

Banque Artesia Nederland N.V.  
(GE Artesia Bank)

# Annual report 2010

Abridged version



GE imagination at work

## PROFILE

Banque Artesia Nederland N.V. has its statutory registered office established in Amsterdam, the Netherlands, in accordance with its articles of association and is registered at the Chambers of Commerce in Amsterdam as No. 2527.

### **Address registered office:**

GE Artesia Bank  
Statutory: Banque Artesia Nederland N.V.  
Herengracht 539-543  
1017 BW Amsterdam  
The Netherlands

### **Correspondence address:**

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### **General**

Banque Artesia Nederland N.V. (hereinafter 'GE Artesia Bank'), a Dutch banking institution, organized as a public company with limited liability, operating under the trade name 'GE Artesia Bank' since being taken over by GE Commercial Finance in December 2006, provides quality banking services tailored to the needs of internationally-active companies and private clients through a network of six branches strategically located in The Netherlands. All of the shares of GE Artesia Bank are held by GE Commercial Finance Holding Nederland B.V. registered in Amsterdam, The Netherlands. The shares are not listed on a trade market. The ultimate parent is General Electric Company, based out of Fairfield in the US.

The consolidated financial statements of GE Artesia Bank for the year ending 31 December 2010 include GE Artesia Bank and its subsidiaries. A list of its consolidated subsidiaries is disclosed in the notes to the company financial statements.

GE Artesia Bank holds a banking license issued by the Dutch Central Bank (De Nederlandsche Bank N.V.), as referred to in Article 2:11 of the Dutch Financial Regulation Act (Wft) and is also authorized to provide investment services. GE Artesia Bank is registered at De Nederlandsche Bank N.V. and the Dutch Authority for the Financial Markets (AFM).

GE Artesia Bank focuses on 2 main business lines: corporate and private banking. It offers specialized expertise in working capital facilities, trade and commodity finance solutions and asset-based loans, along with many other financial services. Solutions include business financing to drive growth, providing working capital, improving cash flow and consolidating debt. For private clients, GE Artesia Bank offers tailor-made solutions for high net worth individuals.

GE Artesia Bank distinguishes itself from the 'majors' by taking the time to listen to and understand clients' business processes and banking requirements, proposing and implementing effective banking solutions and building long-term relationships with clients. Experienced Account Managers, the short communication lines of a medium-sized bank and the strength of the GE Group enable GE Artesia Bank to add real value in helping clients realize their business ambitions.

### **History**

The origins of Banque Artesia Nederland N.V. date from January 1872 when the Nederlandsche Credit & Depositobank (founded in 1863) merged with Banque de Paris to become Banque de Paris et des Pays-Bas. The name of the bank changed in 1984 to Banque Paribas Nederland N.V. and in 1998 to Banque Artesia Nederland following the formation of Artesia Banking Corporation. On December 28, 2006 Banque Artesia Nederland N.V. was taken over by GE and now operates under the trade name 'GE Artesia Bank'.

### **Part of GE Capital**

GE is a diversified infrastructure and financial services company focused on solving some of the world's toughest problems. With products and services ranging from aircraft engines, power generation, water processing and medical imaging to business and consumer financing solutions, the company serves customers in more than 100 countries and employs more than 300,000 people worldwide.

GE Capital is a leading global financial services company, offering a wide range of financing solutions for businesses and consumers. Services include commercial loans and leases, fleet management, financial programs, home loans, credit cards, personal loans and other financial services. GE Capital also develops strategic partnerships and joint ventures that utilize GE's industry-specific expertise in aviation, energy, infrastructure, healthcare and media to capitalize on market-specific opportunities. GE Capital businesses help meet the financial needs of over 100 million customers across the globe and have assets of more than US\$575 billion.

GE Capital operations are located in North America, South America, Europe, Australia and Asia.

## Management

The composition of the Statutory Management Board and the Senior Management Team of GE Artesia Bank is as follows:

Management Board: S.W. Prins (Chairman, Chief Executive Officer), J-H. Every (Originations Leader) and J. Benning (Chief Financial Officer).

