 million in 2009, principally reflecting the significant changes in the structure of the balance sheet following transfers of businesses to RBS plc in the course of 2009 and 2008, including the transfer of conduit portfolios. In addition, net interest income was impacted by the overall interest margin pressure.

Non-interest income/(loss) increased to a loss of €437 million from a loss of €8,172 million in 2008, primarily due to the increase in income from trading activities.

The increase is mainly driven by lower credit valuation adjustments on monoline insurers and credit derivative product companies as well as lower write-offs on CDO positions following the transfer of these assets to RBS plc at the end of the first quarter of 2009. Credit valuation adjustments for 2008 amounted to a negative €4,291 million, compared with negative €1,279 million in 2009. Write-downs in CDO positions reduced by €1,315 million to €211 million in 2009. Trading income of 2008 also included losses on trading counterparties of approximately €1,638 million including the Lehman Brothers default and the Bernard L. Madoff fraud which did not re-occur in 2009. In addition, the increase is a result of an improvement in the equity business of €1,688 million compared to the prior year and the results in treasury related activities increased by €723 million following mark-to-market gains on liquidity portfolios.

The increase is partially offset by a decrease in fees and commissions and other operating income. Fees and commissions decreased due to reduced business origination and activity following transfers of businesses to RBS plc. The decrease in other operating income of €606 million is mainly attributable to a €3,084 million decrease in the net results of risk mitigants resulting from losses on credit default swaps used to hedge credit positions following a gradual tightening of the spreads in 2009. This was partly offset by a €1,446 million improvement in the net result on the sale of available-for-sale debt securities and loans and advances as a result of high losses incurred on the transfers of credit portfolios to RBS plc during 2008, which were limited in 2009. The losses on sale of loans and advances reflect the continued transfer and sale of portfolios to RBS plc. The result on other equity investments improved from a loss of €1,186 million (including losses on the sale of the Group's shareholding in Unicredit in 2008) to a loss of €153 million.

Operating expenses

Operating expenses decreased from €7,844 million in 2008 to €4,621 million. This reflects a reduction in headcount following the transfer of employees to RBS plc, continued redundancies and divestments of Non-Core businesses. Related reductions in personnel costs, including bonuses and general administrative expenses, were partially offset by increased depreciation, and goodwill impairments related to the Asian operations held for sale.

Impairment losses

Impairment losses were €1,623 million, compared with €2,920 million in 2008.

The improvement in loan impairments is predominantly due to a lower specific provision for LyondellBasell which amounted to €545 million in 2009 as compared to €1,154 million in 2008 and overall decreased levels of impairment, specifically in the last quarter of 2009.

Tax

The effective tax rate for 2009 was 9.6% compared with 17.0% in 2008.

Analysis of results
Net interest income

	2010	2009	2008
	€m	€m	€m
Interest receivable	3,061	4,763	13,093
Interest payable	(1,634)	(2,929)	(10,258)
Net interest income	1,427	1,834	2,835

	%	%	%
Gross yield on interest-earning assets of the banking business (1)	2.4	1.4	3.1
Cost of interest-bearing liabilities of the banking business	(1.5)	(1.0)	(2.5)
Interest spread of the banking business (2)	1.0	0.5	0.7
Benefit from interest-free funds	(0.1)	0.1	0.0
Net interest margin of the banking business (3)	0.9	0.6	0.7

Yields, spreads and margins of the banking business	%	%	%
Gross yield (1)			
– Group	2.4	1.4	3.1
– Domestic	1.8	0.7	2.3
– Foreign	3.0	3.7	4.5
Interest spread (2)			
– Group	0.9	0.4	0.6
– Domestic	0.1	0.0	0.1
– Foreign	1.8	1.4	0.7
Net interest margin (3)			
– Group	0.9	0.6	0.7
– Domestic	(0.2)	0.3	0.3
– Foreign	1.9	1.2	1.4

Notes:
(1) Gross yield is the interest rate earned on average interest-earning assets of the banking business.
(2) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.
(3) Net interest margin is net interest income of the banking business as a percentage of average interest-earning assets of the banking business.

Analysis of results continued
Average balance sheet and related interest

		2010			2009		
		Average balance	Interest	Rate	Average balance	Interest (1)	Rate
		€m	€m	%	€m	€m	%
Assets							
Loans and advances to banks	– Domestic	6,222	165	2.7%	26,405	249	0.9%
	– Foreign	20,961	192	0.9%	8,708	253	2.9%
Loans and advances to customers	– Domestic	9,726	362	3.7%	165,556	795	0.5%
	– Foreign	38,841	1,612	4.2%	63,247	2,484	3.9%
Debt securities	– Domestic	42,520	506	1.2%	59,138	679	1.1%
	– Foreign	6,780	224	3.3%	9,136	303	3.3%
	– banking business	125,050	3,061	2.4%	332,190	4,763	1.4%
Interest-earning assets	– trading business (2)	26,626			67,364		
Interest-earning assets		151,676			399,554		
Non-interest-earning assets		133,098			150,804		
Total assets		284,774			550,358		
Percentage of assets applicable to foreign operations		56.7%			48.9%		
Liabilities							
Deposits by banks	– Domestic	31,277	524	1.7%	35,489	134	0.4%
	– Foreign	23,552	84	0.4%	14,216	594	4.2%
Customer accounts: demand deposits	– Domestic	8,051	89	1.1%	50,402	195	0.4%
	– Foreign	22,386	146	0.7%	22,326	149	0.7%
Customer accounts: savings deposits	– Domestic	-	-	-	57,215	6	0.0%
	– Foreign	3,949	69	1.7%	9,734	118	1.2%
Customer accounts: other time deposits	– Domestic	1,910	46	2.4%	25,416	411	1.6%
	– Foreign	11,449	277	2.4%	25,587	336	1.3%
Debt securities in issue	– Domestic	22,406	361	1.6%	62,529	684	1.1%
	– Foreign	4,382	124	2.8%	10,472	246	2.3%
Subordinated liabilities	– Domestic	4,747	110	2.3%	10,407	144	1.4%
	– Foreign	2,855	172	6.0%	2,758	167	6.1%
Internal funding of trading business	– Domestic	-	-	-	-	-	-
	– Foreign	(6,941)	(98)	1.4%	(27,248)	(255)	0.9%
Interest-bearing liabilities		130,023	1,904	1.5%	299,303	2,929	1.0%

	– banking business		
	– trading business (2)	38,989	82,223
Interest-bearing liabilities		169,012	381,526
Non-interest-bearing liabilities:			
Demand deposits	– Domestic	990	22,366
	– Foreign	2,465	130,011
Other liabilities (2)		106,034	
Owners' equity		6,273	16,455
Total liabilities and owners' equity		284,774	550,358
Percentage of liabilities applicable to foreign operations		56.1%	51.1%

For notes to this table see page 15

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Analysis of results continued
Average balance sheet and related interest continued

		2008		
		Average balance €m	Interest(1) €m	Rate %
Assets				
Loans and advances to banks	– Domestic	17,893	769	4.3%
	– Foreign	15,324	717	4.7%
Loans and advances to customers	– Domestic	181,576	2,322	1.3%
	– Foreign	124,254	5,741	4.6%
Debt securities	– Domestic	67,512	3,017	4.5%
	– Foreign	15,634	527	3.4%
Interest-earning assets	– banking business	422,193	13,093	3.1%
	– trading business(2)	169,897		
Interest-earning assets		592,090		
Non-interest-earning assets		260,672		
Total assets		852,762		
Percentage of assets applicable to foreign operations		63.6%		
Liabilities				
Deposits by banks	– Domestic	60,664	2,536	4.2%
	– Foreign	39,069	2,041	5.2%
Customer accounts: demand deposits	– Domestic	46,443	177	0.4%
	– Foreign	28,456	471	1.7%
Customer accounts: savings deposits	– Domestic	52,919	10	0.0%
	– Foreign	13,724	140	1.0%
Customer accounts: other time deposits	– Domestic	37,041	977	2.6%
	– Foreign	47,806	1,282	2.7%
Debt securities in issue	– Domestic	80,803	2,315	2.9%
	– Foreign	30,915	1,139	3.7%
Subordinated liabilities	– Domestic	11,115	347	3.1%
	– Foreign	2,718	163	6.0%
Internal funding of trading business	– Domestic			
	– Foreign	(34,760)	(1,340)	3.9%
Interest-bearing liabilities	– banking business	416,913	10,258	2.5%
	– trading business (2)	179,273		
Interest-bearing liabilities		596,186		
Non-interest-bearing liabilities:				
Demand deposits	– Domestic	5,278		
	– Foreign	218,614		
Other liabilities (2)				
Owners' equity		32,684		
Total liabilities and owners' equity		852,762		

Percentage of liabilities applicable to foreign operations	65.0%

The analysis of Domestic and Foreign has been compiled on the basis of location of office.

Notes:
(1) 2009 and 2008 comparatives have been re-presented for the classification of the Dutch State acquired businesses as discontinued operations.
(2) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

Analysis of results continued

Analysis of change in net interest income – volume and rate analysis

Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Changes due to a combination of volume and rate are allocated pro rata to volume and rate movements.

	2010 over 2009 Increase/(decrease) due to changes in:		
	Average volume €m	Average rate €m	Net change €m
Interest-earning assets			
Loans and advances to banks			
Domestic	(84)	(293)	209
Foreign	(61)	192	(253)
Loans and advances to customers			
Domestic	(433)	(1,366)	933
Foreign	(872)	(1,006)	134
Debt securities			
Domestic	(173)	(197)	24
Foreign	(79)	(78)	(1)
Total interest receivable of the banking business			
Domestic	(690)	(1,856)	1,166
Foreign	(1,012)	(892)	(120)
	(1,702)	(2,748)	1,046
Interest-bearing liabilities			
Deposits by banks			
Domestic	390	(18)	408
Foreign	(510)	241	(751)
Customer accounts: demand deposits			
Domestic	(106)	(259)	153
Foreign	(3)	-	(3)
Customer accounts: savings deposits			
Domestic	-	-	-
Foreign	(49)	(88)	39
Customer accounts: other time deposits			
Domestic	(365)	(502)	137
Foreign	(59)	(248)	189
Debt securities in issue			
Domestic	(323)	(558)	235
Foreign	(122)	(165)	43
Subordinated liabilities			
Domestic	(34)	(102)	68
Foreign	5	6	(1)
Internal funding of trading business			

Domestic	-	-	-
Foreign	157	247	(90)
Total interest payable of the banking business			
Domestic	(438)	(1,439)	1,001
Foreign	(581)	(7)	(574)
	(1,019)	(1,446)	427
Movement in net interest income			
Domestic	(1,128)	(3,295)	2,167
Foreign	(1,593)	(899)	(694)
	(2,721)	(4,194)	1,473

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Analysis of results continued

Analysis of change in net interest income – volume and rate analysis continued

	2009 over 2008		
	Increase/(decrease) due to changes in:		
	Average volume	Average rate	Net change
	€m	€m	€m
Interest-earning assets			
Loans and advances to banks			
Domestic	(520)	258	(778)
Foreign	(464)	(247)	(217)
Loans and advances to customers			
Domestic	(1,527)	(189)	(1,338)
Foreign	(3,257)	(2,495)	(762)
Debt securities			
Domestic	(1,498)	(343)	(1,155)
Foreign	(224)	(216)	(8)
Total interest receivable of the banking business			
Domestic	(3,545)	(274)	(3,271)
Foreign	(3,945)	(2,958)	(987)
	(7,490)	(3,232)	(4,258)
Interest-bearing liabilities			
Deposits by banks			
Domestic	(2,402)	(752)	(1,650)
Foreign	(1,447)	(1,101)	(346)
Customer accounts: demand deposits			
Domestic	18	15	3
Foreign	(322)	(85)	(237)
Customer accounts: savings deposits			
Domestic	(4)	1	(5)
Foreign	(22)	(45)	23
Customer accounts: other time deposits			
Domestic	(566)	(253)	(313)
Foreign	(946)	(451)	(495)
Debt securities in issue			
Domestic	(1,631)	(437)	(1,194)
Foreign	(893)	(577)	(316)
Subordinated liabilities			
Domestic	(203)	(21)	(182)
Foreign	4	2	2
Internal funding of trading business			
Domestic	-	-	-
Foreign	1,085	241	844
Total interest payable of the banking business			

Domestic	(4,788)	(1,447)	(3,341)
Foreign	(2,541)	(2,016)	(525)
	(7,329)	(3,463)	(3,866)
Movement in net interest income			
Domestic	(8,333)	(1,721)	(6,612)
Foreign	(6,486)	(4,974)	(1,512)
	(14,819)	(6,695)	(8,124)

Note:
The analysis into the Domestic and Foreign has been compiled on the basis of location of the Groups entity in which the transaction takes place.

