ABN·AMRO

ABN AMRO Hypotheken Groep B.V.

Annual Report

2018

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ABN AMRO Hypotheken Groep B.V. at a glance

ABN AMRO Hypotheken Groep B.V. (AAHG) is part of ABN AMRO Bank N.V. (ABN AMRO) and focuses primarily on providing and managing mortgages to customers within the Netherlands.

Our active brands

ABN·AMRO

florius

moneyou

Registered office in

Amersfoort,
the Netherlands

Number of employees (FTEs)

947

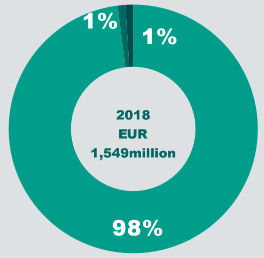
working for AAHG, but not on AAHG's payroll

Operating income

2018:

1,549 million

By type of income (in %)



- Interest income
- Net fee and commission income
- Other operating income

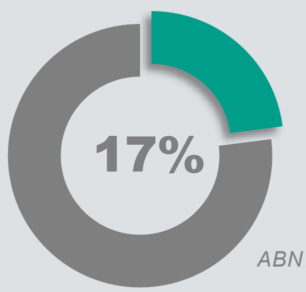
Mortgage portfolio

139 billion
2017

139 billion
2018

Market share

New production



ABN·AMRO

Corporate structure

AAHG, a private limited liability company founded under Dutch law on 30 December 1991, is a wholly owned subsidiary of ABN AMRO, which is wholly owned by ABN AMRO Group N.V. (the Group). The financial information of AAHG has been incorporated into the 2018 consolidated financial statements of the Group.

The Group has issued a statement of joint and several liability with respect to AAHG. By virtue of this statement, the Group has assumed joint and several liability for all liabilities arising from legal acts of AAHG. The statement, which is governed by Section 403, Book 2 of the Dutch Civil Code, has been filed with the Trade Register of the Chamber of Commerce.

AAHG has a two-tier board structure; it has a Managing Board and a Supervisory Board.

The responsibilities and activities of the Managing Board and the Supervisory Board are governed by Dutch corporate law and the Articles of Association of AAHG. Furthermore, AAHG has established procedures for the Managing Board and Supervisory Board regarding their duties, powers and responsibilities.

Managing Board

Responsibilities

The Managing Board members collectively manage AAHG and are responsible for its strategy, structure and performance, including the assessment and management of risks associated with AAHG activities.

In performing their duties, the Managing Board members are guided by the interests and continuity of AAHG and its affiliated entities. As such, they take the interests of all AAHG stakeholders and society at large into consideration.

The Managing Board members report to the Supervisory Board and to the General Meeting. The Managing Board is required to inform the Supervisory Board of the following topics: risk, operational and financial objectives, the financial statements, strategy and the parameters applied in relation to the strategy.

Appointment, suspension and dismissal

Managing Board members are appointed by the General Meeting. The Supervisory Board and the General Meeting may suspend a member of the Managing Board at any time. Managing Board members can only be dismissed by the General Meeting. These procedures are described in the Articles of Association of AAHG.

Remuneration

Managing Board members are subject to ABN AMRO's Global Reward Policy. This policy provides a framework for managing reward and performance effectively and applies globally within ABN AMRO at all levels and in all countries. The Global Reward Policy also specifies rules with respect to employees whose professional activities could have a material impact on ABN AMRO's risk profile. This group of employees is referred to as Identified Staff.

ABN AMRO's objective is to position the level of total direct compensation for Managing Board members below median market levels. The remuneration packages of Dutch-based Identified Staff who are not Management Group members are governed by ABN AMRO's collective labour agreement. Effective from 2015, remuneration restrictions under the Dutch Bonus Prohibition Act have been extended to include senior management as described in the Dutch Act on Remuneration Policies of Financial Institutions (Wet beloningsbeleid financiële ondernemingen - Wbfo). Therefore, from 1 January 2015, there has been no option to award variable compensation to Managing Board members during the period of state support.

An overview of the remuneration of the Managing Board is provided in the notes to the Statutory Annual Financial Statements.

Supervisory Board

Responsibilities

The Supervisory Board supervises the Managing Board as well as the general course of AAHG affairs. In addition, the Supervisory Board advises the Managing Board members, both solicited and unsolicited.

In performing their duties, Supervisory Board members are guided by the interests of AAHG, taking into consideration the interests of all AAHG stakeholders and society at large. Several powers are vested in the Supervisory Board, including approval of certain resolutions proposed by the Managing Board.

The Supervisory Board meets at least four times a year and whenever any Supervisory Board member deems necessary. The Audit & Risk Committee is the only sub-committee of the Supervisory Board. The responsibilities of the Audit & Risk Committee include assessing all matters relating to the principles of valuation and determination of results, internal control, the financial reporting functions, the internal audit, the external audit, risk assessments and compliance with regulations.

Appointment, suspension and dismissal

A list of the current members of the Supervisory Board is provided in the chapter on the Supervisory Board.

None of the members of the Supervisory Board were rewarded for their membership of the AAHG Supervisory Board. Supervisory Board members are formally appointed and may be suspended or dismissed by the General Meeting.

Diversity

All members of the Managing Board and the Supervisory Board are natural persons. At the end of 2018, two of the three members of the Supervisory Board were female and one of the three members of the Managing Board was female.

Dutch Banking Code

The Dutch Banking Code was introduced on 1 January 2010 and sets out principles that banks should adhere to in terms of corporate governance, risk management, audit and remuneration. The Dutch Banking Code applies to AAHG as a licensed bank under the Dutch Financial Supervision Act (*Wet op het financieel toezicht*). ABN AMRO applies all principles of the Dutch Banking Code to every one of its consolidated subsidiaries.

In accordance with ABN AMRO's management framework, all members of the Group are an integral part of the ABN AMRO organisation. As a result, the bank's policies and standards related to compliance with internal and external regulations and best practices are applicable to the entire ABN AMRO group of companies.

A principle-by-principle overview of the manner in which the Group and its subsidiaries comply with the Dutch Banking Code has been published on abnamro.com.

The updated Dutch Banking Code came into effect on 1 January 2015, along with the Social Charter (*Maatschappelijk Statuut*) which is complementary to the Dutch Banking Code. The updated Dutch Banking Code takes into account the recommendations of the Banking Code Monitoring Commission, the report of the Committee on the Structure of Banks, government views on the Dutch banking industry and the vision of the Dutch Banking Association. The updated Dutch Banking Code, along with the Social Charter, which includes the Banker's Oath and the associated rules of conduct and disciplinary rules, applies to all employees of financial institutions in the Netherlands and emphasises the social role of banks and their commitment to meeting the expectations of society at large.

General Meeting of Shareholders

At least one General Meeting is held every year. The General Meeting is competent to adopt the Annual Reports and takes important decisions regarding the identity or character of AAHG. The agenda of the General Meeting includes the following items as a minimum: the Annual Report, adoption of the Statutory Annual Financial Statements, and granting discharge to the members of the Managing Board and the Supervisory Board.

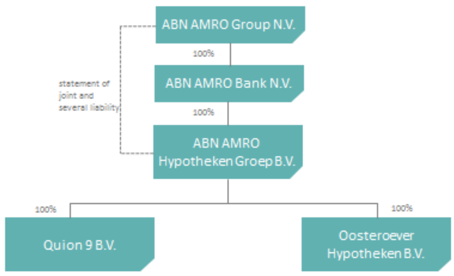
The last General Meeting was held on 9 May 2018. The General Meeting adopted the 2017 Statutory Financial Statements and granted discharge to the members of the Managing Board and the Supervisory Board.

Legal structure

AAHG is a wholly owned subsidiary of ABN AMRO, a company incorporated in the Netherlands. AAHG is a fully licensed bank. Under the Single Supervisory Mechanism implemented in November 2014, the Group is subject to prudential supervision by the European Central Bank (ECB).

AAHG has two wholly owned subsidiaries: Quion 9 B.V. and Oosteroever Hypotheken B.V.

ABN AMRO Hypotheken Groep B.V. structure



Report of the Managing Board

2018 was a year characterised by fierce competition in the mortgage market. Due to low interest rates, competition continued from insurance companies and pension funds. Despite facing fierce competition, we managed to keep our mortgage portfolio relatively stable. In 2018, AAHG had a market share in new production of 17% in the Netherlands.

In 2018, we further increased our efforts to contact clients with an interest-only mortgage. The objective is to make them aware of their personal situation once their mortgage has reached maturity. By providing information about their financial and tax situation at maturity, we aim to give our customers an understanding of the future affordability of their mortgage. We do so by taking a pro-active client approach, by offering ABN AMRO's online mortgage check and by giving customers the option to contact one of our mortgage specialists personally. This will remain an important focus area in 2019.

General information

In the Netherlands, ABN AMRO's mortgage products and services are offered through the bank branches of ABN AMRO, through intermediaries and online. When it comes to these products, AAHG is responsible for product development and the total mortgage chain, including servicing, mortgage advice and management. In terms of operations, use is made of service providers; the most important service provider is ABN AMRO subsidiary Stater Nederland B.V.

Strategy

The bank's new purpose is: 'Banking for better, for generations to come'.

We are confident that we will achieve this purpose by focusing on the following three priorities over the coming years, in line with the bank-wide strategy:

Supporting our clients' transition to sustainability:

Our clients increasingly choose, or are showing more and more interest in, sustainable solutions for their homes, such as proper insulation or solar panels. We can help them make this transition by offering our financial expertise and funding their investment.

Every mortgage advice we issue addresses sustainable improvement opportunities. Through our partnership with De Energiebespaarders we help homeowners make their homes more energy-efficient. We experiment with customers and partners to find new opportunities to achieve this.

We are very proud that, in 2018, ABN AMRO received the 'Gouden Spreekbuis' award for best mortgage provider in the Netherlands according to intermediaries. The judges recognised ABN AMRO as a leader in the energy transition. In their professional opinion, ABN AMRO not only finances sustainable investments, it also makes the entire process easier for the parties involved by facilitating them. A particular aspect they found worth mentioning is that ABN AMRO does not keep sustainability initiatives to itself but shares them with all home-owners in the Netherlands. The judges felt that this testified to leadership.

Reinventing the customer experience:

ABN AMRO wants to be a client-focused and data-driven bank that treasures the client relationship and delivers an effortless and unique customer experience – we aim to 'wow' our clients. In 2018, we introduced several new services for our customers in the app, which makes it easy to make an extra repayment on a mortgage or make a declaration of a construction facility. We introduced the Florius Financierings Belofte, a pre-approval of a new mortgage before the customer has decided on a property. Thanks to this proposition, customers have more certainty that they will be able to buy the property they want. Over the coming years, we will continue to provide personally relevant and accessible online services that enable us to pleasantly surprise and proactively serve our customers.

Building a future proof bank:

Our strategy can only succeed if we unleash our people's full potential and provide them with the right tools to successfully contribute to our purpose and strategy. To achieve our strategic ambition of becoming a future-proof bank, AAHG's focus will be on becoming a data-driven and high-performing organisation with future-proof IT systems.

Financial information

We are content with the overall financial results we achieved in 2018. Our key financial indicators showed the following movements:

- Profit for the year 2018 increased from EUR 916 million to EUR 919 million.
- Operating income increased from EUR 1,495 million to EUR 1,549 million.
- Operating expenses increased from EUR 265 million to EUR 314 million.
- Loan impairments showed a release, in line with the good economic climate in the Netherlands.

Principal risks and uncertainties

The Dutch mortgage market grew in 2018. It is still an attractive market for many players in a low-interest rate environment. Pension funds and asset managers continued to have a substantial share in the Dutch market through their so-called 'directing parties'. These competitors have the advantage that Basel IV regulation does not affect them.

Furthermore, non-banks have an appetite for long-term mortgages (20 years or longer), which currently represent the majority of market demand. These long-term mortgages do not make a natural fit with the funding profile of a bank. New competitors often have a different funding profile and have a stronger appetite for these long-term mortgages. To respond to changes in market demand, we are exploring options for alternative funding.

ABN AMRO pursues a moderate risk profile. In order to keep the risk profile at a moderate level, ABN AMRO and AAHG apply a three-lines-of-defence model.