Senior Management Team: S.W. Prins (CEO), J. Benning (CFO), W. Oliver (CRO), J-H. Every (Originations Leader), P. van de Koolwijk (Director Private Banking), S. Athreya (Commercial Organisation & Distribution Leader), B. Baldwin (General Counsel), M. de Jong (Operations Leader) and M. Ilieva (Human Resources Leader).

## Offices

### Headquarters

Herengracht 539-543  
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### Amsterdam

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amsterdam@artesia.nl  
Director: B. Frank

### Brabant & Zeeland

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4817 PA Breda  
Tel. +31 76 530 39 49  
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brabantzeeland@artesia.nl  
Director: V.F.T.M. Schreinemacher

### Rotterdam

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rotterdam@artesia.nl  
Director: M. Uhl

### The Hague

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denhaag@artesia.nl  
Director: W. Hulstein

### Midden & Oost Nederland

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middenoostnederland@artesia.nl  
Director: B. Frank

### Maastricht

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maastricht@artesia.nl  
Director: V.F.T.M. Schreinemacher

## REPORT OF THE MANAGEMENT BOARD

2010 has been another challenging year for GE Artesia Bank although the net result was substantially better than 2009. Even though there are solid signs of an economic recovery, there are “late cycle” sectors like Real Estate, Construction and Shipping that are still heavily impacted by the economic crisis. Like in 2009, GE Artesia Bank focused on navigating safely through the crisis by strengthening its risk management processes, improving capital adequacy and maintaining a strong liquidity position.

### Financial Results

GE Artesia Bank incurred a net loss of EUR 9.8 million in 2010 which is a very strong improvement compared to the net loss of EUR 43.4 million in 2009.

Net Interest Income improved by EUR 3.8 million to EUR 13.5 million reflecting higher margins on the asset base and slightly lower cost of funds. Like many other banks our Net Interest Margin continued to be under pressure due to the relatively high savings rates in The Netherlands. While Euribor stayed at a historically low level, savings rates in the Dutch market remained relatively high compared to Euribor. The continued pressure on the Net Interest Margin was caused by the fact that a large part of the Corporate loan portfolio being price-related to Euribor, and a large proportion of the Bank's funding consisting of savings through its Private Banking business. Margins on new business continued to be healthier than the margins on assets maturing, however, in line with the market, the margins on new business are clearly under pressure compared to 2009 which is driven by the competitive Corporate banking landscape in The Netherlands.

Net Fee and Commission Income is EUR 6.2 million lower compared to 2009 which is mostly due to a non-recurring fee income in 2009 on a bank guarantee issued in favor of a GE sister bank as well as lower transaction volumes in 2010.

Results from Financial Transactions improved with EUR 13.8 million to EUR 16.6 million in 2010, due to a non-recurring profit of EUR 13.2 million as a result of the unwinding of an interest rate swap position relating to Seven Bridges I securitization vehicle.

Total Operating Expenses decreased with 17% to EUR 41.2 million evidencing strong cost control. The decrease is amongst others due to lower personnel expenses, releases on the provision on claims and lower general and administrative charges. Furthermore, GE Artesia Bank has taken steps to further strengthen the company by creating more organizational efficiency and improving operational processes.

Impairment Losses were EUR 5.4 million which is significantly better than 2009 (EUR 45.0 million) due to lower provisions on impaired loans and recoveries from impaired loans. Most of the provisions taken in 2010 relate to exposures in Real Estate, Construction and Shipping which continue to be challenging sectors. Delinquencies and provisions on the residential mortgage portfolio continue to be very low. Also the improvements in the credit underwriting and monitoring processes as well as restructuring efforts on impaired loans have contributed to the substantially better result on Impairment Losses.

Overall, the above items led to a pre-tax loss reduction of EUR 58.0 million from a loss of EUR 62.0 million in 2009 to a loss of EUR 4.0 million in 2010.