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Analysis of results continued
Credit market exposures

Credit and other market losses (1)	2010 €m	2009 €m	2008 €m
Monoline exposures	22	(1,279)	(3,515)
CDPCs (2)	(98)	95	(1,223)

Notes:
(1) Included in 'Income from trading activities' within non-interest income
(2) Credit derivative product companies.

2010 compared with 2009
Gains relating to monoline exposures were €22 million in 2010 compared with losses of € 1,279 million in 2009.

The net gain through trading income in 2010 amounts to €22 million and relates mainly to release of the CVAs partially netted off by hedges and other movements. Hedges with bank counterparties include the overlay swap transacted with RBS plc which transfers the daily movement in the CVA between the Group and RBS plc for these trades. The mark-to-market of this swap with RBS plc was €769 million in favour of RBS plc at 31 December 2010 (€405 million at 31 December 2009).

Losses relating to CDPC exposures were €98 million in 2010, compared to a gain of €95 million in 2009. The Group has fully novated its CDPCs exposure to RBS plc in the course of 2010.

The positions in mortgage and other asset backed securities (€ 18.4 billion at 31 December 2010) have seen a further decrease in 2010. The held for trading positions have been fully matured or sold off in 2010. The composition of the remaining AFS portfolio has not changed substantially from 31 December 2009. Included are € 6.9 billion residential mortgage-backed securities covered by the Dutch mortgage guarantee scheme and € 9.1 billion residential mortgage covered bonds, 98% of which originated in Europe, of which 81% in Spain.

83% of residential mortgage covered bonds were AAA rated at 31 December 2010. The net exposure to ABSs backed by assets other than residential mortgages, such as sovereign or public entities debt, amounts to €2.2 billion and is mainly related to AAA European (23% Germany, 21% Spain) covered bonds held in the treasury portfolios. The decrease is mainly due to the maturing of papers.

The CDO and CLO exposure decreased further in 2010 mainly due to the maturing of positions.

2009 compared with 2008
The gross exposure to monoline counterparties decreased primarily due the transfer of these assets to RBS plc during the first half of 2009. The net loss through trading income in 2009 amounted to €1.3 billion and related mainly to increased levels of CVA recorded against the exposures prior to entering into an overlay swap with RBS Group as well as the cost of the overlay swap with RBS plc thereafter.

Gains relating to CDPC exposures were €95 million in 2009 compared with losses of €1,223 million in 2008.

The gross exposure to CDPC counterparties reduced primarily due to novations in 2009 to RBS Group.

The CVA on remaining positions decreased due to increases in the fair value of the insured assets.

The ABS positions (€ 24.3 billion at 31 December 2009) decreased slightly in 2009. The held for trading position consisted of prime European RMBS positions held as part of the RBS acquired Group Asset and Liability Management portfolios. The available-for-sale RMBS positions were backed by mortgages covered by the Dutch mortgage guarantee scheme and 98% of them were AAA rated at 31 December 2009.

96% of residential mortgage covered bonds were AAA rated at 31 December 2009. 99% of residential mortgage covered bonds were originated in Europe, of which 76% in Spain. The net exposure to ABSs backed by assets other than residential mortgages, amounted to €2.5 billion (31 December 2008– €3.6 billion) and was mainly related to AAA European (43% Germany, 36% Spain) covered bonds held in the RBS acquired Group treasury portfolios. The decrease was mainly due to maturing of the papers and transfers to RBS Group.

The CDO and CLO exposure decreased significantly due to transfers to RBS Group in the first half of 2009. As part of the transfer, all super senior CDO positions (31 December 2008 €636 million) were sold to RBS Group. A loss of €203 million was recognised on those positions in 2009 prior to the transfer. The remaining available-for-sale portfolio comprises of other senior CDOs (€200 million), which were held in the treasury portfolios and were AAA rated at 31 December 2009.

Losses on other mortgage-backed securities were substantially reduced in 2009 as many of these positions were sold or substantially written-down in 2008 resulting in reduced net exposure in 2009.

Additional disclosures on these and other related exposures can be found in the following sections.

Disclosure	Section	Sub-section	Page
Further analysis of credit market exposures	Risk and balance sheet management	Other risk exposures	71
Valuation aspects	Financial statements	Note 9 Financial instruments - valuation	122
	Financial statements	Critical Accounting policies	110

Business Review

Divisional performance
The results of each segment are set out below.

	2010	2009	2008
Operating profit/(loss) before tax	€m	€m	€m
Global Banking & Markets	856	39	(4,235)
Global Transaction Services	(64)	(4)	147
Central items	40	(385)	536
Core	832	(350)	(3,552)
Non-Core	(407)	(4,501)	(12,560)
Reconciling items (1)	-	4	11
Group total	425	(4,847)	(16,101)

Notes:
(1) Segments are stated as they are reviewed by management and therefore exclude the effect of the consolidation of Private Equity businesses which is shown as a reconciling item in 2009 and 2008.

Employee numbers at 31 December
(full time equivalents rounded to the nearest hundred)

	2010	2009	2008
Global Banking & Markets	6,700	8,300	11,200
Global Transaction Services	5,500	5,400	5,700
Central items	700	900	800
Core	12,900	14,600	17,700
Non-Core	6,400	13,000	18,600
Group total	19,300	27,600	36,300

Global Banking & Markets (GBM)

	2010	2009	2008
	€m	€m	€m
Net interest income	451	818	1,492
Non-interest income/(loss)	1,924	1,761	(1,480)
Total income	2,375	2,579	12
Direct expenses			
– staff costs	(967)	(1,368)	(2,026)
– other	(670)	(915)	(1,435)
Indirect expenses	24	1	(223)
	(1,613)	(2,282)	(3,684)
Profit/(loss) before impairment losses	762	297	(3,672)
Impairment losses	94	(258)	(563)
Operating profit/(loss) before tax	856	39	(4,235)
	€bn	€bn	€bn
Balance sheet			
Total assets	130	180	357
Total liabilities	130	173	357

2010 compared with 2009
Operating profit before tax increased by €817 million to €856 million compared with €39 million for 2009.

Total income decreased by €204 million to €2,375 million. The reduction is mainly due to a significantly lower net interest income, partially offset by higher non-interest income. The results reflect continuing transfers of business to RBS plc as well as unfavourable market conditions.

Net interest income decreased by €367 million, as a result of higher liquidity costs in 2010 compared to 2009, when money markets benefited from rapidly falling short term interest rates, as well as ongoing transfer of the interest generating assets to RBS plc.

Non-interest income increased by €163 million to €1,924 million in 2010 compared to €1,761 million in 2009. The improvement reflects reduced losses attributable to movements in credit spreads, compared to the prior year when fair value losses were recognised on a portfolio of credit default swaps used to hedge the loan book following tightening of credit spreads. These losses amounted to €606 million in 2009 as compared to nil in 2010. Additional improvement in the non-interest income is due to a €111 million gain resulting from APS back-to-back fee agreement true-up. These improvements are offset by a decrease in trading income as a result of the absence of favourable market conditions which prevailed in 2009 especially in emerging market currency trading. In addition the reduced business origination and general market activity, have led to lower brokerage fees. Ongoing transfers of significant assets to RBS plc have resulted in lower earnings generating capabilities of the business.

Operating expenses have decreased by €669 million to €1,613 million from €2,282 million in 2009. This reflects the transfer of business to RBS plc, thus reducing the scale of operations in 2010.

Loan impairments in 2010 amounted to a credit of €94 million in comparison to a charge of €258 million in 2009. 2010 impairments reflect a small number of single name provisions, mainly on APS back-to-back covered assets, which are more than offset by several recoveries following the restructuring of impaired exposures.

2009 compared with 2008
Operating profit before tax increased to a profit of €39 million in 2009 compared to a loss of €4,235 million in 2008.

Net interest income reduced by €674 million to €818 million. This reflects the transfer of interest generating conduits to RBS plc and the overall interest margin pressure as a consequence of increased funding costs.

Non-interest income improved significantly from a loss of €1,480 million to a profit of €1,761 million due to an increase in income from trading activities. Trading income in 2008 included losses of €1,638 million on trading counterparties including Lehman Brothers and Bernard L. Madoff which did not re-occur in 2009. In addition, the increase in trading income was a result of an improvement in the equity business. This increase was partially offset by a decrease in other operating income resulting from tightening credit spreads which impacted the fair value gain on own credit and foreign exchange losses on the sale of the Japanese securities business to RBS plc.

Operating expenses decreased by €1,402 million to €2,282 million in 2009. This reflects a reduction in headcount following the transfer of employees to RBS plc and related reductions in personnel costs including bonuses and general administrative expenses.

Impairment losses reduced from €563 million in 2008 to €258 million in 2009. 2008 impairments include specific commercial provisions reflecting the challenging credit environment, which gradually improved over the course of 2009.

Global Transaction Services (GTS)

	2010	2009	2008
	€m	€m	€m
Net interest income	306	355	457
Non-interest income	305	318	384
Total income	611	673	841
Direct expenses			
– staff	(283)	(236)	(231)
– other	(401)	(427)	(394)
Indirect expenses	5	13	(38)
	(679)	(650)	(663)
(Loss)/profit before impairment losses	(68)	23	178
Impairment losses	4	(27)	(31)
Operating (loss)/profit before tax	(64)	(4)	147
	€bn	€bn	€bn
Balance sheet			
Total assets	12	9	11
Total liabilities	12	9	11

2010 compared with 2009
Operating loss before tax was €64 million compared with a loss of €4 million in 2009.

Total income decreased by €62 million to €611 million with decreases in both net interest income and non-interest income.

Net interest income decreased by €49 million following transfers of businesses in Japan and Australia to RBS plc during 2009 and lower interest margins from transactions in Asia and Eastern Europe in 2010.

The decrease in non-interest income mainly relates to a decrease in net fee and commission income in the Netherlands as a result of client attrition in the second half of 2009 and lower margins on trade settlement products in Asia as the risk profile of the region improved.

Operating expenses have increased by €29 million from €650 million in 2009 reflecting increased investment in support infrastructure.

2009 compared with 2008
Operating profit before tax decreased to a loss of €4 million in 2009 compared to a profit of €147 million in 2008.

Net interest income reduced by €102 million to €355 million due to reduced income in the International Cash Management business, following on from the overall macro economic liquidity crisis resulting in margin pressure, as well as lower cash balances in 2009 compared to 2008. In addition, client attrition levels increased.

Non-Interest income decreased from €384 million to €318 million due to a fall in fee and commission income due to strong pricing competition, lower volumes of international transactions and client attrition in the second half of 2009.

Operating expenses decreased by €13 million to €650 million in 2009. This reflects a reduction in headcount following the transfer of employees to RBS plc which was largely offset by higher separation and integration expenses incurred in 2009.