The principal risks for AAHG are:

- Credit risk
- Operational risk
- Market risk
- Liquidity risk

For more details on these risks, we refer to the 'Risk management' chapter.

Rules and regulations

IFRS 9

The Dutch Accounting Standards Board proposed a change to Accounting Standard 290, Financial instruments, i.e. the option to account for impairments on the basis of expected credit losses in accordance with the expected credit loss model of IFRS 9. IFRS 9 has been effective from 1 January 2018. AAHG has voluntarily decided to adopt this change in its 2018 financial statements (see also section 2.23 on changes in accounting policies).

General Data Protection Regulation (GDPR)

The GDPR primarily aims to give control back to customers over their personal data. The GDPR is a high-impact change in rules and regulations. The GDPR has been in effect since 25 May 2018.

European Banking Authority (EBA) Guidelines on Internal Governance

We have implemented the revised EBA Guidelines on Internal Governance. These Guidelines aim at further harmonising institutions' inter-governance arrangements, processes and mechanisms across the EU.

Changes in the Managing Board

During 2018, there were several changes in the composition of the Managing Board.

In January 2018, Jan Pieter Kolk was appointed as Head of Risk Management of AAHG after he passed the European Central Bank's suitability screening.

In February 2018, Maurice Koot resigned as CFO to become the CEO of another entity within the Group. We want to take this opportunity to thank Maurice for his valuable input, commitment and contribution to AAHG.

In October 2018, Stefan van der Bijl was appointed CFO of AAHG after he passed the European Central Bank's suitability screening.

Remuneration of members of the Managing and Supervisory Board

Two members of the Supervisory Board qualify as employees of ABN AMRO and are unremunerated for there role as Supervisory Board member.
The chair of the Supervisory Board is no longer an employee. He has, however, been engaged by ABN AMRO as an external advisor and is paid by ABN AMRO.

Information on application of codes of conduct

Compliance with the Dutch Financial Supervision Act and the related regulations and codes of conduct is an important aspect in the business practices of AAHG. In this process, AAHG applies the principles as defined by ABN AMRO. AAHG has a Supervisory Board that monitors compliance with the codes of conduct. The duty of the Audit & Risk Committee is to advise the Supervisory Board on its supervisory role in relation to risk, compliance, legal and financial items and reporting. The Supervisory Board and the Audit & Risk Committee convened four times in 2018. They also met several times for continuing professional education purposes. The Supervisory Board performed a self-assessment in the second quarter of 2018.

Amersfoort, the Netherlands, 7 May 2019

Managing Board

ABN AMRO Hypotheken Groep B.V.

Report of the Supervisory Board

The Supervisory Board is pleased to offer the Annual Report 2018 as presented by the Managing Board. The Supervisory Board is happy with the financial performance of AAHG given the difficult market conditions.

Changes in the Supervisory Board

In 2018, the Supervisory Board had three members. Two members held a senior management position within ABN AMRO and one member (the chair) has been engaged by ABN AMRO as an external advisor. The shareholder, ABN AMRO, appoints the members of the Supervisory Board based on a collective suitability profile.

John Smeets resigned as a member of the Supervisory Board in January 2018. Lieve Vanbockrijck was nominated as a new member of the Supervisory Board. After having been approved by the European Central Bank, the shareholder appointed Lieve Vanbockrijck in January 2019. Marije Elkenbracht resigned in January 2019. She accepted a new position outside ABN AMRO. We want to take this opportunity to thank John and Marije for their valuable input, commitment and contributions to AAHG. We have started the process of appointing an additional Supervisory Board member.

The Supervisory Board is of the opinion that, as a whole, it has the required knowledge, expertise and experience to adequately perform its supervisory duties. A description of the duties, responsibilities and current composition of the Supervisory Board is provided in the 'Corporate governance' chapter of this Annual Report.

Supervisory Board meetings

The Supervisory Board held four scheduled meetings and a summer session in 2018. Focus areas included strategy, client centricity, changes to the Managing Board, the impact of laws and regulations on the organisation, and contact with regulators. Prior to each meeting, the Supervisory Board took sufficient time to discuss topics without the Managing Board being in attendance.

All scheduled plenary meetings were held in the presence of the Managing Board and the Company Secretary.

In addition to the scheduled meetings, the Supervisory Board held a meeting to discuss the outcome of the self-assessment and four deepdives/lifelong learning sessions that concerned the following topics: interest-only mortgages, unit-linked mortgages, long-term mortgages and finance.

In addition to the scheduled Supervisory Board meetings, the members are in regular contact with the Managing Board. The Company Secretary prepared agendas for Supervisory Board meetings in 2018. Recurring agenda items included financial performance, risk management, compliance, audit findings, market and regulatory developments, and strategy.

Throughout the year, the Supervisory Board monitored the implementation of the strategy and supported the Managing Board in its efforts to put client interests first and maintain a moderate risk profile as part of the long-term strategy. In this context a special debate was held on compensating customers for early repayments (*Vergoeding Vervroegde Aflossing*).

The Managing Board regularly informed and briefed the Supervisory Board of planned organisational changes, strategic initiatives and incidents.

Audit & Risk Committee (ARC)

The financial information was audited by both internal and external auditors. AAHG provides the information to the members of the Supervisory Board on a regular basis in order to educate them on the different risk types and share relevant results.

EY is AAHG's independent external auditor. EY audited the 2018 Annual Report and the Statutory Financial Statements. The Annual Report and accompanying Statutory Financial Statements were discussed by the Supervisory Board on 7 May 2019. The members of the Supervisory Board have read the Auditor's Report. In addition, EY presented its Audit Plan for the 2018 audit to the Supervisory Board on 29 October 2018.

In 2018, the ARC held four plenary meetings. The Risk Management Report, which is provided to the Supervisory Board on a regular basis, served as the basis for effective discussions on principal risks.

Overall, communications between Supervisory Board and Managing Board are perceived as open and transparent. We advise the Managing Board to stay on top of the developments in the mortgage market. The Supervisory Board is confident that AAHG is ready for the future.

Advice to the General Meeting of Shareholders

The Supervisory Board recommends that the General Meeting agree with the Annual Report and Financial Statements and that it discharges the members of the Management Board for their leadership and the members of the Supervisory Board for their supervision.

Amersfoort, the Netherlands, 7 May 2019

Supervisory Board

ABN AMRO Hypotheken Groep B.V.

Statutory statement of financial position

(after profit appropriation)

(x EUR 1,000)	Note	31 December 2018	31 December 2017
Cash	3	4,218,852	3,086,986
Loans and advances - banks	4	24,507,018	35,457,474
Loans and advances - customers	5	138,416,318	139,135,091
Participating interests in group companies	6	1,370	1,370
Property and equipment	7	257	786
Other assets	8	3,373,682	2,501,246
Prepayments and accrued income	9	1,845	1,771
Total assets		**170,519,342**	**180,184,724**
Due to banks	10	145,458,830	147,150,134
Due to customers	11	2,346,516	2,217,219
Other liabilities	12	22,203,510	30,198,154
Accruals and deferred income	13	407,833	488,687
Provisions	14	97,634	109,767
Total liabilities		**170,514,323**	**180,163,961**
- Paid-up and called-up capital		19	19
- Other reserves		5,000	20,744
Total equity	15	**5,019**	**20,763**
Total liabilities and equity		**170,519,342**	**180,184,724**
Irrevocable commitments	16	4,024,347	4,476,183

Statutory income statement

(x EUR 1,000)	Note	2018	2017
Interest income		5,562,518	6,357,959
Interest expense		4,051,278	4,900,276
Net interest income	19	1,511,240	1,457,683
Share of profit of associates	6	14,193	7,100
Fee and commission income	20	8,764	9,599
Other operating income	21	14,687	20,442
Operating income		**1,548,884**	**1,494,824**
Personnel expenses and other general and administrative expenses	22	316,339	319,373
Depreciation	7	529	772
Other operating expenses	23	1,088	249
Impairment charges on financial instruments	24	-4,081	-55,723
Operating expenses		**313,875**	**264,671**
Operating profit before taxation		**1,235,009**	**1,230,153**
Income tax expense	25	316,413	314,331
Profit for the year		**918,596**	**915,822**

Statutory statement of cash flows

(x EUR 1,000)	Note	2018	2017
Cash flows from operating activities			
Profit		1,235,009	1,230,153
Adjustments of non-cash items included in profit:			
Amortisation and depreciation	7	529	772
Changes in impairment charges	5	-30,972	-137,520
Changes in other provisions	14	-4,595	41,450
Income tax expense	24	-316,413	-314,331
Changes in operating assets and liabilities			
Changes in loans and advances - banks	4	10,950,456	6,969,000
Changes in loans and advances - customers	5	749,745	-1,864,466
Changes in due to customers	11	129,297	224,964
Changes in prepayments and accrued income	9	-74	-109
Changes in accruals and deferred income	13	-80,854	13,869
Changes in other provisions	14	-7,538	-4,286
Changes in other assets	8	-872,436	-222,047
Changes in other liabilities	12	-8,028,906	-4,523,989
Net cash from operating activities		**3,723,248**	**1,413,459**
Cash flows from investing activities		**0**	**0**
Cash flows from financing activities			
Dividends paid	15	-900,078	-813,017
Changes in due to banks	10	-1,691,304	914,836
Net cash from financing activities		**-2,591,382**	**101,819**
Net increase/decrease in cash and cash equivalents		**1,131,866**	**1,515,278**
Cash and cash equivalents at 1 January		3,086,986	1,571,708
Increase/decrease in cash and cash equivalents		1,131,866	1,515,278
Cash and cash equivalents at 31 December	3	**4,218,852**	**3,086,986**

Notes to the Annual Financial Statements

Below we describe the notes to the Statutory Annual Financial Statements of ABN AMRO Hypotheken Groep B.V. for 2018.

1 General

ABN AMRO Hypotheken Groep B.V. (AAHG) is a private limited liability company. In 2018 AAHG relocated its registered office from Ruimtevaart 24, 3824 MX Amersfoort, the Netherlands, to Computerweg 8, 3821 AB Amersfoort. All ordinary shares are held by ABN AMRO Bank N.V. (ABN AMRO). AAHG is registered with the Dutch Chamber of Commerce under number 08024285.

AAHG has the following subsidiaries:
Oosteroever Hypotheken B.V.
having its registered office at:
Fascinatio Boulevard 1302
2909 VA Capelle aan den IJssel
The Netherlands
CoC no. 33112834

Quion 9 B.V.
having its registered office at:
Fascinatio Boulevard 1302
2909 VA Capelle aan den IJssel
The Netherlands
CoC no. 24272135

AAHG offers residential mortgages in the Netherlands.

ABN AMRO is the parent company of AAHG. ABN AMRO Group N.V. (the Group) is the ultimate parent company; all shares in the Group's capital are held by two foundations: Stichting Administratiekantoor Beheer Financiële Instellingen (NLFI) and Stichting Administratiekantoor Continuïteit ABN AMRO Group (STAK AAG). For the Group's consolidated financial statements, please visit www.abnamro.com/annualreport.

1.1 Accounting policies

The Annual Financial Statements have been prepared in accordance with the provisions in Part 9, Book 2 of the Dutch Civil Code. As of 1 January 2018, AAHG has adopted the expected credit loss impairment principles of IFRS 9 "Financial Instruments", including the related disclosure requirements of IFRS 7, which is an option offered in Dutch Accounting Standard 290 "Financial Instruments" applicable under Book 2 of the Dutch Civil Code. See also section 2.23 on changes in accounting Policies.
As an intermediate holding company, AAHG applies the consolidation exemption provided by Section 408, Book 2 of the Dutch Civil Code.

1.2 Going concern

The Annual Financial Statements have been prepared based on the going concern assumption. Within the scope of Section 403, Book 2 of the Dutch Civil Code, the Group has assumed liability for any debts arising from the legal acts of AAHG and its subsidiaries.

1.3 Estimates and assumptions

The preparation of the Annual Financial Statements requires the management of AAHG to use judgements, estimates and assumptions. These affect the application of the accounting policies and the reported amounts of assets and liabilities, and income and expense. The principal judgements and estimates, including the related assumptions, mainly concern the measurement of financial instruments (including impairments for credit losses) and provisions.

1.4 Recognition and derecognition

Financial assets are generally derecognised when AAHG loses control and the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or substantially all risk and rewards are transferred. Financial assets are also derecognised if the bank has neither transferred nor retained substantially all risks and rewards of ownership but control has passed to the transferee.