In 2010 the Bank has decided to derecognise a Deferred Tax Asset of EUR 7.3 million relating to losses incurred in 2009. The Management Board considered it to be more likely than not that these tax losses carried forward will not be utilized within the available time frame. The derecognition of the deferred tax asset of EUR 7.3 million has been accounted for through the income statement. The remaining pre-tax losses from 2009 as well as the 2010 pre-tax loss will be carried back to prior years and therefore will not create a Deferred Tax Asset resulting from operating losses.

### Assets and funding

In 2010 total assets decreased from EUR 2.6 billion to EUR 2.2 billion. The main driver is the reduction in Loans and Advances to Customers which went down by EUR 417 million (excluding the elimination of a GE inter-company receivable of EUR 69 million in 2009). Also contingent liabilities including undrawn commitments reduced compared to 2009. The decrease in exposures to customers are driven by the continuation of the run-off of the residential mortgage portfolio, which decreased by EUR 82 million during 2010. Additionally, the Bank's commercial portfolio has declined by EUR 335 million due to lower utilization of corporate credit facilities, maturing corporate loans and prudent credit underwriting. To keep the Bank safe and secure monitoring criteria were enhanced during 2010.

Financial assets available for sale, which represents the Bank's investment portfolio, reduced to EUR 153 million (from EUR 234 million in 2009). The decrease is due to redemptions in the corporate bond portfolio (EUR 32 million) and fair value changes (EUR 49 million) on the investments in government bonds.

The Bank's cash position with the Dutch Central Bank increased to 217 million in 2010 (from EUR 31 million in 2009) in line with its strategy to maintain a healthy liquidity position.

Despite the fierce competition, the bank managed to retain the deposits and savings funding from its loyal client base. In line with GE's strategy, in 2010 the Bank repaid EUR 300 million in ECB funding which it had taken out in 2009 and 2008.

Shareholder's equity decreased from EUR 215 million in 2009 to EUR 164 million in 2010. Besides the result for the year, the reduction is driven by the recording of fair value changes in the investment portfolio through equity. Management has reviewed the investment portfolio for impairment triggers based on IFRS accounting principles and has concluded that there is currently no basis for impairment.

Despite the loss in 2010, the Bank's capital adequacy ratio's improved to the highest level over the past 5 years. The Tier 1 solvency ratio, consisting entirely of core capital, increased to 12.5% from 10.4% in 2009 while the BIS solvency ratio improved from 13.2% to 16.0 % in 2010. With these ratio's the Bank continues to be well capitalized.

### **GE Ownership**

GE Artesia Bank is 100% owned by General Electric (GE). Also in 2010 GE has proven to be a very strong shareholder. Despite the difficult economic climate, both GE and GE Capital reported strong results. GE reported 2010 net earnings of USD 11.3 billion and GE Capital of USD 3.3 billion. GE Capital net earnings increased by USD 1.8 billion in 2010 after declining to USD 1.5 billion in 2009. It is expected that GE Capital will deliver significant earnings growth over the next couple of years.

GE holds an AA+ credit rating with Standard & Poor's and a Aa2 rating with Moody's and continues to strongly support GE Artesia Bank with capital, liquidity and resources.

### **Risk Management**

Like any other bank, GE Artesia Bank is exposed to different types of risk, although inherently mainly exposed to credit default risk and liquidity risk. Clear policies and procedures are in place to manage credit risk. In 2010 various improvements have been made by implementing more effective policies, strengthening credit controls and by adding resources. In addition, the bank has completed a credit stress test which demonstrated that the bank's capital base is healthy.

Liquidity risk is being mitigated by maintaining a healthy liquidity position, back up credit lines with GE in combination with a match funding strategy. Besides the above mentioned credit stress test, the Bank also completed a liquidity stress test, which demonstrated the healthy liquidity position.

In terms of market risk, the bank continues to hedge all its exposures through interest rate and foreign exchange rate derivatives.

### **Banking Code**

GE Artesia Bank has adopted the Banking Code. The implementation of the Banking Code has been summarized in section 4, Corporate Governance, and has been published on our website.