Business Review

Central Items

	2010	2009	2008
	€m	€m	€m
Net interest income/(loss)	43	(127)	(36)
Non-interest income	301	103	834
Total income/(loss)	344	(24)	798
Direct expenses			
– staff	(216)	(79)	(77)
– other	(71)	(280)	(259)
Indirect expenses	(17)	(2)	71
	(304)	(361)	(265)
Profit/(loss) before impairment losses	40	(385)	533
Impairment losses	-	-	3
Operating profit/(loss) before tax	40	(385)	536
	€bn	€bn	€bn
Balance sheet			
Total assets	38	51	49
Total liabilities	34	51	49

2010 compared with 2009
Operating profit before tax was €40 million compared with a loss of €385 million in 2009.

Total income increased by €368 million to €344 million. This follows the improvement in both net interest and non-interest income.

Net interest income improved by €170 million. This increase is largely due to an adjustment made to the carrying value of the Tier 1 hybrid capital securities of €273 million. RBS Group's legal ownership of RFS Holdings was increased to 98% on 31 December 2010 thereby giving RBS Group majority legal ownership. The RFS restructure legally bound the Group to the EC Burden Sharing restrictions already applied to RBS Group. These restrictions result in an adjustment to the carrying value of the amortised cost securities.

Non-interest income increased by €198 million to €301 million from €103 million in 2009. The increase relates mainly to the gain on sale of US treasury bonds of €268 million. These instruments were divested as a consequence of a revised hedging strategy. The increase in non-interest income is partially offset by losses on the sales of Spanish, Greek and Portuguese bonds. In addition, following the Basel II implementation several Basel I securitisation programs were discontinued in the course of 2010 resulting in a €120 million reduction in fees and commissions payable.

Operating expenses decreased by €57 million to €304 million for the year ended 2010. The decrease is due mainly from the exceptional items in 2009 expenses including legal provisions and a goodwill impairment in Pakistan.

2009 compared with 2008
Operating profit before tax decreased to a loss of €385 million in 2009 compared to a profit of €536 million in 2008.

Net interest income decreased by €91 million. This is mainly due to the lower interest income on the proceeds from the sale of LaSalle bank, which decreased from €576 million in 2008 to €108 million in 2009, following the steady reduction in the interest rates and the balance. This was partially offset by lower funding costs within Group treasury which gradually moved to the businesses reducing the centrally incurred interest expense.

Non-interest income decreased from €834 million to €103 million in 2009. This is largely due to a decrease in other operating income due to large gains in 2008 on credit default swaps of €1.1 billion, which did not reoccur in 2009 and due to foreign exchange losses on the sale of the Japanese securities business to RBS plc. This was partially offset by an increase in income from trading activities mainly due to a gradual improvement in market conditions for asset backed securities trading in Group treasury in 2009.

Operating expenses have increased by €96 million to €361 million in 2009, mainly due to higher transition and integration costs, which included impairments of information technology licences and information technology projects that were no longer required under the current structure of the Group. In addition a significant legal provision and goodwill impairment in Pakistan negatively impacted the 2009 expenses.

Non-Core

	2010	2009	2008
	€m	€m	€m
Net interest income	627	788	967
Non-interest income	(85)	(2,647)	(9,600)
Total income/(loss)	542	(1,858)	(8,633)
Direct expenses			
– staff	(310)	(412)	(766)
– other	(462)	(882)	(1,022)
Indirect expenses	(12)	(11)	190
	(784)	(1,305)	(1,598)
Loss before other operating charges and impairment losses	(242)	(3,163)	(10,231)
Impairment losses	(165)	(1,338)	(2,329)
Operating loss before tax	(407)	(4,501)	(12,560)
	€bn	€bn	€bn
Balance sheet			
Total assets	19	44	71
Total liabilities	19	37	62

2010 compared with 2009
Operating loss before tax was €407 million compared with a loss of €4,501 million in the year 2009.

Total income increased by €2,400 million to €542 million. This is due to an increase in non-interest income which is partly offset by a decrease in net interest income.

Net interest income decreased by €162 million. This decrease is largely due to the significant divestitures of the retail and commercial business activities in Asia (Taiwan, Hong Kong, Singapore, Pakistan and Indonesia), Americas (Chile, Colombia and Venezuela) and EMEA (United Arab Emirates and Kazakhstan) in the course of 2010.

The improvement in non-interest income relates to an increase in income from trading activities, which is due to the non-reoccurrence of high losses in the prior year on counterparty CVA adjustments against monoline insurers following transfers of the positions to RBS plc. These losses amounted to €1,279 million in 2009. In addition the result on credit default swaps used to hedge the loan portfolio were €1,418 higher in 2010 compared to the prior year.

Net fees and commissions income for 2010 includes an additional gain of €334 million resulting from a true-up in the fee calculation for the APS back-to-back agreement. The improvement in non-interest income was offset by an overall reduction in business activities as well as losses on sale of mentioned above operations.

Operating expenses decreased by €521 million from €1,305 million for the year 2009. This results mainly from the 2009 charges related to costs incurred on the sale of businesses in Asia and the related goodwill impairments. In addition, operating expenses decreased following Non-Core disposals during 2010.

Impairment losses in 2010 amounted to €165 million, as compared to €1,338 million in 2009. Impairment losses in 2009 included a specific impairment for LyondellBasell lndustries ('LyondellBasell'). LyondellBasell filed Chapter 11 bankruptcy in January 2009. At the time LyondellBasell entered Chapter 11, the Group's exposure was €2.3 billion. During 2009, the Group recorded an impairment provision charge of €548 million in respect of this exposure, the provision balance as at 31 December 2009 was €1,688 million, and the remaining Group's exposure was €591 million. The Group's exposures to LyondellBasell were covered assets under the APS back-to-back financial guarantee contract with RBS plc, effectively transferring the risk of future losses and the right to recoveries. Accordingly, in 2010 €197 million recovered from LyondellBasell was passed on to RBS plc.

In April 2010, LyondellBasell announced that it had emerged from Chapter 11 bankruptcy protection following creditor and court approval for its Plan of Reorganisation ('PoR'). Following the PoR, the Group's retained exposure was €689 million comprising a loan of €173 million (classified as loans and receivables), a 7.2% common equity stake of €501 million (designated as at fair value through profit or loss) and equity warrants of €15 million (classified as derivatives); a reversal of impairment losses of €336 million was recorded and passed on to RBS plc. The loan and common equity stake were sold in December 2010. The carrying value of the remaining LyondellBasell exposure, made up of warrants, was €32 million at 31 December 2010.

Non-Core continued

2009 compared with 2008

Operating loss before tax decreased to €4,501 million in 2009 compared to a loss of €12,560 million in 2008.

Net interest income decreased by €178 million, mainly due to changes in the composition of assets and liabilities in the balance sheet following the disposal of businesses in Asia and Latin America.

Non-interest income increased by €6,953 million. This is mainly driven by the lower credit valuation adjustments on monoline insurers, credit derivative product companies and write-offs on CDO positions following the transfer of these assets to RBS plc at the end of the first quarter of 2009. Credit valuation adjustments in 2008 amounted to a negative €4,291 million, compared with negative €1,279 million in 2009. Write downs in CDO positions reduced by €1,315 million to €211 million in 2009. Other operating income increased due to lower losses and impairments on the sales and transfers of credit portfolios and Non-Core assets to RBS plc in 2009.

Operating expenses decreased by €293 million to €1,305 million. This reflects a reduction in head count, continued redundancies and divestitures of Non-Core businesses.

Impairment losses have reduced from €2,329 million in 2008 to €1,338 million in 2009. The significant improvement comes mainly from a lower provision for LyondellBasell which amounted to €1,154 million in 2008 compared to €548 million in 2009.

Business Review

Consolidated balance sheet at 31 December 2010

	2010 €m	2009 €m	2008 €m
Assets			
Cash and balances at central banks	8,323	28,382	5,854
Net loans and advances to banks	22,433	31,343	36,192
Reverse repurchase agreements and stock borrowing	4,272	6,376	35,298
Loans and advances to banks	26,705	37,719	71,490
Net loans and advances to customers	40,608	210,712	260,642
Reverse repurchase agreements and stock borrowing	3,888	9,246	11,868
Loans and advances to customers	44,496	219,958	272,510
Debt securities	52,260	84,800	87,048
Equity shares	22,634	17,236	18,741
Settlement balances	3,573	3,398	7,667
Derivatives	28,272	57,392	185,209
Intangible assets	199	645	924
Property, plant and equipment	283	1,961	2,035
Deferred taxation	5,440	5,427	4,517
Prepayments, accrued income and other assets	5,388	7,538	9,239
Assets of disposal groups	2,809	4,889	1,583
Total assets	200,382	469,345	666,817
Liabilities			
Bank deposits	27,178	40,728	68,121
Repurchase agreements and stock lending	4,807	4,220	25,709
Deposits by banks	31,985	44,948	93,830
Customers deposits	49,886	198,388	208,157
Repurchase agreements and stock lending	5,019	2,710	4,236
Customer accounts	54,905	201,098	212,393
Debt securities in issue	53,411	96,291	112,223
Settlement balances and short positions	5,202	7,503	8,985
Derivatives	35,673	62,959	193,912
Accruals, deferred income and other liabilities	5,213	13,675	13,369
Retirement benefit liabilities	75	154	167
Deferred taxation	195	241	250
Subordinated liabilities	6,894	14,666	13,701
Liabilities of disposal groups	1,857	8,894	864
Total liabilities	195,410	450,429	649,694
Non-controlling interests	24	36	46
Equity attributable to shareholders of the parent company	4,948	18,880	17,077
Total equity	4,972	18,916	17,123

Total liabilities and equity	200,382	469,345	666,817

Business Review

Commentary on consolidated balance sheet

2010 compared with 2009

Total assets were €200.4 billion at 31 December 2010, a decrease of €269.0 billion, or 57%, when compared with €469.4 billion at 31 December 2009. The decrease in the balance sheet categories Loans and advances to customers, Intangible assets, Property plant and equipment, Prepayments, accrued income and other assets was mostly due to the sale of Dutch State acquired businesses included in the new ABN AMRO Bank on 1 April 2010.

Cash and balances at central banks decreased by €20.1 billion or 71% to €8.3 billion at 31 December 2010 compared with €28.4 billion at 31 December 2009 due to a reduction in surplus cash balances held at central banks and other liquid assets, which had been built up as a prudent measure ahead of the legal separation of the Dutch State acquired businesses. Following successful separation on 1 April 2010, the liquid assets and associated short-term wholesale funding were managed down to business as usual levels.

Loans and advances to banks decreased by €11.0 billion, or 29%, to €26.7 billion at 31 December 2010 compared with €37.7 billion at 31 December 2009. This decrease is predominantly attributable to a decrease in time deposits placed of €7.5 billion due to a dividend settlement with Santander, as well as the sale of Dutch State acquired businesses included in the new ABN AMRO Bank.

Debt securities decreased by €32.5 billion to €52.3 billion, reflecting the sale of Dutch State acquired businesses as well as a decrease in the fair value of government securities, and significant divestments of debt securities. Equity shares increased by €5.4 billion, to €22.6 billion, largely due to a recovery of the equity markets in 2010.

Derivative assets decreased by €29.1 billion, or 51%, to €28.3 billion at 31 December 2010 compared with €57.4 billion at 31 December 2009. Derivative liabilities decreased by €27.3 billion, or 43%, to €35.7 billion at 31 December 2010 compared to the balance of €63.0 billion at 31 December 2009. This was partly attributable to the sale of Dutch State acquired businesses included in the new ABN AMRO Bank, the novation to RBS plc of derivative financial instruments and the lower volume of over the counter traded derivatives.

Total liabilities were €195.4 billion as at 31 December 2010, a decrease of € 255.0 billion, or 57% decrease when compared with €450.4 billion at 31 December 2009. The balance sheet categories Deposits by banks, Customer accounts, Debt securities in issue, Subordinated liabilities, and Accruals, deferred income and other liabilities have significantly decreased due to the sale of Dutch State acquired businesses included in the new ABN AMRO Bank N.V. on 1 April 2010.