ABN AMRO uses securitisations for its financing requirements. In this process, AAHG transfers the legal title of financial assets (mortgage loans) to special-purpose entities (SPEs), which – for their part – issue residential mortgage-backed securities (RMBS notes) to investors. Since not all risks associated with the mortgage loans have been transferred to the SPEs, AAHG continues to recognise the securitised mortgage loans in its statement of financial position.

1.5 Related parties

Parties are deemed to be related if one party has control of the other party or can exercise significant influence on the other party's financial and operating activities. AAHG's related parties are:

- The Managing Board of AAHG
- The Supervisory Board of AAHG
- Dolphin Master Issuer B.V.
- Dolphin Asset Purchasing B.V.
- Goldfish Master Issuer B.V.
- Goldfish Asset Purchasing B.V.
- Covered Bond Company B.V.
- Covered Bond Company 2 B.V.
- Oosteroever Hypotheken B.V.
- Quion 9 B.V.
- ABN AMRO Group N.V. and its subsidiaries

1.6 Foreign currency translation

The Statutory Annual Financial Statements are denominated in euros (rounded to the nearest thousand unless indicated otherwise). AAHG does not conduct transactions in foreign currencies.

1.7 Amortised cost

Amortised cost means that, at initial recognition, a financial instrument is measured at fair value adjusted for expected repayments and amortisation of coupons, fees and expenses to represent the effective interest rate of the instrument.

1.8 Fair value

Fair value is the price at which an asset can be exchanged or a liability can be settled in an orderly transaction between independent market participants.

1.9 Maturities of assets and liabilities

Current assets and liabilities have a maturity of less than one year. Non-current assets and liabilities have a maturity of one year or longer.

2 Accounting policies for the statement of financial position and income statement

2.1 Cash

Cash represents account balances that are immediately due and payable. Cash is measured at nominal value.

2.2 Loans and advances - banks

Loans and advances - banks include receivables from ABN AMRO that are and are not payable on demand. At initial recognition, loans and advances - banks are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method, net of impairment losses.

2.3 Loans and advances - customers

Loans and advances - customers consist of mortgage loans less impairments and arrangement fees. A mortgage loan is always provided on basis of collateral. At initial recognition, loans and advances - customers are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method, net of impairment losses.

2.4 Participating interests in group companies

Participating interests in group companies are recognised using the equity method of accounting based on net asset value.

2.5 Property and equipment

Property and equipment are measured at cost, net of accumulated depreciation and impairment.

The cost of the assets consists of the acquisition price and other costs associated with bringing the assets to the location and in the condition necessary for them to be capable of operating in practice.

Depreciation is based on cost using the straight-line method based on useful life. Assets are depreciated from the time they are available for their intended use and are no longer depreciated when they are decommissioned or sold.

The following depreciation rates are used:

- Leasehold improvements 20%
- Hardware 33%
- Equipment 20%

2.6 Other assets

Other assets consist of receivables from group companies, cash in transit, trade receivables and other assets. At initial recognition, other assets are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method, net of impairment losses.

2.7 Prepayments and accrued income

Prepayments reflect expenses paid at the reporting date relating to future periods. Accrued income reflects the difference between recognised interest income and interest payments received to date.

2.8 Due to banks

Amounts due to banks consist of debts to ABN AMRO that are and are not payable on demand. At initial recognition, amounts due to banks are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method.

2.9 Due to customers

Amounts due to customers consist of deposit accounts for premium deposits paid on savings-based mortgages that will be used by customers to pay future premiums on their mortgage loans and of savings accrued by customers. At initial recognition, amounts due to customers are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method.

2.10 Other liabilities

Other liabilities consist of debts to SPEs, trade payables, dividends payable and other liabilities. At initial recognition, other liabilities are measured at fair value; they are subsequently measured at amortised cost using the effective interest rate method.

2.11 Accruals and deferred income

Accruals and deferred income comprise interest payable and other deferred items. At initial recognition, accruals and deferred income are measured at fair value; they are subsequently measured at amortised cost using the effective interest method.

2.12 Provisions

A provision is recognised in the statement of financial position when:

- there is a present obligation (legal or constructive) as a result of past events;
- a reliable estimate can be made of the amount of the obligation; and
- it is probable that an outflow of resources will be required to settle the obligation.

Provisions are recognised based on the best estimate of the expenditure that is expected to be required to settle the obligations and losses.

A provision for claims, disputes and legal proceedings is recognised if it is probable that an outflow of resources will be required to settle the claims, disputes or court cases. The provision is based on the best estimate of the amount for which the claim can be settled.

2.13 Equity

The share capital comprises the issued and paid-up ordinary shares in AAHG.

2.14 Net interest income

Interest income and interest expenses are recognised in the period to which they relate, accounted for based on the effective interest rate method. Repayment fees are allocated to consecutive reporting periods in the form of interest expense such that, together with the interest due on the loan, the effective interest rate is recognised through profit or loss and the amortisation value in the financial position.

2.15 Fee and commission income

Fees and commissions are recognised as the services are provided. Service fees are recognised on a straight-line basis over the service contract period; portfolio and other management advisory and service fees are recognised based on the applicable service contracts.

Fees and commissions dependent on the outcome of a particular event or contingent upon performance are recognised when the relevant conditions are met. AAHG is paid direct fees by customers only.

2.16 Other operating income

Other operating income is recognised in the period to which it relates and mainly concerns servicing fees.

2.17 Personnel expenses and other general and administrative expenses

Personnel expenses relate to all externally hired staff. The related expense is recognised in the income statement in the period in which the work is performed. ABN AMRO charges AAHG for this expense on a monthly basis given that the employees are not on AAHG's payroll.

General and administrative expenses include housing, office and IT expenses, as well as selling and advertising expenses incurred in the reporting period. External staff is hired (from other parties than ABN AMRO) to perform operational activities. The costs associated with external hires are recognised as services provided by third parties.

2.18 Depreciation

This item comprises depreciation charges for property and equipment. For details, see the notes relating to property and equipment.

2.19 Other operating expenses

Other operating expenses are recognised in the period to which they relate.

2.20 Impairment charges on financial instruments

Loan impairment charges are recognised in the income statement as an addition to, or release of, the loan impairment charges within the 'Loans and advances - customers' item in the statement of financial position.

2.21 Tax

Current tax assets and liabilities are based on the prevailing tax rate, with reference to the profit or loss and taking into account tax-exempt items and any partly or non-deductible expenses.

Deferred tax is recognised for qualifying temporary differences. Temporary differences represent the difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered.

ABN AMRO forms a fiscal unity for corporate income tax purposes. Each member of the fiscal unity bears joint and several liability for the income tax payable by the fiscal unity. Taxes are settled within this fiscal unit as if each company were an independent taxable entity.

2.22 Statement of cash flows

The statement of cash flows has been prepared using the indirect method and provides an understanding of the source of the cash that became available during the year as well as its application during the year. Where net cash from operating activities is concerned, the operating profit before taxation is adjusted for items in the income statement and the statement of financial position that effectively result in cash flows in the reporting period. Cash flows from operating, investing and financing activities are presented separately.

2.23 Changes in accounting policies

As of 1 January 2018, AAHG has adopted the expected credit loss (ECL) impairment principles of IFRS 9 “Financial Instruments”, including the related disclosure requirements of IFRS 7, which is a new introduced option offered in Dutch Accounting Standard 290 “Financial Instruments” applicable under Book 2 of the Dutch Civil Code. IFRS 9 was issued by the IASB in July 2014 and endorsed by the EU in November 2016. AAHG has applied the impairment principles of IFRS 9 from 1 January 2018 onwards. Prior years were not restated in line with the transitional provisions of Dutch Accounting Standard 290 “Financial Instruments”.

The impairment methodology used up until 31 December 2017 was based on an ‘incurred loss’ model, meaning that an allowance was determined when an instrument was credit-impaired, that is, when a loss event has occurred that had a detrimental impact on estimated future cash flows.

The newly introduced methodology is in line with the impairment methodology of the Group and thus reconciles with the accounting principles of the Group. The impairment methodology is also in line with industry practice and reporting principles applied for regulatory reporting purposes to the Supervisor.

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Impairments

IFRS 9 replaced the incurred loss model with the ECL model, which is designed to be forward-looking. The IFRS 9 impairment principles are applicable to financial assets measured at amortised cost and FVOCI and to loan commitments. These financial instruments are divided into three groups, depending on the stage of credit quality deterioration:

- Financial instruments without a significant increase in credit risk (stage 1 - performing): the portion of the lifetime expected credit losses associated with default events occurring in the next twelve months (12M ECL) is recognised. Interest income is recognised based on the gross carrying amount;
- Financial instruments with a significant increase in credit risk (stage 2 - underperforming): lifetime expected credit loss (LECL) is recognised. Interest income is recognised based on the gross carrying amount;
- Credit-impaired financial instruments (stage 3 – non-performing): these financial instruments are in default and a LECL is recognised. Interest income is recognised based on amortised cost.

For details on the stage triggers, the calculation method and forward-looking information, see the 'Risk management' chapter.

Impact of the transition to IFRS 9

The increase in the loan loss allowances in the opening statement of financial position was recognised within equity. The impact on the statement of financial position at 1 January 2018, resulting from the transition to IFRS 9 on equity was as follows:

	Before IFRS 9		IFRS 9
(x EUR 1,000)	31 December 2017 Carrying amount	Remeasurement ECL	1 January 2018 Carrying amount
Loans and advances - customers	139,252,807		139,252,807
Loans and advances - customers - Allowances	-117,716	117,716	
Loans and advances - customers - Allowances stage 1		-22,940	-22,940
Loans and advances - customers - Allowances stage 2		-20,818	-20,818
Loans and advances - customers - Allowances stage 3		-95,257	-95,257
Total loans and advances - customers	**139,135,091**	**-21,299**	**139,113,792**

3 Cash

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Cash in hand and other cash equivalents	4,218,852	3,086,986
Cash	**4,218,852**	**3,086,986**

Cash is at AAHG's free disposal.

4 Loans and advances - banks

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Deposits held with ABN AMRO	22,032,500	33,117,550
Receivables from group companies	2,474,518	2,339,924
Loans and advances - banks	**24,507,018**	**35,457,474**

None of the deposits held with ABN AMRO had a term to maturity of less than three months (2017: EUR 0). EUR 4.5 billion relates to deposits with a remaining term to maturity of between three months and one year (2017: EUR 5.4 billion) and EUR 15.5 billion relates to deposits with a remaining term to maturity of between one year and five years (2017: EUR 24.0 billion). The other amount relates to deposits with a remaining term to maturity of more than five years.
The average interest rate on the deposits is 0.4% (2017: 0.4%). Receivables from group companies are interest-free.

5 Loans and advances - customers

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Mortgage loans	138,501,540	139,250,210
- of which securitised	18,242,239	*27,414,080*
Arrangement fees	1,522	2,597
Impairment charges	-86,744	-117,716
Loans and advances - customers	**138,416,318**	**139,135,091**

The total collateral (i.e. the net collateral value) provided for the mortgage loans represented EUR 213 billion on 31 December 2018 (2017: EUR 181 billion), the increase was mainly due to a rise in market value. The surplus value amounts EUR 78.9 billion (2017: EUR 54.3 billion). Reference is made to the section on credit risk for further details on the collateral obtained. An amount of EUR 30.6 billion of the collateral has been encumbered in relation to the securitised portfolio (2017: EUR 35.7 billion).

Of mortgages, an amount of EUR 36.3 billion has been pledged in relation to ABN AMRO Covered Bond Company B.V. (2017: EUR 33.7 billion), EUR 18.9 billion in mortgages has been pledged in relation to ABN AMRO Covered Bond Company 2 B.V. (2017: nil) and EUR 4.0 billion in mortgages has been pledged to a.s.r. (2017: EUR 4.2 billion).

Movements in mortgage loans:

(x EUR 1,000)	2018	2017
At 1 January	139,250,210	137,383,349
Originated (production)	14,039,732	16,025,673
Repayments	-14,719,696	-14,588,024
Repurchase of portfolio		322,711
Change in deeds of assignment	-68,706	106,501
At 31 December	**138,501,540**	**139,250,210**

The mortgage portfolio of AAHG in Germany (EUR 83 million) was sold in 2018.