### **Basel III**

In line with the rest of the banking sector, GE Artesia Bank is also in the process of determining the impact of the stricter capital and liquidity requirements set under the Basel III accord, which were concluded in December 2010. It speaks for itself that the Bank is committed to adhering to the standards per the calendar laid-out in the Basel III accord.

### **Outlook**

In this volatile environment, it is too early to make projections for 2011. While GE Artesia Bank will continue to do what is necessary to keep the bank safe and secure in these volatile times, the Bank has a clear objective to grow its receivables base. The main focus area for growth is two-fold: 1) Through the Trade & Commodities Finance and Corporate Banking business, leveraging the Bank's strength in international trade finance and working capital financing solutions. 2) Through Private Banking where the Bank is targeting a further increase in the Assets under Management as well as savings and deposits. The mortgage portfolio will remain a non-core portfolio in run-off.

### **Finally**

We would like to thank our staff for their support and dedication in delivering during challenging times. With their continued energy and enthusiasm we have been able to deliver a substantially better result.

Amsterdam, 14 April 2011

Management Board  
S.W. Prins, Chairman  
J. Benning  
J-H. Every

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

(Amounts in thousands of euros unless otherwise stated)

	2010	2009
Interest income	38,810	61,208
Interest expense	25,311	51,532
<b>Net interest income</b>	<b>13,499</b>	9,676
Fee and commission income	12,558	23,864
Fee and commission expense	665	5,820
<b>Net fee and commission income</b>	<b>11,893</b>	18,044
Result from securities and participating interests	61	60
Result from financial transactions	16,617	2,844
Other operating income	520	1,962
<b>Total operating income</b>	<b>42,590</b>	32,586
Personnel expenses	22,678	26,757
General administrative expenses	16,324	19,589
Depreciation and amortization	2,222	3,251
<b>Total operating expenses</b>	<b>41,224</b>	49,597
Impairment losses/(recoveries) on financial assets	5,402	44,986
<b>Total expenses</b>	<b>46,626</b>	94,583
<b>Result before income tax</b>	<b>(4,036)</b>	(61,997)
Income taxes	5,745	(18,582)
<b>Result for the year</b>	<b>(9,781)</b>	(43,415)

## CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2010

(Amounts in thousands of euros unless otherwise stated)

<b>ASSETS</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	217,065	30,574
Loans and advances to banks	35,219	29,617
Loans and advances to customers	1,697,094	2,183,030
Financial assets held for trading	14,435	30,074
Financial assets available for sale	152,841	234,124
Derivative financial assets in hedge accounting relationships	1,506	1,697
Other assets	8,968	5,891
Property, land and equipment	23,243	24,564
Intangible assets	893	1,586
Current tax assets	-	6,723
Deferred tax assets	22,728	15,768
<b>TOTAL ASSETS</b>	<b>2,173,992</b>	<b>2,563,648</b>
<b>LIABILITIES</b>		
Due to banks	330	341,040
Funds entrusted	1,848,303	1,812,780
Financial liabilities held for trading	13,326	30,129
Derivative financial liabilities in hedge accounting relationships	56,403	54,379
Current tax liabilities	505	-
Deferred tax liabilities	3,908	4,200
Other liabilities	18,482	35,959
Provisions	339	573
Pensions and other long-term employee benefits	5,933	7,012
Subordinated liabilities	62,010	62,016
<b>Total Liabilities</b>	<b>2,009,539</b>	<b>2,348,088</b>
<b>SHAREHOLDERS' EQUITY</b>		
Issued, called upon and paid in share capital	73,733	73,733
Shareholder premium reserve	79,495	79,495
Revaluation reserve	(57,811)	(16,485)
Other reserves	78,817	122,232
Result for the year	(9,781)	(43,415)
<b>Total shareholders' equity</b>	<b>164,453</b>	<b>215,560</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,173,992</b>	<b>2,563,648</b>
Contingent liabilities	225,935	405,289
Undrawn irrevocable facilities	184,587	214,536

### Disclaimer

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