Total equity at 31 December 2010 was €5.0 billion, a decrease of €14.0 billion compared to 31 December 2009. This was mainly due to a decrease in share premium and retained earnings as a result of the €9.0 billion dividend distributions by RBS Holdings to RFS Holdings for the benefit of Santander, coupled with a €6.5 billion dividend distribution for the benefit of the Dutch State as part of the sale of the new ABN AMRO Bank on 1 April 2010. In addition, during the period, €1.4 billion in unrealized losses were recorded in other comprehensive income predominantly relating to available-for-sale debt securities. Cash flow hedging reserves improved by €1.0 billion due to the realization of reserves following the sale of the new ABN AMRO Bank. In order to capitalize the remaining shared assets and the remaining Dutch State acquired businesses, Santander and the Dutch state injected €0.1 billion and €0.3 billion, respectively in capital. RBS Group injected €0.5 billion in the second half of 2010 in order to further strengthen the Group's capital position.

2009 compared with 2008
Total assets were €469 billion at 31 December 2009, a decrease of €197 billion, or 30%, when compared with €667 billion at 31 December 2008. This decrease is primarily related to the continued transfer and sale of businesses and portfolios to RBS Group. The impact from the dislocation in the financial markets was not as significant in 2009, in comparison to 2008. However, it was still a prevalent factor in the reduction of some balance sheet activities.

Cash and balances at central banks increased by €22.5 billion to €28.4 billion due to the placing of short-term cash surpluses with central banks as a prudent measure ahead of legal separation of the new ABN AMRO Bank on 1 April 2010.

Loans and advances to banks decreased by €33.7 billion, or 47%, to €37.7 billion at 31 December 2009 compared to the balance of €71.5 billion at 31 December 2008. The decrease is predominantly attributable to a decrease in professional securities transactions of €28.9 billion due to the transfer of reverse repurchase activity to RBS plc during the first half of 2009 and no new transactions being generated in the Group. Loans also decreased as a result of a decrease in global exposures on derivative collateral with banks due to the maturing of trades and the decreasing net exposures as a result of derivative novations.

Loans and advances to customers decreased by €52.6 billion, or 19%, to €219.9 billion at 31 December 2009 compared to the balance of €272.5 billion at 31 December 2008. Commercial loans and receivables decreased by €35 billion due to continued transfers of business activities to RBS plc and the maturing of loans. The level of public sector loans and receivables has decreased mainly as a result of the maturing of loans with the Ministry of Finance of Japan. Furthermore, multi-seller conduits balances decreased by €5 billion due to the transfer to RBS plc of the multi-seller conduits Orchid Funding Corporation and Abel Tasman Holdings. Also impacting on the overall decrease in this balance is the reclassification of approximately €3.3 billion of loans and receivables to disposal groups relating to certain Asian operations.

Debt securities decreased by €2.2 billion to €84.8 billion and equity shares decreased by €1.5 billion, to €17.2 billion, principally due to lower holdings in Global Banking & Markets and Non-Core, largely offset by growth in interest earning securities issued by other OECD governments in Group Treasury.

Derivative assets decreased by €127.8 billion, or 69%, to €57.4 billion at 31 December 2009 compared to the balance of €185.2 billion at 31 December 2008. Derivative liabilities decreased by €131.0 billion, or 67.5%, to €63 billion at 31 December 2009 compared to the

Commentary on consolidated balance sheet continued

2009 compared with 2008 continued

balance of €193.9 billion at 31 December 2008. This was predominantly due to trading positions that matured or were transferred to RBS plc as part of the overall integration plan.

Total liabilities were €450.4 billion at 31 December 2009, a decrease of €199.3 billion, or 30.7%, when compared with €649.7 billion at 31 December 2008 for reasons related to the decrease in total assets.

Deposits by banks were €45 billion at 31 December 2009, a decrease of €49 billion, or 52 % when compared with €94 billion at 31 December 2008. The majority of the reduction is related to professional securities transactions (€21 billion decrease) and is due to the roll-off of existing repurchase agreements with new business flowing to RBS plc.

Customer accounts decreased by €11.3 billion, or 5%, to €201.1 billion at 31 December 2009 compared to the balance of €212.4 billion at 31 December 2008. A significant proportion of the decrease (€7.8 billion) is due to the reclassification of certain Asian operations to disposal groups.

Debt securities in issue of €96.3 billion at 31 December 2009 compare to €112.2 billion at 31 December 2008. The decrease of €15.9 billion, or 14%, was due to transfers to RBS Group during the year. This includes a fall in issued commercial paper following the transfer of the remaining multi-seller conduits Orchid Funding Corporation and Abel Tasman Holdings. The decrease in bonds issued was due to debt redemptions and the buy back of own issued debt.

Subordinated liabilities increased €1.0 billion, or 7%, to €14.7 billion at 31 December 2009 compared to €13.7 billion at 31 December 2008. The increase in 2009 is a result of the issuance of €2.6 billion of Mandatory Convertible Securities. This increase was partly offset by the redemption of €1.5 billion of subordinated notes falling due.

Risk and balance sheet management

Introduction

Risk Management has an integral role to play in the delivery of the 5 year Strategic Plan of RBS Group. With the need for financial strength and resilience at the heart of this, the key strategic objectives of risk management are:

- Maintain capital adequacy
- Maintain Market Confidence
- Deliver Stable Earnings Growth
- Stable and efficient access to funding and liquidity

These risk objectives are the bridge between the RBS Group level business strategy and the frameworks, measures and metrics which we use to manage risk in our business divisions.

Risk Management within the Group is conducted in accordance with the policies and processes of RBS Group.

Governance

Risk and balance sheet management are conducted on an overall basis within the RBS Group. Therefore the discussion on risk and balance sheet management on pages 28 to 79 refers principally to policies and procedures in the RBS Group that also apply to the Group.

Risk and balance sheet management strategies are owned and set by the Managing Board of the Group and implemented by executive management. There are a number of committees and executives that support the execution of the business plan and strategy. Two of these risk committees are dedicated to the Group and report to the Managing Board and the Supervisory Board of the Group: the Group Risk & Control Committee and the Group Asset and Liability Management Committee. These are depicted and described in the graph and table below.

There are also risk committees that cover the Group and (parts of) RBS Group reflecting the integrated manner in which the business is managed within RBS Group. The Group is represented in these committees by members who have delegated authority from the Group to facilitate an integrated and efficient decision process, these specialist risk sub-committee are shown below.

Committee	Focus	Membership
Supervisory Board	The Supervisory Board is responsible for supervising the Group’s management and the Group’s general affairs and the business connected with it and for advising the Managing Board.	Consists of five members. Two members are executives of RBS Group.
Managing Board	Reports to Supervisory Board and is the principal decision-making forum for the Group. Sets policy framework, operating structure and yearly plan (including objectives and budgets)	Six members led by the Chairman, Chief Administrative Officer (CAO), Chief Financial Officer (CFO), Chief Risk Officer (CRO), Head of GBM and Head of GTS.
Risk and Control Committee ('RCC')	A sub-committee of the Managing Board. The responsibilities of the RCC include: · advise the Managing Board on the risk appetite of the Group and receive direction from the Managing Board on the Group risk appetite; provide input to the RBS Group risk appetite-setting process in the context of the Group's overall risk appetite; · oversee the risk framework within the Group and report directly to the Managing Board on the performance of the framework and on issues arising from it; · monitor the actual risk profile of the Group and ensure that this remains within the boundaries of the agreed risk appetite or escalate excesses to the Managing Board.	Chaired by the CRO. Members include CFO, CAO, Head of GBM, Head of GTS, Heads of Credit- , Market-, and Operational Risk & Regulatory Risk, Head of Risk for EMEA, APAC and Americas.
Asset and Liability Committee ('ALCO')	A sub-committee of the Managing Board. The Managing Board has fully delegated responsibility for the management of capital, liquidity, interest rate risk and foreign exchange risk to the ALCO. The mandate of ALCO therefore covers the following specific areas in respect of the Group: · the review, approval and allocation of balance sheet, capital, liquidity and funding limits	Eleven permanent voting members led by the Chairman, CFO, CAO, CRO, Treasurer, Head of GBM, Head of GTS, GBM Treasurer, Head of Treasury Balance Sheet Management, Head of Treasury Capital Management, Head of Short Term Markets & Financing. Four permanent non-voting guests: GTS Treasurer, Non-Core Treasurer, Global Head of Equity Treasury, Europe Treasurer.

	· the liquidity, funding, FX and interest rate exposures of the Group's balance sheet · the balance sheet structure and risk weighted asset position of the Group. · decisions on capital repatriation and management. · the approval and implementation within the Group of RBS Group Treasury policies and procedures.	
Risk & Audit Committee ('R&A Cte')	The R&A Cte is responsible for the review of all matters relative to accounting policies, internal control, financial reporting functions, internal audit, external audit, risk assessment and regulatory compliance. The R&A Cte reports to the Supervisory Board and the RBS Group Audit Committee.	The members of the R&A Cte are appointed by the Supervisory Board from its own members.

Introduction continued

Risk appetite
Risk appetite is an expression of the maximum level of risk that the Group is prepared to accept in order to deliver its business objectives. Risk and capital management across the Group is based on the risk appetite set by the Managing Board and Supervisory Board, who regularly review and monitor the Group's performance in relation to risk.

Risk appetite is defined in both quantitative and qualitative terms and serves as a way of tracking risk management performance in implementation of the agreed strategy.

- Quantitative: encompassing scenario stress testing, risk concentrations, VaR, liquidity and credit related metrics; operational, business risk and regulatory measures.

- Qualitative: ensuring that the Group applies the correct principles, policies and procedures, manages reputational risk and develops risk control and culture.

Key developments in 2010
Against a backdrop of further market instability, the Group maintained very strong liquidity metrics. Progress was made in reducing reliance on short-term wholesale funding and the loan-to-deposit ratio improved significantly.

Risk Mitigation
The structural integrity of the balance sheet was strengthened through active management of both asset and liability portfolios and a deleveraging of the balance sheet. A centrally-managed liquidity portfolio (€25.7bn) is in place.

Introduction continued

Risk coverage
The main risk types facing the Group which are covered by the Risk Appetite Framework and managed by the above Committees are as follows:

Risk type	Definition	Features	Key developments in 2010	Risk mitigation
Credit risk (including country and political risks)	The risk that the Group will incur losses owing to the failure of customers to meet their financial obligations to the Group.	Loss characteristics vary materially across portfolios Significant correlation between losses and the macroeconomic environment Concentration risk – potential for large material losses	Asset quality improved across the portfolios, as a result, aggregate loan impairments decreased in 2010.	Further enhancements were made to the Group's credit risk frameworks as well as the systems and tools that support credit risk management processes. The Group continues to reduce the risk associated with legacy exposures through further reductions in Non-Core assets. In addition the risk is further mitigated through the protection resulting from the APS back-to-back agreement with RBS plc, see page 78.
Funding and liquidity risk	The risk that the Group does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost.	Potential to disrupt the business model and stop normal functions of the Group. Potential to fail to meet the supervisory requirements of regulators. Significantly correlates with credit risk losses	Against a backdrop of further market instability, progress was made in meeting strategic objectives: reduced reliance on short-term wholesale funding; expanded customer deposit franchise; and reduction in term assets within non-core.	The structural integrity of the balance sheet was strengthened through active management of both asset and liability portfolios. Also a centrally-managed liquidity portfolio is held of €25.7bn.
Market risk				

	The risk that the value of an asset or liability may change as a result of a change in market factors.	Potential for large material losses Potential for losses due to stress events	Modeled market risk remained largely stable during 2010. Market volatility remained largely stable, though characterised by periods of market volatility arising from uncertainty of the economic outlook particularly within the EuroZone.	Market risk positions in Non-Core and in portfolios outside the target booking model for the Group continued to be reduced during 2010. Significant enhancements were made to the market risk framework within the Group which was integrated into RBS Group's market risk framework.
Operational risk	The risk of loss resulting from inadequate or failed processes, people, systems or from external events.	Frequent small losses. Infrequent material losses.	The level of operational risk remains high due to the scale of structural change occurring across the Group; increased government and regulatory scrutiny; and external threats (e.g. e-crime).	The RBS Group Policy Framework (GPF) supports the risk appetite setting process and underpins the control environment. The three lines of defence model gives assurance that the standards in GPF are being adhered to.