The remaining contractual terms to maturity of the mortgage loans can be broken down as follows:

(x EUR 1,000)	2018	2017
Short-term (less than 3 months)	233,306	196,400
Long-term (between 3 months and 1 year)	170,428	190,405
Long-term (between 1 and 5 years)	1,801,013	1,810,500
Long-term (more than 5 years)	136,296,793	137,052,905
At 31 December	**138,501,540**	**139,250,210**

Impairment charges

Movements in this item can be broken down as follows:

(x EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	22,607	20,818	95,257	138,682
Transfer to stage 1	13,857	-12,059	-12,401	-10,603
Transfer to stage 2	-2,703	22,637	-18,690	1,244
Transfer to stage 3	-2,896	-6,855	18,095	8,344
Impairment charges for the period / Reversal of impairment no longer required	-23,946	5,677	16,846	-1,423
Change in existing allowances	**-15,688**	**9,400**	**3,850**	**-2,439**
Originated (production)	7,473			7,473
Repayments	-2,011	-15,835	-1,641	-19,487
Write-offs			-36,349	-36,349
Changes in risk parameters	2,713	-2,104	-1,748	-1,139
At 31 December 2018	**15,093**	**12,279**	**59,372**	**86,744**

The loan loss allowance for stage 1 includes an amount of EUR 0.2 million for loan commitments.

AAHG uses models developed by ABN AMRO to calculate expected losses on the mortgage portfolio. For more details, see the 'Risk management' chapter.

Write-offs

When a client cannot recover from payment arrears, their home is foreclosed and the residual debt is written off. The contractual amount outstanding on financial assets that were written off during 2018 but are still subject to enforcement activity, was EUR 75 million (2017: EUR 88 million).

If any payments are received after the residual debt has been fully written off, these are recognised in the income statement within impairment charges.

6 Participating interests in group companies

AAHG's participating interests in group companies are:

(x EUR 1,000)		2018	2017
Quion 9 B.V.	100%	236	236
Oosteroever Hypotheken B.V.	100%	1,134	1,134
Participating interests in group companies		**1,370**	**1,370**

Quion 9 B.V. posted a profit for 2018 of EUR 8.6 million (2017: EUR 6.6 million) and Oosteroever Hypotheken B.V. posted a profit for the year of EUR 5.6 million (2017: EUR 0.5 million).

Movements in participating interest in group companies can be broken down as follows:

(x EUR 1,000)	Quion 9 B.V.	Oosteroever Hypotheken B.V.	Total
At 1 January 2017	**236**	**1,134**	**1,370**
Profit for the year	6,601	499	7,100
Interim and final dividend	-6,601	-499	-7,100
At 31 December 2017	**236**	**1,134**	**1,370**
Profit for the year	8,630	5,563	14,193
Interim and final dividend	-8,630	-5,563	-14,193
At 31 December 2018	**236**	**1,134**	**1,370**

7 Property and equipment

This item can be broken down as follows:

(x EUR 1.000)	Leasehold improvements	Equipment	Hardware	Total
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-2,070	-3,577
At 1 January 2018			**786**	**786**
Depreciation			-529	-529
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-2,599	-4,106
At 31 December 2018			**257**	**257**

Property and equipment is depreciated using the straight-line method based on an estimated useful life of between three and five years.

(x EUR 1,000)	Leasehold improvements	Equipment	Hardware	Total
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-1,298	-2,805
At 1 January 2017			**1,558**	**1,558**
Depreciation			-772	-772
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-2,070	-3,577
At 31 December 2017			**786**	**786**

8 Other assets

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Receivables from group companies	2,715,002	1,783,318
Cash in transit	275,605	657,512
Trade receivables	33,412	42,215
Current account with insurers	4,344	2,345
Deferred tax assets		578
Other receivables	345,319	15,278
Other assets	**3,373,682**	**2,501,246**

All receivables have a remaining term to maturity of less than three months except for other receivables. Other receivables have a remaining term to maturity of between three months and one year.

Receivables from group companies mainly consist of receivables from subsidiaries.

Cash in transit mainly consists of mortgage loans for which civil-law notaries have not yet provided formal feedback on the execution of the mortgage loan.

9 Prepayments and accrued income

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Accrued interest		7
Prepaid expenses	1,845	1,764
Prepayments and accrued income	**1,845**	**1,771**

All prepayments and accrued income have a remaining term to maturity of less than three months, qualifying them as current assets.

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10 Due to banks

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
- Due to ABN AMRO - Funding	142,489,352	144,938,016
- Due to ABN AMRO - Bank accounts	2,581,047	2,016,369
- Due to group companies	388,431	195,749
Due to banks	**145,458,830**	**147,150,134**

ABN AMRO provides AAHG (including her subsidiaries) with funding to issue mortgage loans, AAHG transfers a part of the funding to its subsidiaries (EUR 4.0 billion). The contractual term to maturity of this funding runs until the date of cancellation of the funding agreement. As of the date of cancellation of all or part of the funding, AAHG may request further drawings under all or part of the funding agreement to be cancelled until six months after the cancellation date. After this date, no further drawings may be requested under all or part of the funding agreement. This is referred to as the cut-off date.

The expected maturity of this funding is in line with the average interest maturity of the mortgage loans. The interest paid on funding is at arm's length. The required funding is reassessed every month.

The item 'due to ABN AMRO – Bank accounts' in the table above concerns the overdraft in the intercompany account with ABN AMRO. The term to maturity of this debt is less than three months, so that it qualifies as current.

The item 'due to group companies' is payable on demand.

11 Due to customers

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Bank savings deposits linked to mortgages	2,183,225	2,011,013
Bank savings deposits not linked to mortgages	14,613	19,249
Savings deposits not linked to mortgages	126,788	159,741
Premium deposit accounts	21,890	27,216
Due to customers	**2,346,516**	**2,217,219**

The bank savings deposits are linked to mortgage loans, which means that customers cannot demand their immediate payment. The bank savings deposits linked to mortgages qualify as non-current liabilities; of the total amount, EUR 6.0 million has a term to maturity of less than five years (2017: EUR 4.0 million).

The bank savings deposits not linked to mortgage loans are due to customers and qualify as current liabilities.

The savings deposits not linked to mortgage loans are due to insurers and qualify as current liabilities.

Customers use premium deposit accounts to pay future premiums for their mortgage loans. The largest part of the premium deposit accounts (EUR 20.2 million) has an insurer as the counterparty; the remaining part of the premium deposit accounts has a consumer as the counterparty. Of the premium deposit accounts, EUR 1.4 million has a term to maturity of less than three months (2017: EUR 3.0 million). None of the premium deposit accounts has a term to maturity of between three months and one year (2017: EUR 0). The remaining part of the premium deposit accounts qualifies as non-current.

12 Other liabilities

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Due to SPEs	18,095,799	27,049,789
Dividends payable	918,596	900,078
Due to group companies	2,489,496	1,677,438
Trade payables and cash in transit	115,872	65,460
Current account with insurers	558,420	465,890
Other liabilities	25,327	39,499
Other liabilities	**22,203,510**	**30,198,154**

Due to SPEs

The legal title to the securitised mortgage loans has been transferred to the SPEs. Since AAHG retained the economic benefits and substantially all risks associated with the mortgage loans, AAHG continued to recognise the securitised mortgage loans in its statement of financial position. In the process of transferring the legal title to the securitised mortgage loans, the SPEs paid the transaction price to AAHG. Since the associated mortgage loans are still recognised by AAHG, a debt to SPEs has been recognised.

This liability is based on the amortised cost and term to maturity of the securitised mortgage loans. For an overview of the remaining contractual terms to maturity of the total portfolio, see the 'Risk management' chapter (liquidity risk).

The remaining contractual term to maturity of the other liabilities, excluding amounts due to SPEs, is less than three months; they qualify as current liabilities as a result.

The item 'due to group companies' mainly consist of liabilities to subsidiaries.

13 Accruals and deferred income

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Advance mortgage receivables	60,108	84,739
Interest payable	65	81
Accounts payable	26,822	26,598
Mortgages payable	10,464	61,474
Tax payable	310,374	315,795
Accruals and deferred income	**407,833**	**488,687**

All accruals and deferred income have terms to maturity of between three months and one year, qualifying them as current liabilities.

14 Provisions

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Legal provisions	95,341	94,005
Other provisions	2,293	15,762
Provisions	**97,634**	**109,767**

The level of the provision is determined based on the best estimate of the expenditure required to settle the obligations and losses at the reporting date. Unless indicated otherwise, provisions are measured at present value. No provision has been recognised if the expenditure required to settle the obligation cannot reliably be estimated.

Euribor

ABN AMRO has sold mortgage loans with floating, often Euribor-based, interest rates to consumers. A margin charge is included in this rate. Based on the applicable terms and conditions ABN AMRO has the right to unilaterally adjust the margin charge. After ABN AMRO increased the margin charge in 2012, two class actions, on top of multiple individual cases, were brought against ABN AMRO. The central question is whether the right contained in the terms and condition that ABN AMRO can unilaterally adjust the margin charge is an unfair contractual clause.

ABN AMRO has lost the class action cases in two instances and decided to appeal to the Supreme Court of the Netherlands (Hoge Raad). The last documents for the appeal process were filed end of August 2018. The advice of the Procurator General (PG) was issued on 5 April 2019. The PG described in detail the role of transparency in the unfairness test of general conditions. The main argument made by the bank was that the Amsterdam Court did not take into account all relevant aspects for the unfairness test. This was confirmed by the PG, who advises the Supreme Court of the Netherlands to refer the case to a court of appeal for consideration. A judgement of the Supreme Court of the Netherlands is expected in July 2019.

Movements in provisions can be broken down as follows:

(x EUR 1,000)	Legal	Deferred tax liabilities	Other	Total
At 1 January 2017	**47,929**	**1,337**	**23,337**	**72,603**
Increase in provisions	43,104		1,670	44,774
Utilised during the year	-2,754		-1,532	-4,286
Release in provisions	-965	-1,337	-7,388	-9,690
Accretion of interest	6,366			6,366
At 31 December 2017	**93,680**		**16,087**	**109,767**
Increase in provisions	1,502		624	2,126
Utilised during the year	-7,059		-479	-7,538
Release in provisions	-206		-13,939	-14,144
Accretion of interest	7,424			7,424
At 31 December 2018	**95,341**		**2,293**	**97,634**

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15 Equity

This item can be broken down as follows:

(x EUR 1,000)	Paid-up and called-up capital	Other reserves	Total
At 1 January 2017	**19**	**5,000**	**5,019**
Profit for the year		915,822	915,822
Interim and final dividend		-900,078	-900,078
At 31 December 2017	**19**	**20,744**	**20,763**
Impact of IFRS 9 through equity		-15,744	-15,744
Profit for the year		918,596	918,596
Interim and final dividend		-918,596	-918,596
At 31 December 2018	**19**	**5,000**	**5,019**

The other reserves concern a required minimum amount under the Dutch Financial Supervision Act (EUR 5 million).
The application of prudential and liquidity requirements on an individual basis has been waived in accordance with Articles 7 and 8 of Regulation (EU) No 575/2013 and Decisions 2014/308977 (for a.) and 2014/309003 (for b.) of the Dutch Central Bank (DNB) of 1 April 2014.

Proposed profit appropriation

The Managing Board proposes to distribute the profit for the year of EUR 918,595,986 in the form of dividend.

16 Irrevocable commitments

Construction facilities are recognised together with Irrevocable Payment Commitment (IPC) related to the European Single Resolution Fund (SRF) and mortgage offers as irrevocable commitments. The construction facilities amounted to EUR 2.5 billion in 2018 (2017: 2.2 billion). Mortgage offers stood at EUR 1.5 billion (2017: 2.3 billion). IPC were EUR 8.1 million (2017: 3.4 million).

17 Off-balance commitments and contingent liabilities

Special-purpose entities

ABN AMRO uses securitisations for its funding and capital management. In this process, AAHG sells financial assets (mortgage loans) to SPEs, which – for their part – issue notes to investors. The SPEs are separate legal entities. Since AAHG retained the economic benefits and substantially all risks associated with the mortgage loans, AAHG continued to recognise the securitised mortgage loans in its statement of financial position.