Introduction continued
Risk coverage continued

Risk type	Definition	Features	Key developments in 2010	Risk mitigation
Regulatory risk	The risks arising from regulatory changes and enforcement.	Adverse impacts on business/operating models, including increased complexity. Financial costs adapting to changes or from penalties. Reputational damage from enforcement action.	The scale and scope of regulatory change remains at unprecedented levels, particularly in the area of prudential regulation (capital, liquidity, governance and risk management). Increased attention was paid to the treatment of systemically important areas such as recovery and resolution plans, remuneration and capital.	The Group manages regulatory change through pro-active engagement with DNB, other regulators and governments.
Compliance risk	Risks arising from non-compliance with laws, rules, regulations or other standards applicable to the Group.	Breach or alleged breach could result in public or private censure or fine, could have an adverse impact on the Group’s business model (including applicable authorisations and licenses), reputation, results of operations and/or financial condition.	The Group, other global financial institutions and the banking industry have faced increased legal, regulatory and public scrutiny. The Group has continued to engage in discussions with relevant stakeholders, regulators and other governmental and non-governmental bodies, including those in the Netherlands, UK and US, regarding the	The Group has continued to review and enhance its regulatory policies, procedures and operations. During 2010, there has been specific, targeted focus on enhancing arrangements for managing the risks associated with money laundering, and sanctions and terrorism financing.

			Group's efforts to satisfy all relevant standards and ensure compliance with applicable existing and prospective laws, rules and regulations.	
Reputational risk	The risks arising from the failure to meet stakeholders' perceptions and expectations.	Failure of the business to provide an experience which meets customers, regulators and other stakeholder's expectations.	Government support brings heightened public scrutiny of the way we manage our business including: staff remuneration, how we manage our customers, and our environmental impact.	In 2010 RBS Group established the Group Corporate Sustainability Committee, and also developed a framework for managing environmental, social and ethical risks to support its lending decisions. The Group considers potential reputational risks and appropriate mitigants.
Pension Risk	Pension risk is the risk that the Group may have to make additional contributions to its defined benefit pension schemes.	Volatile funding position caused by the uncertainty of future investment returns and the discounted value of schemes' liabilities.	After the legal separation of ABN AMRO Bank N.V., the RBS AA Pension Scheme in the UK is the Groups main pension scheme.	The schemes are invested in diversified portfolios of equities, government and corporate fixed-interest and index-linked bonds, and other assets including property. Interest and inflation risks are mitigated partially by investment in suitable physical assets and appropriate derivative contracts.

Balance sheet management
Group Treasury in conjunction with the Divisions and Risk Management, in respect of risk-weighted assets ('RWAs'), manage and control the Group's balance sheet risks and consequent impact on the Group's capital, funding, liquidity, interest rate risk and currency risks.

Capital
It is the Group's policy to maintain a strong capital base and to utilise it efficiently throughout its activities to optimise the return to shareholders, while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of De Nederlandsche Bank (DNB). DNB uses Capital Ratios as a measure of capital adequacy in the Dutch banking sector, comparing a bank's capital resources with its risk-weighted assets (RWAs) (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks). At 31 December 2010, the Group's Total Capital Ratio was 15.8% (2009 - 25.5%; 2008 – 14.4%) and the Tier 1 Capital Ratio was 11.0% (2009 - 19.9%; 2008 – 10.9%).

	2010	2009	2008
Risk-weighted assets	€m	€m	€m
Credit risk	64,200	115,953	162,959
Market risk	1,272	1,582	13,069
Operational risk	4,324	-	-
	69,796	117,535	176,028
Capital ratios	%	%	%
Core Tier 1	8.7	16.9	10.1
Tier 1	11.0	19.9	10.9
Total	15.8	25.5	14.4

Note:
(1) The data for 2010 is on a Basel II basis; prior periods are on a Basel I basis.

With effect from 30 June 2010, the Group migrated to Basel II status. For the majority of credit risk, the Group uses the advanced internal ratings based approach for calculating RWAs. For operational risk, the Group uses the standardised approach, which calculates operational RWAs based on gross income.

The risk-adjusted assets and capital ratios published for 2009 and 2008 were calculated on a Basel I basis and reflect the inclusion of the Dutch State and Santander acquired businesses existing in the period prior to the legal separation of ABN AMRO Bank on 1 April 2010.

The Group remains well capitalised and is committed to maintaining sound capital ratios.

In addition to the calculation of minimum capital requirements for credit, market and operational risk, banks are required to undertake an Individual Capital Adequacy Assessment Process (ICAAP) for other risks.

The Group's ICAAP, in particular, focuses on concentration risk, stress VaR, pension fund risk, interest rate risk in the banking book, FX translation risk together with stress tests to assess the adequacy of capital over two years.

The Group is consolidated for regulatory reporting within the RBS Group. Pillar 3 information for the Group is included within the RBS Group Pillar 3 disclosures. RBS Group publishes its Pillar 3 (Market disclosures) on its website www.rbs.com, providing a range of additional information relating to Basel II and risk and capital management across the RBS Group. The disclosures focus on RBS Group level capital resources and adequacy, discuss a range of credit risk approaches and their associated RWAs under various Basel II approaches such as credit risk mitigation, counterparty credit risk and provisions.

Balance sheet management: Capital continued

The Group's regulatory capital resources in accordance with DNB definitions were as follows:

Composition of regulatory capital	2010 €m	2009 €m	2008 €m
Tier 1			
Equity attributable to shareholders of the parent company	4,948	18,880	17,077
Non-controlling interests	24	36	46
Adjustment for:			
– Goodwill and other intangible assets	(25)	(103)	(309)
– Unrealised losses on available-for-sale debt securities	2,530	1,059	1,015
– Unrealised gains on available-for-sale equities	(112)	(219)	(150)
– Other regulatory adjustments	(1,265)	192	99
Core Tier 1 capital	6,100	19,845	17,778
Preference shares	2,421	5,014	3,317
Less deductions from Tier 1 capital	(838)	(1,485)	(1,943)
Total Tier 1 capital	7,683	23,374	19,152
Tier 2			
Unrealised gains on available-for-sale equities	112	219	150
Perpetual subordinated debt	4,105	7,841	7,774
Less deductions from Tier 2 capital	(838)	(1,485)	(1,943)
Total Tier 2 capital	3,379	6,575	5,981
Tier 3	-	-	272
Total regulatory capital	11,062	29,949	25,405

Movement in Core Tier 1 capital	2010 €m
As at 1 January 2010	19,845
Regulatory adjustment: fair value changes in own credit spreads	(143)
Foreign currency reserves	(105)
Loss of non-controlling interest and reduction in goodwill	(78)
Distributions to the shareholders of the parent company	(15,534)
Capital injection	915
Result current year	1,110
Other	90
As at 31 December 2010	6,100

Balance sheet management: Capital continued
Regulatory developments
Basel III and CRD IV
The Basel Committee released the final text on the new Basel III Capital and Liquidity Frameworks in December 2010, the contents of which were broadly as expected. Whilst most of the new rules are 'final' there are lengthy observation periods for the more novel elements (the liquidity coverage ratio, the net stable funding ratio and the leverage ratio) designed to identify any unintended consequences prior to full implementation and it is possible that some of the detail may be amended. The capital requirements for credit valuation adjustments (CVAs) with respect to counterparty risk are subject to a final impact assessment which is being carried out in the first quarter of 2011. The Committee's guidance on the countercyclical capital buffers allows for significant judgement which will need to be clarified by national regulators. The potential impacts for RBS Group are set out below.

- national implementation of increased capital requirements will begin on 1 January 2013;

- there will be a phased five year implementation of new deductions and regulatory adjustments to Core Tier 1 capital commencing 1 January 2014;

- the de-recognition of non-qualifying non common Tier 1 and Tier 2 capital instruments will be phased in over 10 years from 1 January 2013; and

- requirements for changes to minimum capital ratios, including conservation and countercyclical buffers, as well as additional requirements for Systemically Important Financial Institutions, will be phased in from 2013 to 2019.

The focus will now be on the EU's implementation of the Basel framework. The Commission's legislative proposal - the Capital Requirements Directive ('CRD') IV - is expected to appear in summer 2011.

Contingent capital and loss absorbency
The Basel Committee issued its final rules on the requirements to ensure all classes of capital instruments fully absorb losses at the point of non-viability, before tax payers are exposed to loss. These are designed to combat the experience during the crisis where holders of Tier 2 capital instruments did not suffer any losses when banks were bailed out by the public sector. Debate continues, meanwhile, over possible requirements for bailing-in senior debt holders, as a further means of protecting the taxpayer.

Basel III capital deductions and regulatory adjustments
In addition to the changes outlined above, Basel III will also result in revisions to regulatory adjustments and capital deductions. These will be phased in over a five year period from 1 January 2014. The initial deduction is expected to be 20%, rising 20 percentage points each year until full deduction by 1 January 2018. However, this is subject to final implementation rules determined by the FSA. The proportion not deducted in the transition years will continue to be subject to existing national treatments.

The major categories of deductions include:

- expected loss net of provisions;

- deferred tax assets not relating to timing differences;

- unrealised losses on available-for-sale securities; and
- significant investments in non-consolidated financial institutions.

The net impact of these adjustments is expected to be manageable as most of these drivers reduce or are eliminated by 2014.

Other regulatory developments
Treatment of Systemically Important Financial Institutions (SIFIs)
Policy development around contingent capital and loss absorbency forms part of a wider policy initiative on addressing systemic institutions. A Financial Stability Board outline framework and plan of action was endorsed by G20 leaders at the November 2010 Seoul Summit. This now forms the main focus of global policy making following the finalisation of the Basel III framework. Policy initiatives in this area may include proposals for greater loss absorbency for systemic firms, the development of enhanced supervision and resolution frameworks, as well as recovery and resolution plans.

The EU Commission Consultation
Crisis management proposals
The EU Commission issued a consultation paper on crisis management measures in January 2011. It covers prevention tools (such as recovery planning requirements, supervisory powers and new ideas on intra-group financial support mechanisms), as well as resolution tools (including partial transfer powers and possible approaches to debt write-down. The consultation will inform draft implementing legislation expected this summer, and is intended to help shape the global framework for SIFIs.

Markets in Financial Instruments Directive Review
The EU Commission published a consultation on revising the Directive on Markets in Financial Instruments (MiFID2). The main proposals in the consultation are the extension of the transparency rules to include bonds and over the counter derivatives, measures to reinforce regulation of commodity derivatives and high frequency trading, strengthening investor protection and detailing the role of the new European Securities and Markets Authority.

Financial activities tax
In a recent speech, the EU Tax Commissioner talked about the introduction of a potential Financial Activities Tax at a European level. There will be an impact assessment in 2011 to review the cumulative impact on financial institutions of new regulation, bank levy and taxes, as part of the Commission's on-going examination of possible tax measures.

Balance sheet management: Capital continued
Regulatory developments continued

Dodd-Frank
In the United States the Dodd-Frank Wall Street Reform and Consumer Reform Act ('Dodd-Frank') contains very significant reforms, the full effect of which can only be assessed when the implementation rules are finalised. There have also been numerous derivative proposals from the Commodity Futures Exchange Commission ('CFTC') and the Securities and Exchange Commission ('SEC') plus joint agency proposals to implement minimum capital standards (Collins Amendment) and market risk capital guidelines.

Stress and scenario testing
Stress testing forms part of the Group's risk and capital framework and an integral component of Basel II. As a key risk management tool, stress testing highlights to senior management potential adverse unexpected outcomes related to a mixture of risks and provides an indication of how much capital might be required to absorb losses, should adverse scenarios occur. Stress testing is used at Group level to assess risk concentrations, estimate the impact of stressed earnings, impairments and write-downs on capital.

It determines the overall capital adequacy under a variety of adverse scenarios. The principal business benefits of the stress testing framework include: understanding the impact of recessionary scenarios; assessing material risk concentrations; forecasting the impact of market stress and scenarios on the Group's balance sheet liquidity.

At Group level, a series of stress events are monitored on a regular basis to assess the potential impact of an extreme yet plausible event on the Group.

Balance sheet management: Funding and liquidity risk

Introduction
The objective of the Group's funding and liquidity management framework is to ensure that at all times the Group can meet its obligations as they fall due, and that access to the wholesale markets is co-ordinated and cost-effective.

The Group's balance sheet composition is a function of the broad array of product offerings and diverse markets served by its Core divisions. The structural integrity of the balance sheet is augmented as needed through active management of both asset and liability portfolios. The objective of these activities is to optimise liquidity transformation in normal business environments while ensuring adequate coverage of all cash requirements under extreme stress conditions.

The Group acts to enhance its flexibility through an unsecured term debt issuance in numerous geographies, currencies and maturities.

Stress testing
Simulated liquidity stress testing is periodically performed for each business and applied to the major operating subsidiary balance sheets. A variety of firm-specific and market related scenarios are used at the consolidated level and in individual countries. These scenarios include assumptions about significant changes in key funding sources, credit ratings, contingent uses of funding, and political and economic conditions in certain countries. Stress tests are regularly updated based on changing market conditions.

Contingency planning
The Group has a Contingency Funding Plan ('CFP') which is maintained and updated as the balance sheet evolves. The CFP is linked to stress test results and forms the foundation for liquidity risk limits. Limits in the business-as-usual environment are bounded by capacity to satisfy the Group's liquidity needs in the stress environments. The CFP provides a detailed description of the availability, size and timing of all sources contingent liquidity available to the Group Treasurer in a stress event. These are ranked in order of economic impact and effectiveness to meet the anticipated stress requirement. The CFP includes documented procedures and signoffs for actions that may require businesses to provide access to customer assets for collateralised borrowing, securitisation or sale. Roles and responsibilities for the effective implementation of the CFP are also documented.

Liquidity reserves
The Group maintains central liquidity reserves sufficient to satisfy cash requirements in the event of a severe disruption in its access to either wholesale or corporate funding sources. The reserves consist of high quality unencumbered European Central Bank eligible securities and cash held on deposit at central banks. The Group also maintains local liquidity reserves, where the securities vary by type and currency based on local regulatory considerations.

Regulatory oversight
The Group operates in multiple jurisdictions and is subject to a number of regulatory regimes. The Group's lead regulator in the Netherlands is DNB. The Group is a subsidiary of the RBS Group whose lead regulator is the UK is the FSA.

There have been a number of significant developments in the regulation of liquidity risk.

In December 2010, the BCBS issued the 'International framework for liquidity risk measurement, standards and monitoring' which confirmed the introduction of two liquidity ratios, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The introduction of both of these will be subject to an observation period, which includes review clauses to address and identify any unintended consequences.

After an observation period beginning in 2011, the LCR, including any revisions, will be introduced on 1 January 2015. The NSFR, including any revisions, will move to a minimum standard by 1 January 2018.

Balance sheet management: Funding and liquidity risk continued

The table below shows the composition of the Group's primary funding sources, excluding repurchase agreements:

	2010		2009		2008	
	€m	%	€m	%	€m	%
Deposits by banks	27,178	19.8	40,728	11.6	68,121	16.9
Debt securities in issue						
- Commercial paper	5,843	4.3	19,368	5.5	26,106	6.5
- Certificates of deposits	2,882	2.1	1,811	0.5	8,770	2.2
- Medium term notes and other bonds	44,369	32.3	74,330	21.3	70,942	17.6
- Securitisations	317	0.2	782	0.2	6,405	1.6
	53,411	38.9	96,291	27.5	112,223	27.9
Subordinated liabilities	6,894	5.0	14,666	4.2	13,701	3.4
Total wholesale funding	87,483	63.7	151,685	43.3	194,045	48.2
Customer deposits	49,886	36.3	198,388	56.7	208,157	51.8
Total funding	137,369	100.0	350,073	100.0	402,202	100.0

The tables below show the Group's debt securities and subordinated liabilities by maturity.

	Debt securities in issue	Subordinated liabilities	Total	
2010	€m	€m	€m	%
Less than one year	14,462	4	14,466	24.0
1-3 years	10,562	-	10,562	17.5
3-5 years	11,194	2,592	13,786	22.9
More than 5 years	17,193	4,298	21,490	35.6
	53,411	6,894	60,305	100.0
2009				
Less than one year	39,759	857	40,616	36.6
1-5 years	26,761	9	26,770	24.1
More than 5 years	29,771	13,800	43,571	39.3
	96,291	14,666	110,957	100.0
2008				
Less than one year	45,350	1,512	46,862	37.2
1-5 years	42,366	864	43,230	34.3
More than 5 years	24,507	11,325	35,832	28.5
	112,223	13,701	125,924	100.0

Key Points

The Group has improved its relative funding and liquidity position through deleveraging of the balance sheet while maintaining a significant liquidity reserve.

The proportion of debt instruments with a remaining maturity of greater than one year has increased from 63.4% at 31 December 2009 to 76.0% at 31 December 2010.

Balance sheet management: Funding and liquidity risk continued

Short term borrowings

The table below shows details of the Group's short-term borrowings.

Short term borrowings comprise repurchase agreements, commercial paper and certificates of deposit.

	Repos	Commercial paper	Certificates of deposits	Total 2010	Total 2009	Total 2008
At year end						
- balance (€bn)	13	5	3	21	27	67
- weighted average interest rate	0.4%	1.1%	0.9%	0.6%	1.7%	2.8%
During the year						
- maximum balance (€bn)	18	17	9	44	66	278
- average balance (€bn)	12	10	6	28	40	173
- weighted average interest rate	0.3%	0.9%	0.7%	0.6%	1.8%	3.0%

Balances are generally based on monthly data. Average interest rates during the year are computed by dividing total interest expense by the average amount borrowed. Average interest rates at year end are average rates for a single day and as such may reflect one-day market distortions which may not be indicative of generally prevailing rates.

Balance sheet management: Funding and liquidity risk continued

Assets and liabilities by contractual cash flow maturity

The table below shows the contractual undiscounted cash flows receivable and payable up to a period of twenty years including future receipts and payments of interest of on-balance sheet assets by contractual maturity. The balances in the table below do not agree directly to the consolidated balance sheet, as the table includes all cash flows relating to principal and future coupon payments presented on an undiscounted basis.

2010	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	8,294	-	-	-	-	29
Loans and advances to banks	24,290	1,056	716	164	470	10
Debt securities	7,257	4,674	12,255	12,352	10,485	6,811
Settlement balances	3,573	-	-	-	-	-
Other financial assets	-	-	235	402	-	-
Total maturing assets	43,414	5,730	13,206	12,918	10,955	6,850
Loans and advances to customers	19,329	5,925	10,687	6,063	4,161	1,634
Derivatives held for hedging	45	65	303	139	129	69
	62,788	11,720	24,196	19,120	15,245	8,553
Liabilities by contractual maturity						
Deposits by banks	27,450	1,659	899	706	812	245
Debt securities in issue	8,239	6,590	12,757	11,412	12,628	3,048
Subordinated liabilities	88	324	504	3,507	1,465	1,162
Settlement balances and other liabilities	4,287	65	139	266	436	-
Total maturing liabilities	40,064	8,638	14,299	15,891	15,341	4,455
Customer accounts	46,612	1,484	1,199	1,263	2,672	1,948
Derivatives held for hedging	323	449	1,373	627	459	260
	86,999	10,571	16,871	17,781	18,472	6,663
Maturity gap	3,350	(2,908)	(1,093)	(2,973)	(4,386)	2,395
Cumulative maturity gap	3,350	442	(651)	(3,624)	(8,010)	(5,615)

Business review continued

Business Review
Risk and balance sheet management

Balance sheet management: Funding and liquidity risk continued
Assets and liabilities by contractual cash flow maturity continued

2009	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	28,400	-	-	-	-	24
Loans and advances to banks	34,253	614	901	927	1,063	187
Debt securities	14,299	9,182	12,257	13,069	27,234	7,195
Settlement balances	3,397	-	-	-	-	-
Other financial assets	-	166	194	204	-	-
Total maturing assets	80,349	9,962	13,352	14,200	28,297	7,406
Loans and advances to customers	58,564	9,662	19,335	20,938	28,021	35,599
Derivatives held for hedging	345	345	1,487	1,487	511	-
	139,258	19,969	34,174	36,625	56,829	43,005
Liabilities by contractual maturity						
Deposits by banks	31,531	9,789	1,535	1,615	1,003	90
Debt securities in issue	20,634	20,085	14,132	15,019	30,312	1,967
Subordinated liabilities	122	847	23	24	9,310	192
Settlement balances and other liabilities	7,569	-	-	-	-	-
Total maturing liabilities	59,856	30,721	15,690	16,658	40,625	2,249
Customer accounts	183,244	6,548	2,109	2,206	4,125	3,030
Derivatives held for hedging	482	482	1,777	1,778	3,684	-
	243,582	37,751	19,576	20,642	48,434	5,279
Maturity gap	20,493	(20,759)	(2,338)	(2,458)	(12,328)	5,157
Cumulative maturity gap	20,493	(266)	(2,604)	(5,062)	(17,390)	(12,233)

Balance sheet management: Funding and liquidity risk continued
Assets and liabilities by contractual cash flow maturity continued

2008	0-3 months €m	3-12 months €m	1-3 years €m	3-5 years €m	5-10 years €m	10-20 years €m
Assets by contractual maturity						
Cash and balances at central banks	5,820	-	-	-	-	48
Loans and advances to banks	45,521	23,383	1,439	1,566	1,065	148
Debt securities	23,464	5,893	8,247	8,978	55,835	1,633
Settlement balances	7,667	-	-	-	-	-
Other financial assets	-	477	4	2	-	-
Total maturing assets	82,472	29,753	9,690	10,546	56,900	1,829
Loans and advances to customers	86,336	22,310	24,782	27,197	33,622	41,190
Derivatives held for hedging	988	988	75	75	547	-
	169,796	53,051	34,547	37,818	91,069	43,019
Liabilities by contractual maturity						
Deposits by banks	76,989	12,210	2,316	2,500	1,111	201
Debt securities in issue	37,243	9,093	22,989	24,932	18,498	12,958
Subordinated liabilities	157	1,557	480	525	11,707	315
Settlement balances and other liabilities	8,985	-	-	-	-	-
Total maturing liabilities	123,374	22,860	25,785	27,957	31,316	13,474
Customer accounts	176,284	23,724	4,006	4,256	3,898	3,404
Derivatives held for hedging	1,202	1,202	218	218	2,303	-
	300,860	47,786	30,009	32,431	37,517	16,878
Maturity gap	(40,902)	6,893	(16,095)	(17,411)	25,584	(11,645)
Cumulative maturity gap	(40,902)	(34,009)	(50,104)	(67,515)	(41,931)	(53,576)

Guarantees and commitments	2010 €m	2009 €m	2008 €m
Guarantees (1)	24,458	33,568	37,509
Commitments (2)	37,995	51,520	63,436
	62,453	85,088	100,945

Notes:
(1) The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Group expects most guarantees it provides to expire unused.
(2) The Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Group does not expect all facilities to be drawn, and some may lapse before drawdown.

The tables above have been prepared on the following basis:

The contractual maturity of on-balance sheet assets and liabilities above highlight the maturity transformation which underpins the role of banks to lend long-term but funded predominantly by short-term liabilities such as customer deposits. In practice, the behavioural profile of many assets and liabilities exhibit greater stability and longer maturity than the contractual maturity.