Claims

AAHG operates in a legal and regulatory environment that exposes it to considerable litigation risks. As a result, AAHG is involved in legal proceedings, arbitration, regulatory procedures and investigations in the Netherlands.
Provisions are formed for claims when it is probable that an outflow of resources will follow and this outflow can reasonably be estimated. For further details, see Note 14 'Provisions'.

18 Remuneration of Supervisory Board and Managing Board

Two members of the Supervisory Board qualify as employees of ABN AMRO and are unremunerated for there role as Supervisory Board member. The chair of the Supervisory Board is no longer an employee. He has, however, been engaged by ABN AMRO as an external advisor and is paid by ABN AMRO. The total remuneration of the members of the Managing Board was EUR 877,243 in 2018 (2017: EUR 690,142).

The loans AAHG had granted the incumbent members of the Managing Board and the Supervisory Board, and the related interest rates, were as follows on 31 December 2018:

(x EUR 1,000)	2018	Average interest rate (%)	2017	Average interest rate (%)
Loans to members of Managing Board	2,016	2.1	1,773	2.1
Loans to members of Supervisory Board	1,549	2.4	2,888	2.3
Outstanding loans	**3,565**		**4,661**	

In 2018, the members of the Managing Board repaid EUR 41,855. The members of the Supervisory Board repaid EUR 256,900.

19 Net interest income

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Interest received on mortgage loans	4,431,449	4,901,753
Interest paid on funding	-3,085,563	-3,565,942
Portfolio-related net interest income	1,345,886	1,335,811
Other interest income	1,131,069	1,456,206
Other interest expense	-965,715	-1,334,334
Non-portfolio-related net interest income	165,354	121,872
Net interest income	**1,511,240**	**1,457,683**

Other interest income mainly concerns interest from deposits. Other interest expense mainly concerns amount due to SPEs. If a customer falls behind on their mortgage loan (> 90 days), interest income is no longer recognised in the income statement.

20 Fee and commission income

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Service fees	6,943	6,781
Collection fee	57	64
Other fee and commission income	1,764	2,754
Fee and commission income	**8,764**	**9,599**

Fee and commission income mainly concerns management fees for services provided to third parties.

21 Other operating income

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Reimbursements received from SPEs	9,177	11,097
Other operating income	5,510	9,345
Other operating income	**14,687**	**20,442**

Other operating income mainly concerns reimbursements of costs, charged to the SPEs for services provided to them.

22 Personnel expenses and other general and administrative expenses

This item can be broken down as follows:

(x EUR 1,000)	2018	2017
Personnel expenses	60,411	60,991
Housing, office and IT expenses	16,932	22,517
Services provided by third parties	55,836	64,673
Portfolio expenses	79,565	67,303
Selling and advertising expenses	1,645	2,045
Other expenses	101,950	101,843
Personnel expenses and other general and administrative expenses	**316,339**	**319,373**

At 31 December 2018, 947 people (FTEs) were directly involved in managing the mortgage portfolio (2017: 930 FTEs). A number of them are employees of ABN AMRO and ABN AMRO recharges the costs associated with employing them to AAHG on a monthly basis. External hires are on the payroll of third parties. AAHG does not have any employees of its own. The decrease in personnel expenses was mainly due to lower termination benefits.

Other expenses mainly comprise advisory fees, operating expenses and statutory levies, such as bank tax and the levies related to the European Single Resolution Fund (SRF).

Banks operating in the Netherlands are liable to bank tax. There are two bank tax rates: a rate of 0.044% for current liabilities and a rate of 0.022% for non-current liabilities. In addition, banks governed by the Single Resolution Mechanism Directive are expected to contribute to the resolution fund that is administrated by the Single Resolution Board (SRB) of Brussels, Belgium. The purpose of the resolution fund is to facilitate an effective resolution toolkit. The SRB determines a bank's contribution based on its risk-weighted total assets (less a number of deductible items).

23 Other operating expenses

This item can be broken down as follows:

(x EUR 1,000)	**2018**	2017
Other operating expenses	1,088	249
Other operating expenses	**1,088**	**249**

Other operating expenses consist of such costs as servicing fees paid. In 2018, this item also included the result of the sale of AAHG Germany's porfolio.

24 Impairment charges on financial instruments

This item can be broken down as follows:

(x EUR 1,000)	**2018**	2017
Change in impairments	15,589	-31,419
Recovery and other	-19,670	-24,305
Impairment charges on financial instruments	**-4,081**	**-55,723**

25 Income tax expense

This item can be broken down as follows:

(x EUR 1,000)	**2018**	2017
Income tax expense	316,413	314,331
Income tax expense	**316,413**	**314,331**

Fiscal unity for corporate income tax purposes

ABN AMRO forms a fiscal unity for corporate income tax purposes. Each member of the fiscal unity bears joint and several liability for the income tax payable by the fiscal unity. Given that ABN AMRO remits tax to the tax authorities, taxes are recognised through AAHG's intercompany account with ABN AMRO in the statement of financial position.

Corporate income tax is due at the highest rate of 25% (2017: 25%). The effective tax rate is 25.6% (2017: 25.6%). No corporate income tax is due on the annual bank tax. The corporate income tax due on the German portfolio is determined based on German regulations.

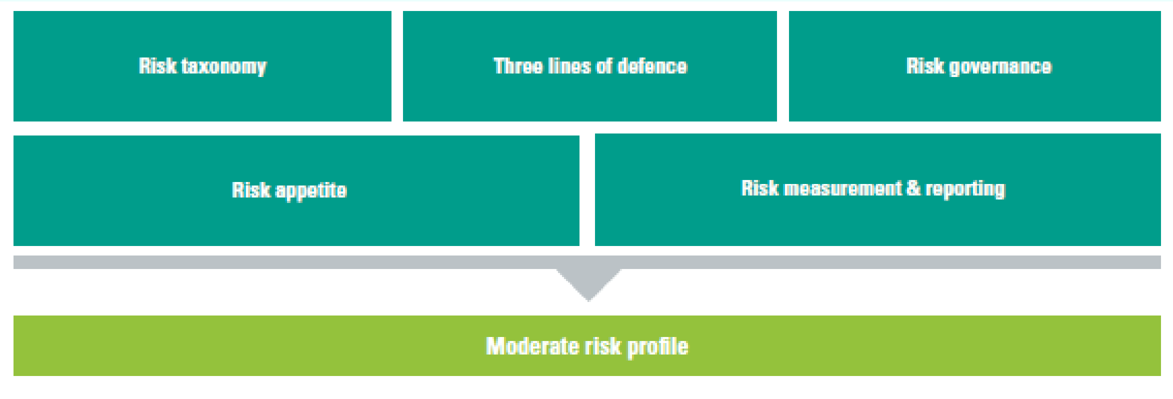
26 Events after the reporting date

The final status of the Euribor issue is addressed in Note 14, Provisions.

Risk management

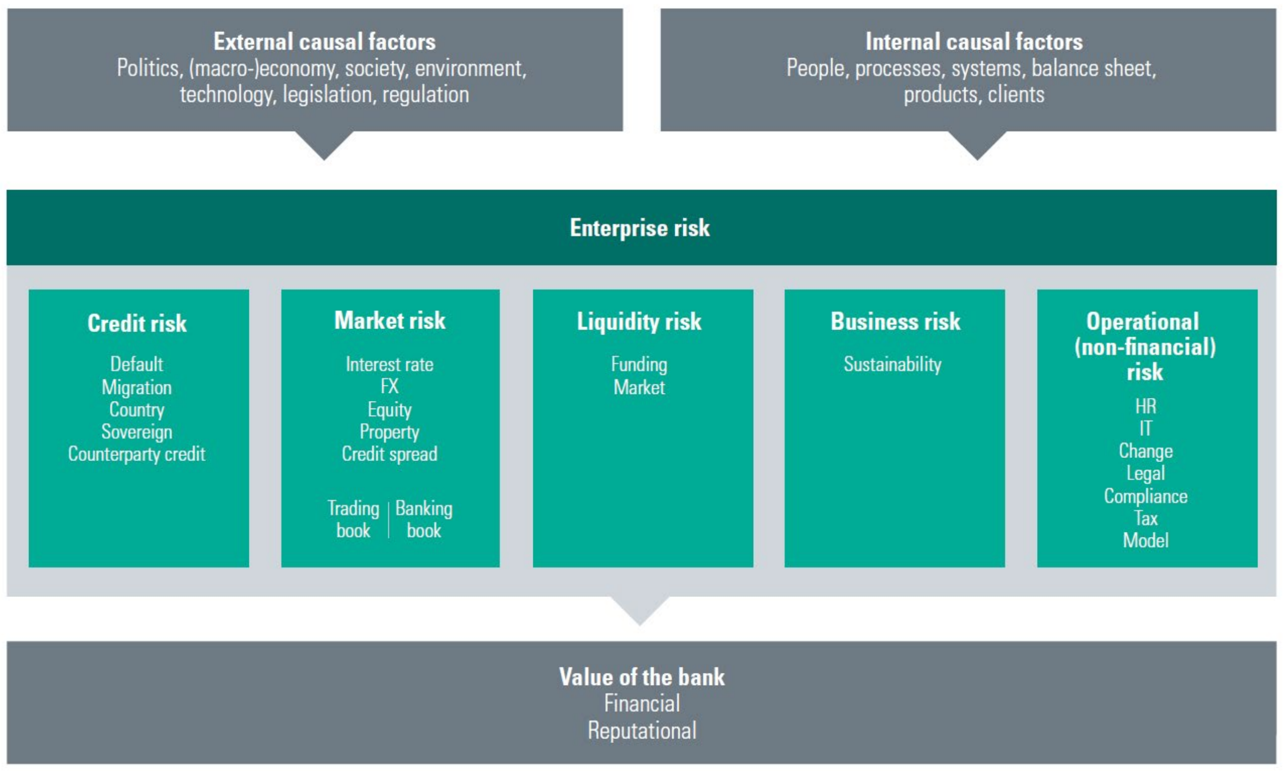
Strategy

ABN AMRO's strategy explicitly states that we pursue a moderate risk profile. In order to keep the risk profile at a moderate level, the following structure has been created for ABN AMRO, which applies to AAHG as well.



Within the **risk taxonomy**, risks are classified by risk types that might occur within ABN AMRO and its subsidiaries. The purpose of the risk taxonomy is to facilitate effective and efficient risk management in order to create uniformity within the Group that will help to manage all material risks and identify roles and responsibilities.

Risk taxonomy



The principal risks AAHG incurs are:

- Credit risk
- Operational risk
- Market risk (specifically interest rate risk)
- Liquidity risk

The **three-lines-of-defence** principle consists of a clear division of activities and responsibilities in risk management at different levels within AAHG and at different stages in the lifecycle of risk exposures.

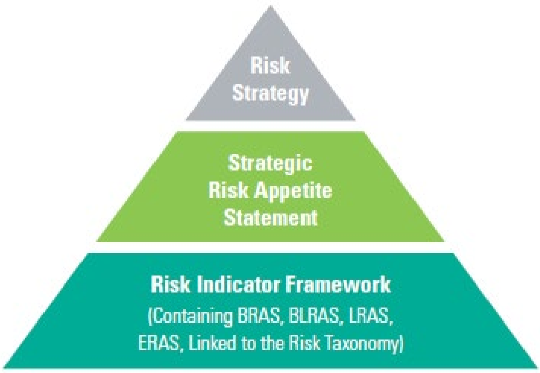
The three-lines-of-defence principle ensures that the people who work for AAHG know what is expected of them in terms of ownership and risk awareness. AAHG operates in the first line of defence (LoD) and is responsible for risk ownership. The three-lines-of-defence principle is summarised in the following figure.

The **Risk Governance Charter** defines ABN AMRO's risk governance and decision framework (delegated authorities and mandates). The Risk Governance Charter is in place to support efficient and effective risk control management throughout, and at all levels of, the bank. The Risk Management function operates under the direct responsibility of the Chief Risk Officer, who is a member of the Executive Board of ABN AMRO. The Executive Board of ABN AMRO has overall responsibility for the risks that ABN AMRO and its subsidiaries incur. AAHG operates within the framework described in the Risk Governance Charter.

Risk appetite refers to the risk level that AAHG is prepared to accept in order to reach the strategic targets; our goal is to ensure a moderate risk profile.

Within AAHG and ABN AMRO, risks are addressed at various levels; the Supervisory Board of ABN AMRO receives risk reports on a monthly basis. As soon as a risk factor approaches or exceeds a limit, actions are defined and approved in accordance with the policy. AAHG has an Audit & Risk Committee, which is a sub-committee of the Supervisory Board. The risk report is discussed within this committee on a quarterly basis.

Risk appetite framework



The statements in the strategic risk appetite statement (RAS) are cascaded into an underlying risk indicator framework at bank, business line, entity and country level. This risk indicator framework consists of statements set for each main and sub-risk type presented in the risk taxonomy. Each statement consists of one or more quantitative and/or qualitative indicators, which are referred to as key risk indicators (KRIs). For every KRI, a limit is set against which the actual risk profile is monitored. If the limit of a KRI is breached, action is required to bring the risk profile back within the limit. To allow for timely action, early warning tools are in place to prevent breaches.

Risk measurement

ABN AMRO develops and uses internal models to quantify the risk for most risk types in the risk taxonomy. The models for credit, operational, market and liquidity risk are most widely used and allow for measuring the level of risk. They support day-to-day decision-making as well as periodic monitoring and reporting on developments in the bank's portfolios and activities. In most cases, models quantify the probability and severity of an event, i.e. the likelihood that an event occurs and the loss the bank may suffer as a consequence of that event. This serves as the basis for ABN AMRO's internal measures of risk (economic capital) and forms key input for the calculation of the minimum regulatory capital requirements according to the Basel framework (regulatory capital).

New models first require formal internal and external approval before implementation and use is allowed. Internal approval for the (continued) use of a model is obtained from the Methodology Acceptance Group (MAG), a sub-committee of the Group Risk Committee. When required, external approval is obtained from the relevant regulator.

The modelling departments develop the models in close cooperation with business and risk experts from AAHG. In principle, the models are reviewed annually. This means that the models are back-tested against historical data and, where relevant, are benchmarked against external studies.

The independent Model Validation Department validates all internal models. Validation guidelines ensure objectivity, consistency, transparency and continuity. Models are validated according to these principles and reviewed against internal and regulatory requirements.

Credit risk

The mortgage portfolio decreased by 0.5%. The NHG-guaranteed proportion of the residential mortgage portfolio decreased further to 24% at 31 December 2018 (31 December 2017: 25%). The proportion of redeeming mortgages increased to 30% of the mortgage portfolio at 31 December 2018 (31 December 2017: 25%).

Breakdown of mortgage loans by type of loan

(x EUR 1,000)	2018	%	2017	%
Interest-only	66,609,495	48	69,822,136	50
Redeeming mortgages (annuity / linear)	41,301,756	30	34,744,180	25
Savings	15,246,493	11	17,278,286	12
Life (investment)	10,634,413	8	12,171,573	9
Other	4,709,383	3	5,234,034	4
At 31 December	**138,501,540**	**100**	**139,250,210**	**100**

The proportion of new mortgage production backed by NHG guarantees remained low (15% in 2018 versus 14% in 2017). Due to rising housing prices, the average purchase price of a house still exceeded the NHG limit. This resulted in fewer mortgages being eligible for a NHG guarantee in 2018.

Mortgages to indexed market value

(x EUR 1,000)	2018	%	2017	%
Government-guaranteed mortgages (NHG)	33,624,781	24	35,141,463	25
< 50%	30,989,092	22	26,038,103	18
50% - 80%	47,458,089	34	41,660,987	30
80% - 90%	15,093,653	11	15,306,723	11
90% - 100%	8,949,649	7	13,363,430	10
> 100%	2,386,276	2	7,739,506	6
At 31 December	**138,501,540**	**100**	**139,250,210**	**100**

AAHG's credit risk on NHG loans is minimised because of the government guarantee. As a mortgage lender, AAHG incurs a risk of 10% under the scheme of government-guaranteed mortgage loans granted with effect from 1 January 2014. Government guarantees expire in equal instalments.

Rising housing prices and restrictions on the maximum Loan to Market Value (LtMV) for new mortgages led to a further improvement of the average LtMV, both guaranteed and unguaranteed. Approximately 9% of the extra repayments relate to mortgages with an LtMV > 100%.

The gross carrying amount of mortgages with an LtMV above 100% decreased further to EUR 2.4 billion (31 December 2017: EUR 7.7 billion). Please note that LtMVs in excess of 100% do not necessarily indicate that the related clients are in financial difficulties. However, AAHG actively approaches clients with interest-only loans in combination with high LtMV levels and recommends that they adjust their mortgage. The long-term LtMV of the bank's portfolio is expected to decrease further as a result of the regulatory reduction in the maximum LtMV on mortgage loans, rising housing prices, extra repayments and current tax regulations.

The current market value is determined by applying periodic indexation to the market value as specified in the valuation report. The indexation is based on the figures of Statistics Netherlands (CBS).

Mortgage indicators

(x EUR 1,000)	2018	2017
Gross carrying amount	138,501,540	139,250,210
- of which guaranteed mortgages (NHG)	33,624,781	35,141,463
Credit quality indicators		
Past due ratio	1.3%	1.6%
Stage 3 Impaired ratio*	0.5%	0.7%
Stage 3 Coverage ratio*	10.0%	10.9%
Mortgage indicators		
Average LtMV (indexed)	64%	70%
Average LtMV - excluding NHG loans (indexed)	62%	67%
Total risk mitigation/gross carrying amount	154%	130%
Cost of risk (year to date, in bps)	0	-3

In this table all percentages are ABN AMRO Group N.V. figures

** The 31 December 2017 amounts are based on IAS 39 figures, which is why no stage-related information is available. The impaired ratio at 31 December 2017 has been compared with the IFRS 9 stage 3 ratio, as the assets that were impaired under IAS 39 are classified as stage 3 under IFRS 9. The IAS 39 coverage ratio was calculated by dividing the amount of the allowances by the impaired exposure. Therefore, the IFRS 9 equivalent of this ratio is the stage 3 coverage ratio.*

Credit quality indicators remained positive in line with the performance of the Dutch economy and the Dutch housing market.

AAHG incurs credit risk as a result of the estimated credit rating of the customer when granting a mortgage loan in relation to the customer's compliance with its payment obligations.

AAHG's credit risk is managed based on a bank-wide credit risk policy and a detailed credit risk policy for mortgage loans. Management is responsible for managing and monitoring the credit risk (first line of defence). The business identifies, assesses, monitors and reports potential and actual credit risk losses within the defined credit risk framework. Credit risk is monitored on an ongoing basis to ensure credit risk developments remain within the set limits of the risk appetite.

AAHG's credit risk showed positive developments over the past year due to economic growth and lower interest rates. In 2018, the housing market was characterised by high transaction volumes and significantly higher house prices (9.0%) than in the previous year. Customers with payment arrears are transferred to our collection partners, who help to identify the root cause of the payment problem and, if possible, resolve these problems.

Uncollateralised portions of mortgage loans

(x EUR 1,000)	2018	2017
Due from customers	138,416,318	139,135,091
Collateral value	211,169,814	178,762,556
Collateral bank savings	2,183,080	2,010,105
Other guarantees (e.g. NHG)	1,159,792	3,916,670
Surplus value of collateral	-78,948,395	-54,290,637
At 31 December	**2,852,027**	**8,736,398**

The uncollateralised portions of loans in the mortgage portfolio decreased as a result of rising housing prices and increases in savings.

Uncollateralised portions of credit-impaired mortgage loans (>90 days and covered by an impairment)

(x EUR 1,000)	2018	2017
Credit-impaired portfolio	690,018	870,506
Collateral value	825,499	859,119
Collateral bank savings	6,771	6,320
Other guarantees (e.g. NHG)	7,252	30,062
Surplus value of collateral	-206,298	-136,762
At 31 December	**-56,794**	**-111,768**

The uncollateralised portions of the credit-impaired portfolio show a similar trend to that in the total mortgage portfolio. This is due to the improved economic circumstances in the Netherlands.

A financial asset is past due if a counterparty fails to make a payment on the contractual due date or if the counterparty has exceeded an agreed limit. AAHG measures days past due regardless of the amount.

Breakdown of past due mortgage loans (<90 days)

(x EUR 1,000)	2018	2017
Mortgages	138,501,540	139,250,210
-of which not past due	136,318,825	136,886,080
Breakdown by days past due:		
≤ 30	1,929,470	2,195,701
> 30 & ≤ 60	178,392	145,920
> 60 & ≤ 90	74,853	22,508
At 31 December	**2,182,715**	**2,364,130**

Past due mortgages are still developing positively overall.

Forbearance

Forbearance is the process of making concessions to clients who are or are about to experience financial difficulty, with the intention of restoring their financial health. A forborne asset is any contract that has been entered into with a counterparty that is in, or about to face, financial difficulty, and that has been refinanced or modified to include terms and conditions we would not have accepted had the counterparty been financially sound (concession).

Forbearance measures can be applied to contracts on which the counterparty has already defaulted, as well as to contracts that are still performing.

A contract will cease to qualify as forborne only when all the following conditions have been met:

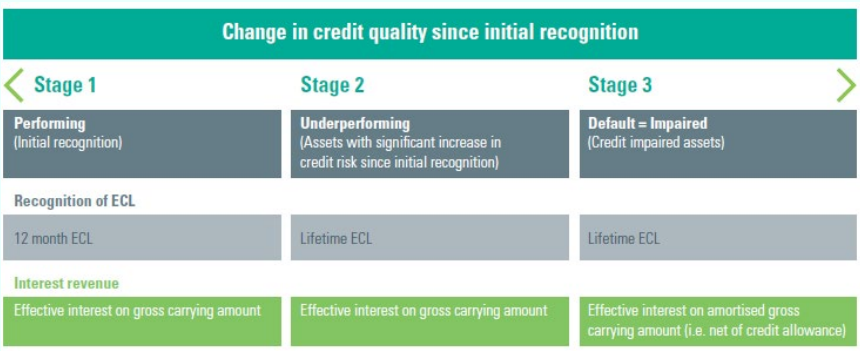
- The contract is considered performing;
- A minimum probation period of two years has elapsed from the date the contract started to qualify as performing;
- Regular payments of more than an insignificant amount of the principal or interest have been made during at least half of the probation period;
- The counterparty does not have any contract, within the credit agreement, which is more than 30 days past due at the end of the probation period.

If the forborne contract is or has become non-performing at the time of the forbearance measure, a mandatory cure period of at least one year applies to the contract before it is returned to performing status. The cure period starts when the contract becomes non-performing or, if the contract was already non-performing, when the last forbearance measure was taken. For information about non-performing loans, see the end of this section. Non of the forbearance measures or other modification resulted in a derecognition event.

(x EUR 1,000)	**2018**	2017
Total forborne assets	661,348	1,074,816
Forborne assets not past due and not stage 3	259,119	552,330
Forborne assets past due but not stage 3	83,495	138,934
Impaired forborne assets	318,733	383,552
Allowance (collective)	24,675	38,258

Credit loss allowances

As of 1 January 2018, AAHG had recognised loss allowances based on the expected credit loss model (ECL) of IFRS 9, which is designed to be forward-looking. The IFRS 9 impairment requirements are applicable to financial assets measured at amortised cost, loan commitments and financial guarantee contracts. These financial instruments are divided into three groups, depending on the stage of credit quality deterioration:



Stage triggers

To determine whether a financial instrument should be classified as stage 1 or stage 2, ABN AMRO uses quantitative and qualitative stage triggers.

Quantitative stage trigger

The key quantitative metric determining when a financial instrument is transferred from stage 1 to stage 2 is the deterioration of the lifetime probability of default (LPD) from the date of origination to the reporting date. The LPD represents the likelihood that a counterparty will default during the lifetime of the financial instrument and depends on credit risk drivers such as product characteristics (e.g. repayment and interest terms, term of the product), the financial condition of the borrower, the number of days past due and future developments in the economy. If the LPD deterioration of a counterparty is above a modelled portfolio threshold, the counterparty is transferred from stage 1 to stage 2. Due to limitations in the availability of historical data, ABN AMRO currently uses a 12-month PD proxy for LPD as we consider the 12-month PD as an appropriate proxy for LPD.