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by the Group. Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If the repayment of a financial instrument is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band which contains the latest date on which it can be repaid regardless of early repayment. The liability is included in the time band which contains the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met.

For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the year end. The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by the Group, depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayment of assets and liabilities are linked, the repayment of assets in securitisations are shown on the earliest date that the asset can be prepaid as this is the basis used for liabilities.

Assets and liabilities with a contractual maturity of greater than twenty years - the principal amounts of financial assets and liabilities that are repayable after twenty years or where the counterparty has no right to repayment of the principal are excluded from the table, as are interest payments after twenty years.

Balance sheet management: Interest rate risk

The banking book consists of interest bearing assets, liabilities and derivative instruments used to mitigate risks which are primarily accounted for on an accrual basis, as well as non interest bearing balance sheet items which are not subjected to fair value accounting.

The Group provides financial products to satisfy a variety of customer requirements. Loans and deposits are designed to meet out customers' objectives with regard to repricing frequency, tenor, index, prepayment, optionality and other features. These characteristics are aggregated to form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market rates. Mismatches in these sensitivities give rise to interest rate risk if interest rates rise or fall.

Interest rate risk in the banking book (IRRBB) is assessed using a set of standards to define, measure and report the market risk.

It is the Group's policy to minimise interest rate sensitivity in banking book portfolios and where interest rate risk is retained to ensure that appropriate measures and limits are applied. Key conventions in evaluating IRRBB are subjected to approval granted by the Group ALCO. Limits on IRRBB are set according to the Non-Trading Interest Rate Risk Policy and are subject to Group ALCO approval.

IRRBB is measured using a version of the same VaR methodology that is used by RBS Group, that is, on the basis of historical simulation using two years of unweighted data. The holding period is one day and the confidence level 99%.

The Group is required to manage banking book exposures through transactions with RBS plc to the greatest extent possible.

Group Treasury aggregates exposures arising from its own external activities and positions transferred in from the Regional Treasuries. Where appropriate, Group Treasury nets offsetting risk exposures to determine a residual exposure to rate movements. Hedging transactions with RBS plc, using cash and derivative instruments, are executed to manage the net positions according to the Non-Trading Interest Rate Risk Policy.

Residual risk positions are routinely reported to the Group ALCO, the Group Managing and Supervisory Board and the Group RCC.

IRRBB VaR for the Group's retail and commercial banking activities at a 99% confidence level was as follows. The figures exclude the banking books of Short Term Markets and Finance ('STMF') which are reported within the Market Risk section.

	Average	Period end	Maximum	Minimum
	€m	€m	€m	€m
2010	30.1	16.2	69.9	16.2
2009	50.4	39.0	75.2	32.5
2008	20.9	27.8	31.9	10.9

Key points

- VaR reduced in 2010 following the legal separation of the Dutch State acquired businesses.

Structural foreign currency exposures

Structural foreign exchange exposures represent net investment in subsidiaries, associates and branches, the functional currencies of which are currencies other than the Euro. The Group hedges structural foreign exchange exposures in limited circumstances. The Group's policy objective is to ensure, where practical, that its consolidated capital ratios are largely protected from the effect of changes in exchange rates. The Group attempts to limit the sensitivity to its Core Tier 1 ratio to 15 basis points in a 10% rate shock scenario. The Group's structural foreign exchange position is reviewed by ALCO regularly.

The tables below set out the Group structural foreign exchange exposures:

	Net investments in foreign operations	Net investment hedges	Structural foreign currency exposures
2010	€m	€m	€m
US dollar	1,271	(730)	541
Pound sterling	1,358	(1,238)	120
Other non-euro	3,779	(2,298)	1,481
	6,408	(4,266)	2,142
2009			
US dollar	768	(543)	225
Pound sterling	(873)	(72)	(945)
Other non-euro	4,064	(2,876)	1,188
	3,959	(3,491)	468
2008			
US dollar	802	435	1,237
Pound sterling	(5,867)	(272)	(6,139)
Other non-euro	3,323	(1,505)	1,818
	(1,742)	(1,342)	(3,084)

Note:
(1) Includes minority participations.

Sensitivity of equity to exchange rates

Changes in foreign currency exchange rates will affect equity in proportion to the structural foreign currency exposure. The table shows the sensitivity of the Group's equity capital to a 10%appreciation and 10% depreciation in the Euro against all foreign currencies

2010 (1)		2009		2008	
Euro appreciates 10%	Euro depreciates 10%	Euro appreciates 10%	Euro depreciates 10%	Euro appreciates 10%	Euro depreciates 10%
€m	€m	€m	€m	€m	€m
(367)	435	(259)	259	312	(312)

Note:

(1) The basis used to calculate the sensitivity to a percentage change in the Euro against all foreign currencies was revised in line with RBS Group methodology.

Credit risk management
Credit risk is the risk of financial loss owing to the failure of customers or counterparties to meet payment obligations. The quantum and nature of credit risk assumed across the Group's different businesses varies considerably, while the overall credit risk outcome usually exhibits a high degree of correlation to the macroeconomic environment.

Credit risk organisation
The existence of a strong credit risk management organisation is vital to support the ongoing profitability of the Group. The potential for loss through economic cycles is mitigated through the embedding of a robust credit risk culture within the business units and through a focus on the importance of sustainable lending practices. The role of the credit risk management organisation is to own the credit approval, concentration and risk appetite frameworks and to act as the ultimate authority for the approval of credit. This, together with strong independent oversight and challenge, enables the business to maintain a sound lending environment within risk appetite.

Responsibility for development of RBS Group-wide policies, credit risk frameworks, RBS Group-wide portfolio management and assessment of provision adequacy sits within the functional RBS Group Credit Risk organisation (“GCR”) under the management of the RBS Group Chief Credit Officer. Execution of these policies and frameworks is the responsibility of the risk management organisations located within the RBS Group’s business divisions. These divisional credit risk functions work together with GCR to ensure that the RBS Groups' Board’s expressed risk appetite is met within a clearly defined and managed control environment. Each credit risk function within the division is managed by a Chief Credit Officer who reports jointly to a divisional Chief Risk Officer and to the RBS Group Chief Credit Officer. Divisional activities within credit risk include credit approval, transaction and portfolio analysis, early problem recognition and ongoing credit risk stewardship.

GCR is additionally responsible for verifying compliance by the Group with all RBS Group credit policies. It is assisted in this by a credit quality assurance function owned by the RBS Group Chief Credit Officer.

Credit risk appetite
The Group's Credit risk appetite is managed and controlled through a series of frameworks designed to limit concentration by sector, counterparty, country or asset class. These are supported by a suite of RBS Group-wide and divisional policies setting out the risk parameters within which business units may operate. Information on the Group’s credit portfolios is reported to the Managing Board via the divisional and Group level risk committees described in the Governance section on page 28.

Sector
Across wholesale portfolios, exposures are assigned to, and reviewed in the context of, a defined set of industry sectors. Through this sector framework, appetite and portfolio strategies are agreed and set at aggregate and more granular levels where exposures have the potential to represent excessive concentration or where trends in both external factors and internal portfolio performance give cause for concern. Formal periodic reviews are undertaken at RBS Group or at Group level depending on materiality; these may include an assessment of the Group’s franchise in a particular sector, an analysis of the outlook (including downside outcomes), identification of key vulnerabilities and stress/scenario tests. Specific reporting on trends in sector risk and on status versus agreed appetite and portfolio strategies is provided to senior management and the Board.

Single name

Within wholesale portfolios, much of the activity undertaken by the credit risk function is organised around the assessment, approval and management of the credit risk associated with a borrower or group of related borrowers.

A formal single name concentration framework addresses the risk of outsized exposure to a borrower or borrower group. The framework includes specific and elevated approval requirements; additional reporting and monitoring; and the requirement to develop plans to address and reduce excess exposures over an appropriate timeframe.

Credit approval authority is discharged by way of a framework of individual delegated authorities that requires at least two individuals to approve each credit decision, one from the business and one from the credit risk management function. Both parties must hold sufficient delegated authority under the RBS Group-wide authority grid. Whilst both parties are accountable for the quality of each decision taken, the credit risk management approver holds ultimate veto. The level of authority granted to an individual is dependent on their experience and expertise with only a small number of senior executives holding the highest authority provided under the framework. Daily monitoring of individual counterparty limits is undertaken. For certain counterparties early warning indicators are also in place to detect deteriorating trends of concern in limit utilisation or account performance.

At a minimum, credit relationships are reviewed and re-approved annually. The renewal process addresses: borrower performance, including reconfirmation or adjustment of risk parameter estimates; the adequacy of security; and compliance with terms and conditions.

Single name concentrations

Reducing the risk arising from concentrations to single names remains a key focus of management attention. Notwithstanding continued market illiquidity, and the impact of negative credit migration caused by the current economic environment, significant progress was made in 2010.

Credit risk management continued

Country
Country risk arises from sovereign events (default or restructuring); economic events (contagion of sovereign default to other parts of the economy, cyclical economic shock); political events (convertibility restrictions and expropriation or nationalisation); and natural disaster or conflict. Such events have the potential to impact elements of the Group’s credit portfolio that are directly or indirectly linked to the affected country and can also give rise to market, liquidity, operational and franchise risk related losses.

The risk appetite for country risk is set in the form of limits by country risk grade. Authority is delegated to the RBS Group Country Risk Committee to manage exposures within the framework with escalation where needed. Specific limits are set for individual countries based on a risk assessment taking into account the Group’s franchise and business mix in that country. Additional limitations (for example, on foreign-currency exposure and product types with higher potential for loss in case of country events) may be established to address specific vulnerabilities in the context of a country's outlook and/or the RBS Group's business strategy in a particular country. A country watch list framework is in place to proactively monitor emerging issues and facilitate the development of mitigation strategies.

Global Restructuring Group
The RBS Group Global Restructuring Group (GRG) manages problem and potential problem exposures in the Group's wholesale credit portfolios. Its primary function is to manage actively the exposures to minimise loss for the Group and, where feasible, to return the exposure to the Group’s mainstream loan book.

Originating business units consult with GRG prior to transfer to GRG when a potentially negative event or trend emerges which might affect a customer’s ability to service its debt or increase the Group’s risk exposure to that customer. Such circumstances include deteriorating trading performance, likely breach of covenant, challenging macroeconomic conditions, a missed payment or the expectation of a missed payment to the Group or another creditor.

On transfer of the relationship, GRG devises a bespoke strategy that optimises recoveries from the debt. This strategy may also involve GRG reviewing the business operations and performance of the customer. A number of alternative approaches will typically be considered including:

- Covenant relief: the temporary waiver or recalibration of covenants may be granted to mitigate a potential or actual covenant breach. Such relief is usually granted in exchange for fees, increased margin, additional security, or a reduction in maturity profile of the original loan.

- Amendment of restrictive covenants: restrictions in loan documents may be amended or waived as part of an overall remedial strategy to allow: additional indebtedness; the granting of collateral; the sale of a business; the granting of junior lien on the collateral; or other fundamental change in capital or operating structure of the enterprise.

- Variation in margin: contractual margin may be amended to bolster the customer’s day-to-day liquidity, with the aim of helping to sustain the customer’s business as a going concern. This would normally be accompanied by the Group receiving an exit payment, payment in kind or deferred fee.

- Payment holidays and loan rescheduling: payment holidays or changes to the contracted amortisation profile including extensions in contracted maturity or roll-overs may be granted to improve customer liquidity. Such concessions often depend on the expectation that liquidity will recover when market conditions improve or from capital raising initiatives that access alternative sources of liquidity.

- Forgiveness of all or part of the outstanding debt: debt may be forgiven or exchanged for equity where a fundamental shift in the customer's business or economic environment means that other forms of restructuring strategies are unlikely to succeed in isolation and the customer is incapable of servicing current debt obligations.

Depending on the case in question, GRG may employ a combination of these options in order to achieve the best outcome. It may also consider alternative approaches, either alone or together with the options listed above.