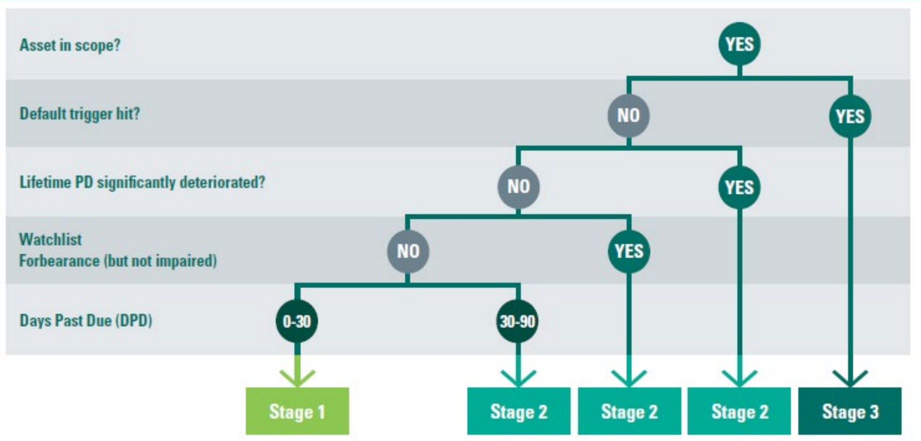
Qualitative stage triggers

When a financial instrument meets one of the following qualitative triggers, the bank transfers the instrument from stage 1 to stage 2:

- Forborne status of a borrower;
- More than 30 days past due, based on number of instalments past due.

A transfer to stage 3 will always be the result of the default on a financial instrument . A default is considered to have occurred when one of the default triggers (e.g. unlikely-to-pay (UTP), distressed debt restructuring, bankruptcy or fraud) has been hit. In addition, 90 days past due is used as a backstop for default. Please note that our definitions of the concepts of ‘default’ and ‘impaired’ have been aligned.

The staging model can be summarised as follows:



Favourable changes in credit risk are recognised consistently with unfavourable changes in credit risk, except when applying a probation period for financial instruments that are forborne or more than 30 days past due. Forborne financial instruments are only transferred back from stage 2 to stage 1 after a two-year probation period. Stage 3 forborne instruments are transferred back to stage 2 consistently with other defaulted instruments. A three-month probation period is applied for transfers of 30 days past due financial instruments from stage 2 to stage 1.

Calculation method

The amount of expected credit loss allowances is based on the probability-weighted present value of all expected cash shortfalls over the remaining life of the financial instrument for exposures both presented and not presented in the statement of financial position. AAHG calculates credit loss allowances on a collective basis. Collective 12-month ECL (stage 1) and LECL for (stage 2 and 3) financial instruments that have similar credit risk characteristics are clustered into segments and collectively assessed for impairment losses (see the section entitled 'Quantitative stage triggers'). A collective impairment calculation approach based on individual parameters is applied. ABN AMRO has introduced new models to quantify the Probability of Loss (PL), Loss Given Loss (LGL) and Exposure at Loss (EAL) for calculating the collective 12-month ECL and LECL for these financial instruments. While the credit loss allowance is collectively determined for these assets, the stage is determined per individual financial instrument.

ABN AMRO defines the lifetime as the maximum contractual period over which the bank is exposed to credit risk. This will not stretch beyond the maximum contractual period, even if a longer period is consistent with business practices.

Forward-looking information

Three different scenarios of future economic developments are incorporated into the IFRS 9 expected credit loss calculation and the probability-weighted risk stage determination (at 31 December 2018: baseline 60%, up 15%, down 25%). These scenarios are developed by ABN AMRO Group Economics at least quarterly and reviewed at each reporting date. The 28 macroeconomic variables (e.g. GDP, unemployment rate, housing price index) forecast by ABN AMRO Group Economics that are used for the expected credit loss calculation are chosen per specific segment and based on statistical relevance, such as credit risk drivers and expert judgement of the business. ABN AMRO has aligned its forward-looking scenarios with those used in the budgeting process. Specific forecasts of macroeconomic variables are made for two to three years; subsequent periods are gradually aligned to the long-term average.

Coverage ratio

(x EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	135,288,666	2,522,856	690,018	138,501,540
Allowances for credit losses	15,093	12,279	59,372	86,744
Coverage ratio	0.0%	0.5%	8.6%	
Stage ratio	97.7%	1.8%	0.5%	

Credit quality by internal rating scale mapped to stages

The probability of default (PD) shows the likelihood that a counterparty will default within a one-year time horizon. For Program Lending portfolios products with the same characteristics are pooled and a PD is assigned to each pool and expressed as an internal uniform counterparty rating (UCR).

(x EUR 1,000)	PD scale	UCR range	Stage 1	Stage 2	Stage 3	Total
Investment grade	0.0000% - < 0.0346%	1	8,896,015	259		8,896,274
	0.0346% - < 0.1265%	2	57,400,192	5,087		57,405,279
	0.1265% - < 0.4648%	3	53,613,589	54,530		53,668,119
Sub-investement grade	0.4648% - < 2.2249%	4	12,326,821	321,606		12,648,427
	2.2249% - < 19.9706%	5	2,933,937	1,952,763		4,886,700
	19.9706% - < 100%	6+	118,113	188,610		306,723
Default	100%	6 - 8			690,018	690,018
Total	**Total**		**135,288,667**	**2,522,855**	**690,018**	**138,501,540**

Concentration risk on ABN AMRO deposits

No collateral has been secured for the deposits held with ABN AMRO (2018: EUR 22.0 billion; 2017: EUR 33.1 billion). Partly in view of the net debt exposure to ABN AMRO and the statement of joint and several liability received from ABN AMRO, the risk incurred by AAHG qualifies as minor.

Of deposits held with ABN AMRO Bank N.V., none has a term to maturity of less than three months (2017: EUR 0). EUR 4.5 billion relates to deposits with a term to maturity of between three months and one year (2017: EUR 5.5 billion) and EUR 15.5 billion to deposits with a term to maturity of between one year and five years (2017: EUR 24.0 billion). The remaining amount relates to deposits with a term to maturity of more than five years. The average interest rate on the deposits is 0.4% (2017: 0.4%).

Maximum credit risk

The maximum credit risk that AAHG incurred was EUR 174.5 billion (2017: EUR 184.6 billion), consisting of EUR 138.5 billion in mortgage loans (2017: EUR 139.2 billion), EUR 22.0 billion in ABN AMRO deposits (2017: EUR 33.1 billion), EUR 10.0 billion in other assets (2017: EUR 7.8 billion) and EUR 4.0 billion in irrevocable commitments (2017: EUR 4.5 billion).

Operational risk

Running a mortgage business means incurring operational risks. Operational risk is the risk of losses due to inadequate or incorrect internal processes, caused by people, systems or the external environment.

AAHG has a framework in place to help prevent and manage operational risks on a consistent basis. This framework, which is used bank-wide within ABN AMRO, has seen further improvements over the past few years.

Managers are responsible for managing operational risks. They are facilitated by the ABN AMRO risk management framework. Various levels within AAHG and ABN AMRO periodically report on the operational risk and the measures taken to minimise it. The risks are documented using the ABN AMRO registration system.

AAHG has an Information Security Officer who is responsible for ensuring the proper implementation of, and compliance with, the ABN AMRO information security and business continuity policies.

Market risk

Market risk is the risk of the market value of the mortgage portfolio or the earnings of AAHG falling because of unfavourable market developments. The market risk of the mortgage portfolio consists predominantly of interest rate risk.

The main sources of interest rate risk related to the mortgage portfolio are the maturity mismatch between the mortgages (assets) and their funding (liabilities), including those resulting from the differences in actual versus predicted client behaviour.

AAHG has a funding agreement with ABN AMRO to finance the mortgage loans issued. AAHG pays ABN AMRO a funds transfer price (FTP) for financing the mortgage loans. The FTP is considered an at arm's length funding price that makes allowance for interest rate risk and liquidity risk stemming from the mortgage contracts. For this reason, as part of this agreement, market-risk-type interest rate risk, related to such aspects as client behaviour, is hedged by AAHG via the agreement with ABN AMRO.

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The interest maturities of the mortgage portfolio, including the related weighted average interest rates, can be broken down as follows:

(x EUR 1,000)	**2018**	**%**	2017	%
Short-term (less than 3 months)	8,413,863	2.1	9,268,523	2.4
Long-term (between 3 months and 1 year)	6,146,252	3.6	8,985,589	3.9
Long-term (between 1 and 5 years)	24,875,646	3.8	29,227,348	4.1
Long-term (more than 5 years)	99,065,779	2.9	91,768,749	3.2
At 31 December	**138,501,540**		**139,250,210**	

The interest rate paid on the funding is in line with market rates.

ABN AMRO uses securitisations as a funding tool and for capital management purposes. In this process, AAHG transfers the legal title of financial assets (mortgage loans) to SPEs, which – for their part – issue RMBS notes to investors. AAHG's proceeds from the sale of financial assets (mortgage loans) to SPEs are placed in a deposit with ABN AMRO.

The maturities of the deposits related to the RMBS programmes held with ABN AMRO, including the related weighted average interest rates, can be broken down as follows:

(x EUR 1,000)	**2017**	**%**	2016	%
Short-term (less than 3 months)	0	0.0	7,636,200	1.3
Long-term (between 3 months and 1 year)	5,450,000	0.4	3,448,800	0.5
Long-term (between 1 and 5 years)	23,989,050	0.4	15,950,000	0.3
Long-term (more than 5 years)	3,678,500	0.5	13,092,550	0.3
At 31 December	**33,117,550**		**40,127,550**	

The interest rate is based on three-month EURIBOR plus a margin.

A debt to the SPEs has been recognised because AAHG retained all the economic risks and rewards associated with the mortgage loans. This debt mirrors the amortised cost and remaining contractual terms to maturity of the securitised mortgage loans.

Another key aspect of interest rate risk is the difference between actual and predicted client behaviour, mainly with respect to prepayments. ABN AMRO has developed a behavioural model to predict prepayments and penalties specifically for the risk of prepayments. Product conditions also contribute to managing the prepayment risk, e.g. by limiting annual penalty-free prepayments. Prepayment penalties are transferred to Asset and Liability Management (ALM) and are part of the FTP framework mentioned above.

The prepayment ratio has risen over the past few years, particularly due to falling interest rates. For many clients, prepayments are more cost-effective than savings and the recovery of the housing market has led to a significant increase in relocations. The expected prepayment ratio for the coming months and years is highly dependent on developments in interest rates. Although ABN AMRO expects the growth in the prepayment ratio to level out, the ratio will remain high from a historic perspective as long as interest rates remain low.

Liquidity risk

Liquidity risk is the risk that actual and potential payments or collateral posting obligations cannot be met on a timely basis, or only at excessive costs. There are two types of liquidity risk: funding liquidity risk and market liquidity risk. Similar to interest rate risk, both types of liquidity risk are centrally managed by ALM/Treasury. FTP transfers liquidity risk from AAHG to ALM/Treasury, enabling central monitoring and management.

The remaining contractual terms to maturity of the mortgage loans can be broken down as follows:

(x EUR 1,000)	2018	2017
Short-term (less than 3 months)	233,306	196,400
Long-term (between 3 months and 1 year)	170,428	190,405
Long-term (between 1 and 5 years)	1,801,013	1,810,500
Long-term (more than 5 years)	136,296,793	137,052,905
At 31 December	**138,501,540**	**139,250,210**

AAHG's proceeds from the transfer of the legal title of financial assets (mortgage loans) to SPEs are placed on deposit with ABN AMRO. The contractual term of the deposit (2018: EUR 22.0 billion; 2017: EUR 33.1 billion) corresponds to that of the RMBS notes issued by the SPEs.

AAHG has signed a loan agreement with ABN AMRO for EUR 147.5 billion. ABN AMRO has issued a statement of joint and several liability for AAHG, which means that ABN AMRO guarantees all of AAHG's obligations. ABN AMRO is not able to cancel the loan agreement with no valid reason.

Fair value

(x EUR 1,000)	2018 Carrying amount	2018 Fair value	2017 Carrying amount	2017 Fair value
Financial assets				
Cash	4,218,852	4,218,852	3,086,986	3,086,986
Loans and receivables - banks	24,507,018	24,742,623	35,457,474	36,015,334
Loans and receivables - customers	138,416,318	146,429,353	139,135,091	148,978,396
Other assets	3,373,682	3,512,870	2,501,246	2,754,871
Prepayments and accrued income	1,845	1,845	1,771	1,771
Financial liabilities				
Due to banks	145,458,830	145,458,830	147,150,134	147,150,134
Due to customers	2,333,483	2,326,729	2,217,219	2,140,104
Other liabilities	22,216,543	23,656,184	30,198,154	32,606,912
Accruals and deferred income	407,833	407,833	488,687	488,687

The fair value of current financial assets and liabilities is considered to be virtually the same as their carrying amount. The difference is of minor significance.

The fair value of financial assets and non-current liabilities is based on estimates. The estimates are based on certain assumptions regarding the term to maturity, the timing of future cash flows and the discount rate.

The fair value of the mortgage portfolio (recognised within 'Loans and advances - customers') has been determined by calculating the discounted cash flows, which are estimated based on the average of all mortgage loan interest rates, by maturity and by risk category on 31 December 2018, based on online public information. Allowance is made for an average prepayment of 10% (2017: 10%).

Securitisation

ABN AMRO uses securitisations as a funding tool and for capital management purposes. In this process, AAHG transfers the legal title of financial assets (mortgage loans) to SPEs, which – for their part – issue RMBS notes to investors.

The extent to which the underlying mortgage loans still meet the agreed criteria of a securitisation programme and whether the mortgage volume is still at the target level is determined on a monthly basis. A change in an existing mortgage loan can cause a mortgage to no longer meet the agreed criteria, which results in repurchasing the loan by AAHG. As soon as the volume of the securitised portfolio drops below the target level, AAHG will sell financial assets (i.e. mortgage loans) to SPEs in order to reach the target level.

The issued notes are shown below. Step-up date refers to the first occasion that the issuer of the notes has the opportunity to repurchase the notes. The contractual term will expire in 2099.

Margin refers to the three-month EURIBOR rate. Step-up margin refers to the margin applied if the contract is continued after the step-up date. Denomination refers to the amount per issued note.

Dolphin Master Issuer B.V.

	Isin	Step-up dates	Margin	Step-up margin	Denomi-nation	Balance 1 jan 2018	Issued 2018	Redeemed / Cancelled 2018	Balance at year-end
Series 2010-I									
Class A3	XS049557191	28 Mar 2030	1.15%	2.00%	50,000	1,000,000,000			1,000,000,000
Class A4	XS049557299	28 Mar 2040	1.15%	2.00%	50,000	1,000,000,000			1,000,000,000
Series 2013-1									
Class A2	XS097291390	28 Sep 2019	0.95%	1.90%	50,000	2,000,000,000			2,000,000,000
Series 2013-2									
Class A	XS097707316	28 Sep 2018	0.85%	1.70%	50,000	750,000,000		750,000,000	
Series 2014-1									
Class A	XS104622313	28 Sep 2019	0.75%	1.50%	50,000	2,000,000,000			2,000,000,000
Series 2014-2									
Class A	XS111320900	28 Sep 2018	0.35%	0.70%	50,000	1,700,000,000		1,700,000,000	
Series 2014-3									
Class A	XS111796165	28 Sep 2019	0.37%	0.74%	50,000	500,000,000			500,000,000
Series 2015-1									
Class A	XS119950244	28 Sep 2018	0.25%	0.50%	50,000	2,000,000,000		2,000,000,000	
Class A	XS119950279	28 Sep 2020	0.35%	0.70%	50,000	2,000,000,000			2,000,000,000
Class A	XS119950287	28 Sep 2021	0.40%	0.80%	50,000	2,000,000,000			2,000,000,000
Class A	XS119950295	28 Sep 2022	0.45%	0.90%	50,000	1,279,000,000			1,279,000,000
Series 2015-3									
Class A	XS133417087	28 Sep 2022	0.45%	0.90%	50,000	500,000,000			500,000,000
Series 2016-1									
Class A	XS138503712	28 Sep 2020	0.35%	0.70%	50,000	2,000,000,000			2,000,000,000
Class A	XS138503828	28 Sep 2021	0.40%	0.80%	50,000	2,000,000,000			2,000,000,000
Class A	XS138503879	28 Sep 2022	0.45%	0.90%	50,000	2,000,000,000			2,000,000,000
Class A	XS138503798	28 Sep 2023	0.50%	1.00%	50,000	1,678,500,000			1,678,500,000
Series 2017-1									
Class B	XS168869428	28 Sep 2022	0.50%	0.50%	50,000	550,000,000			550,000,000
Class C	XS168869479	28 Sep 2022	0.75%	0.75%	50,000	700,000,000			700,000,000
Class D	XS168869452	28 Sep 2022	1.00%	1.00%	50,000	575,000,000			575,000,000
Class E	XS168869436	28 Sep 2022	8.00%	16.00%	50,000	250,000,000			250,000,000
Total						26,482,500,000		4,450,000,000	22,032,500,000

The Goldfish securitisation programme was fully called in 2018. No new securitisation programmes were initiated in 2018.

Since AAHG retained the economic benefits and substantially all risks associated with the mortgage loans, AAHG continued to recognise the securitised mortgage loans in its statement of financial position.

Approval of Annual Financial Statements by Supervisory Board

The Supervisory Board approved these Annual Financial Statements on 7 May 2019. The Annual Financial Statements will be adopted by the General Meeting of Shareholders.

For the Managing Board

- Ms C.M. Dumas
- Mr S.L. van der Bijl
- Mr J.P. Kolk

For the Supervisory Board

- Mr J.G. ter Avest
- Ms V.E. Hart
- Ms L.M.R. Vanbockrijck

Independent auditor's report

To: the shareholders and supervisory board of ABN AMRO Hypotheken Groep B.V.

Report on the audit of the Annual Financial Statements included in the Annual Report 2018

Our opinion

We have audited the 2018 Annual financial statements of ABN AMRO Hypotheken Groep B.V. (AAHG), based in Amersfoort ('financial statements').

In our opinion the financial statements give a true and fair view of the financial position of AAHG as at 31 December 2018, and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The statutory statement of financial position as at 31 December 2018
- The statutory statement of income for 2018
- The statutory statement of cash flows
- The notes thereon comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of AAHG in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	**€60.000.000 (2017: € 60.000.000)**
Benchmark applied	**5% of operating profit before taxation (rounded)**
Explanation	**In determining the nature, timing and extent of our audit procedures, we use operating profit before tax as a basis for setting our planning materiality. We believe that this benchmark is the most important metric for the performance of AAHG.**

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of € 3.000.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our audit approach	Key observations
Credit risk on loans, note 5 of the financial statements		
As of January 2018, the IFRS 9 Financial Instruments principles for provisioning based on the expected credit losses methodology has been adopted by AAHG. AAHG voluntarily decided to implement these IFRS 9 valuation principles as allowed by Dutch GAAP. Following the Dutch GAAP requirements the attached IFRS 7 guidance for credit risk has been applied as well. The bank's assessment of significant increase in credit risk, correct stage classification and the determination of the loan impairment allowance is part of the risk estimation process, and requires significant management judgment. Key judgements include the measurement of (deteriorated) credit risks and defaulted loans, modelling assumptions used to build the models that calculate the ECL per stage, assumptions used to estimate the impact of multiple economic scenarios, post model management adjustments and the accuracy and adequacy of the related credit risk disclosures. The provision for loan losses for mortgage lending as at 31 December 2018 amounts EUR 87 million. This estimated amount is considered a significant estimation balance and considered a key audit matter for our audit. The provision for loan losses for mortgage lending is disclosed in note 5 Loans and receivables – customers of the annual financial statements. Related credit risk disclosures are included in the Risk management section of the financial statements.	We have assessed and tested the design and operating effectiveness of the controls within the mortgage collection and risk management processes, including monitoring of arrears and the period end estimation process for determining impairment allowances including the governance over the collective provisioning. As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balances to gain assurance on the transition from the historically applied incurred loss based provisioning. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on transition. We challenged the model based assumptions underlying the impairment identification and quantification including forecasts of future cure rates of clients in default and estimates of recoveries on foreclosed clients, supported by our specialists The underlying models including the Company's model approval and validation process including the elements outsourced to ABN AMRO Bank NV. Furthermore, we performed substantive and analytical procedures over data, models, impairment calculation and overlays. Finally, we assessed the completeness and accuracy of the credit risk disclosures and whether the disclosures are compliant with requirements of Dutch GAAP.	Based on our procedures performed we consider the loan impairment allowances for loans and receivables to be reasonable.

Risk	Our audit approach	Key observations
Related party transactions, note 1.5 of the financial statements		
AAHG reported its substantial related party transactions in the financial statements, providing disclosure on the nature and size of the transactions with related parties. AAHG entered into substantial transactions in terms of the funding of the lending operations, this includes regular funding transactions as well as funding operations through special purpose vehicles. Furthermore, major operations are outsourced to ABN AMRO Bank NV and Stater NV. This includes personnel, IT services and mortgage operations. These transactions are carried out at arm's length. With regards to funding, there are several judgmental and subjective elements in determining the pricing, including the dependency of AAHG with respect to the funding of the operations. These judgements and related disclosures are considered significant statements by the Company and considered a key audit matter for our audit. We also refer to the explanation about the related party transactions note 1.5 for the most important characteristics of these transactions.	We verified the completeness of the disclosure on related party transactions as well as the correctness of the disclosed information in the related party section. We evaluated the interest charges that are based on the funds transfer price methodology of ABN AMRO Bank NV and controls related to the correct application of the methodology applied for setting the term and conditions of the funding operations. We have tested the internal controls based on which monitoring of outsourced activities by AAHG takes place. With respect to the outsourced operations to Stater NV, management obtains an assurance report from Stater NV, of which have assessed the controls in the report including the if these controls sufficiently address the financial reporting risks relevant for the preparation of the financial statements of AAHG. We have assessed the outcomes of the assurance report obtained and considered the results when designing our procedures.	Based on our procedures performed we consider the transactions to be at arm's length. We consider the judgments related to the pricing to be reasonable.

Risk	Our audit approach	Key observations
Reliability and continuity of electronic data processing		
The continuity and reliability of the IT environment are crucial for AAHG's operations, and investigating usage of new technologies is vital for future growth. Additional IT challenges such as increasing data granularity in regulatory requirements urge for changes in processes, data quality and ownership. Having data directly available to clients through web applications require high security measures given the increased threat of cybercrime. It is becoming more and more important to optimize security and availability of the online services as well as the underlying IT infrastructure. During the 2018 financial closing process, AAHG works with multiple data sources and applications, resulting in risk in terms of differences between Finance and Risk data, potential intercompany differences and risks related to incorrect interpretation of data.	We tested the IT general controls related to logical access and change management and application controls relied upon for financial reporting and embedded in AAHG's key processes, including the outsourced processes. In some areas we performed additional procedures on access management and related systems. We also assessed the reliability and continuity of the IT environment and the possible impact of changes during the year either from ongoing internal restructuring initiatives or from external factors such as reporting requirements. We assessed the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the financial statements. We further assessed the major change in the IT environment and more specifically assessed whether sufficient attention is paid to data migrations and potential control implications. We performed data analytics on operational processes and assessed the impact of findings on potential financial reporting implications. We have tested the risk management data to finance data reconciliations in detail and performed follow-up procedures if appropriate.	For the audit of the financial statements we found the reliability and continuity of the automated data processing systems adequate.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Report of the Managing Board
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is significantly less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Report of the Managing Board in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement
We were appointed as auditor of AAHG as of the audit of the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services
We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided
In addition to the statutory audit of the financial statements we provided services on current account statements with external insurance companies, for which we issued specific assurance reports and performed agreed upon procedures.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the company's financial reporting process.

<u>Our responsibilities for the audit of the financial statements</u>
Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statement. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 7 May 2019
Ernst & Young Accountants LLP

P.J.A.J. Nijssen

Other information

Provisions in the Articles of Association governing profit appropriation

Subject to the approval of the Supervisory Board, the Managing Board will decide what earnings, i.e. the profit disclosed in the income statement, to retain on an annual basis.

The profit remaining after retained earnings will be distributed to the shareholders in the form of dividend prorated to their share in the company's capital. Profits distributed to shareholders will be capped at the amount of the distributable reserves in equity. Profits will not be distributed until the financial statements showing that profit distributions are permitted have been adopted. The Managing Board is competent to authorise the distribution of interim dividend. A decision to distribute interim dividend is subject to the approval of the Supervisory Board.

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