The following are generally considered as options of last resort:

- Enforcement of security or otherwise taking control of assets: where the Group holds underlying collateral or other security interest and is entitled to enforce its rights, it may take ownership or control of the assets. The Group preferred strategy is to consider other possible options prior to exercising these rights.

- Insolvency: where there is no suitable restructuring option or the business is no longer regarded as sustainable, insolvency will be considered. Insolvency may be the only option that ensures that the assets of the business are properly and efficiently distributed to relevant creditors.

As discussed above GRG will consider a range of possible restructuring strategies. At the time of execution the ultimate outcome of the strategy adopted is unknown and highly dependent on the cooperation of the borrower and the continued existence of a viable business. The customer's financial position, its anticipated future prospects and the likely effect of the restructuring including any concessions are considered by the GRG relationship manager to establish whether an impairment provision is required, subject to Group governance.

Credit risk mitigation

The Group employs a number of structures and techniques to mitigate credit risk. Netting of debtor and creditor balances will be undertaken in accordance with relevant regulatory and internal policies; Exposure on over-the-counter derivative and secured financing transactions is further mitigated by the exchange of financial collateral and documented on market standard terms.

Credit risk management continued

Credit risk mitigation continued

Further mitigation may be undertaken in a range of transactions, from retail mortgage lending to large wholesale financing, by structuring a security interest in a physical or financial asset; credit derivatives, including credit default swaps, credit linked debt instruments, and securitisation structures; and guarantees and similar instruments (for example, credit insurance) from related and third parties are used in the management of credit portfolios, typically to mitigate credit concentrations in relation to an individual obligor, a borrower group or a collection of related borrowers.

The use and approach to credit risk mitigation varies by product type, customer and business strategy. Minimum standards applied across the Group cover: general requirements, including acceptable credit risk mitigation types and any conditions or restrictions applicable to those mitigants; the means by which legal certainty is to be established, including required documentation and all necessary steps required to establish legal rights; acceptable methodologies for the initial and any subsequent valuations of collateral and the frequency with which they are to be revalued (for example, daily in the trading book); actions to be taken in the event the current value of mitigation falls below required levels; management of the risk of correlation between changes in the credit risk of the customer and the value of credit risk mitigation; management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants and on lines of business that are characterised by a specific collateral type or structure; and collateral management to ensure that credit risk mitigation remains legally effective and enforceable.

Credit risk measurement

Credit risk models are used throughout the Group to support the quantitative risk assessment element of the credit approval process, ongoing credit risk management, monitoring and reporting and portfolio analytics. Credit risk models used by the Group may be divided into three categories.

Probability of default/customer credit grade (PD)

These models assess the probability that a customer will fail to make full and timely repayment of their obligations. The probability of a customer failing to do so is measured over a one year period through the economic cycle.

Wholesale businesses: as part of the credit assessment process, each counterparty is assigned an internal credit grade derived from a default probability. There are a number of different credit grading models in use across the RBS Group, each of which considers risk characteristics particular to that type of customer. The credit grading models score a combination of quantitative inputs (for example, recent financial performance) and qualitative inputs, (for example, management performance or sector outlook).

Exposure at default

Facility usage models estimate the expected level of utilisation of a credit facility at the time of a borrower’s default. For revolving and variable draw down type products which are not fully drawn, the exposure at default (EAD) will typically be higher than the current utilisation. The methodologies used in EAD modelling provide an estimate of potential exposure and recognise that customers may make more use of their existing credit facilities as they approach default.

Counterparty credit risk exposure measurement models are used for derivative and other traded instruments where the amount of credit risk exposure may be dependent upon one or more underlying market variables such as interest or foreign exchange rates. These models drive internal credit risk activities such as limit and excess management.

Loss given default

These models estimate the economic loss that may be experienced (the amount that cannot be recovered) by the Group on a credit facility in the event of default. The Group's loss given default (LGD) models take into account both borrower and facility characteristics for unsecured or partially unsecured facilities, as well as the quality of any risk mitigation that may be in place for secured facilities, plus the cost of collections and a time discount factor for the delay in cash recovery.

Risk Management: Credit risk continued

Balance sheet analysis
The following tables provide an analysis of financial assets by industry sector, geography and internal credit quality grading.

Financial Assets: Industry analysis
The tables below analyse total financial assets by industry, gross of provisions.

2010	Loans and advances €m	Securities €m	Derivatives €m	Other (1) €m	Total €m	Netting and offset (2) €m
Total						
Central and local government	1,544	26,038	383	7	27,972	-
Finance	39,786	45,413	25,194	3,858	114,251	7,865
Residential mortgages	984	-	-	-	984	-
Personal lending	427	72	-	-	499	-
Property	1,110	53	142	-	1,305	-
Construction	921	46	47	-	1,014	-
Manufacturing	9,213	170	404	-	9,787	-
Service industries and business activities	18,297	1,874	2,102	-	22,273	2
Agriculture, forestry and fishing	165	-	-	-	165	-
Finance lease and instalment credit	54	-	-	-	54	-
Interest accruals	272	1,228	-	-	1,500	-
Total gross of provisions	72,773	74,894	28,272	3,865	179,804	7,867
Provisions	(1,572)	-	-	-	(1,572)	n/a
Total	71,201	74,894	28,272	3,865	178,232	7,867
Comprising:						
Derivative balances						2,864
Derivative collateral						4,999
Other						4
						7,867
2009						
Central and local government	2,624	48,596	100	37	51,357	3
Finance	74,289	40,862	50,984	2,550	168,685	7,243
Residential mortgages	102,687	14	259	-	102,960	-
Personal lending	3,017	-	196	1	3,214	45
Property	5,323	517	484	119	6,443	-
Construction	1,426	413	22	20	1,881	-
Manufacturing	19,890	1,806	2,838	115	24,649	74
	47,504	8,249	1,639	911	58,303	33

Service industries and business activities						
Agriculture, forestry and fishing	5,202	269	23	10	5,504	-
Finance lease and instalment credit	19	14	-	-	33	-
Interest accruals	1,407	1,296	847	2	3,552	-
Total gross of provisions	263,388	102,036	57,392	3,765	426,581	7,398
Provisions	(5,711)	-	-	-	(5,711)	n/a
Total	257,677	102,036	57,392	3,765	420,870	7,398

For notes to this table refer to page 52.

Risk Management: Credit risk continued
Balance sheet analysis continued
Financial Assets: Industry analysis continued

2008	Loans and advances €m	Securities €m	Derivatives €m	Other (1) €m	Total €m	Netting and offset (2) €m
Total						
Central and local government	8,434	32,829	2,155	16	43,434	367
Finance	122,132	51,591	172,141	6,458	352,321	97,749
Residential mortgages	101,669	23	4	-	101,696	-
Personal lending	9,072	1	226	-	9,299	53
Property	6,037	427	66	72	6,602	43
Construction	1,964	107	61	27	2,159	7
Manufacturing	30,439	1,574	6,588	130	38,731	2,587
Service industries and business activities	59,796	17,528	3,877	1,025	82,226	926
Agriculture, forestry and fishing	5,020	107	-	14	5,141	-
Finance lease and instalment credit	114	21	-	-	135	30
Interest accruals	3,887	1,581	91	5	5,564	-
Total gross of provisions	348,564	105,789	185,209	7,747	647,308	101,762
Provisions	(4,564)	-	-	-	(4,564)	n/a
Total	344,000	105,789	185,209	7,747	642,744	101,762

For notes to this table refer to page 52.

Loans and advances to banks and customers by geography
The table below analyses loans and advances net of provisions by geography.

	2010 €m	2009 €m	2008 €m
Loans and advances to banks			
Netherlands	6,072	9,910	10,732
US	280	42	512
Rest of world	20,353	27,767	60,246
	26,705	37,719	71,490
Loans and advances to customers			
Netherlands	9,621	155,034	163,100
US	1,531	4,078	10,674
Rest of world	33,344	60,846	98,736
Total	44,496	219,958	272,510
	71,201	257,677	344,000

Risk Management: Credit risk continued
Balance sheet analysis continued
Financial Assets: Industry and geographical analysis continued
The tables below analyses total financial assets net of provisions, by geography and by industry.

2010	Loans and advances €m	Securities €m	Derivatives €m	Other (1) €m	Total €m	Netting and offset (2) €m
Netherlands						
Central and local government	372	19,081	-	-	19,453	-
Finance	7,671	18,900	3,550	28	30,149	-
Residential mortgages	425	-	-	-	425	-
Personal lending	6	72	-	-	78	-
Property	245	49	24	-	318	-
Construction	388	7	2	-	397	-
Manufacturing	1,745	90	1	-	1,836	-
Service industries and business activities	4,703	763	68	-	5,534	-
Agriculture, forestry and fishing	65	-	-	-	65	-
Finance lease and instalment credit	-	-	-	-	-	-
Interest accruals	73	661	-	-	734	-
Total net of provisions	15,693	39,623	3,645	28	58,989	-
US						
Central and local government	163	34	-	-	197	-
Finance	472	109	-	402	983	-
Residential mortgages	-	-	-	-	-	-
Personal lending	-	-	-	-	-	-
Property	18	-	-	-	18	-
Construction	2	-	-	-	2	-
Manufacturing	606	-	-	-	606	-
Service industries and business activities	540	21	33	-	594	-
Agriculture, forestry and fishing	-	-	-	-	-	-
Finance lease and instalment credit	-	-	-	-	-	-
Interest accruals	10	-	-	-	10	-
Total net of provisions	1,811	164	33	402	2,410	-
Rest of world						
Central and local government	1,007	6,923	383	7	8,320	-
Finance	31,117	26,404	21,644	3,428	82,593	7,865
Residential mortgages	533	-	-	-	533	-
Personal lending	240	-	-	-	240	-

Property	780	4	118	-	902	-
Construction	522	39	45	-	606	-
Manufacturing	6,599	80	403	-	7,082	-
Service industries and business activities	12,558	1,090	2,001	-	15,649	2
Agriculture, forestry and fishing	98	-	-	-	98	-
Finance lease and instalment credit	54	-	-	-	54	-
Interest accruals	189	567	-	-	756	-
Total net of provisions	53,697	35,107	24,594	3,435	116,833	7,867

For notes to this table refer to page 52.

Risk Management: Credit risk continued
Balance sheet analysis continued
Financial Assets: Industry and geographical analysis continued

2009	Loans and advances €m	Securities €m	Derivatives €m	Other (1) €m	Total €m	Netting and offset (2) €m
Netherlands						
Central and local government	1,658	38,403	16	-	40,077	-
Finance	21,630	27,670	5,770	13	55,083	-
Residential mortgages	101,988	-	259	-	102,247	-
Personal lending	169	-	194	-	363	-
Property	3,839	15	374	4	4,232	-
Construction	848	-	6	1	855	-
Manufacturing	5,470	23	76	-	5,569	-
Service industries and business activities	23,740	351	1,001	59	25,151	-
Agriculture, forestry and fishing	4,814	32	23	-	4,869	-
Finance lease and instalment credit	-	-	-	-	-	-
Interest accruals	787	-	847	-	1,634	-
Total net of provisions	164,943	66,494	8,566	77	240,080	-
US						
Central and local government	92	19	-	-	111	-
Finance	334	105	22	370	831	-
Residential mortgages	-	-	-	-	-	-
Personal lending	-	-	-	-	-	-
Property	69	-	-	-	69	-
Construction	-	-	-	-	-	-
Manufacturing	1,723	25	-	-	1,748	-
Service industries and business activities	1,888	-	34	-	1,922	-
Agriculture, forestry and fishing	-	-	-	-	-	-
Finance lease and instalment credit	-	-	-	-	-	-
Interest accruals	14	-	-	-	14	-
Total net of provisions	4,120	149	56	370	4,695	-
Rest of world						
Central and local government	873	10,174	85	37	11,169	3
Finance	51,736	13,087	45,191	2,167	112,181	7,243
Residential mortgages	-	14	-	-	14	-