ABN AMRO Hypotheken Groep B.V.

Annual Report

2017

Contents

ABN AMRO Hypotheken Groep B.V. at a glance

AAHG is part of 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)

930

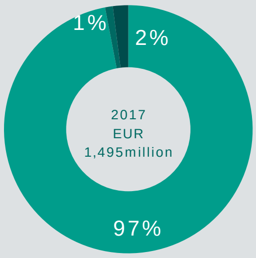
working for AAHG, but not on AAHG's payroll

Operating income

2017:

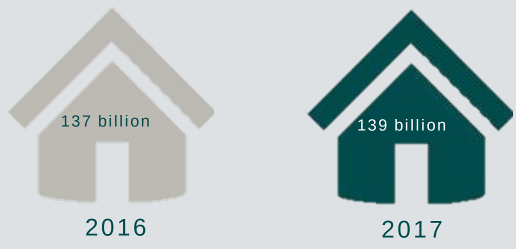
1,495 million

By type of income (in %)

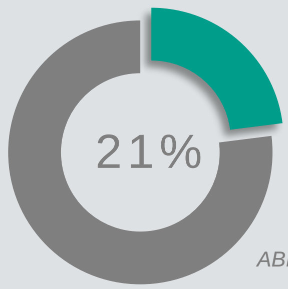


- Interest margin
- Net fees and commissions
- Other operating income

Mortgage portfolio



Market share

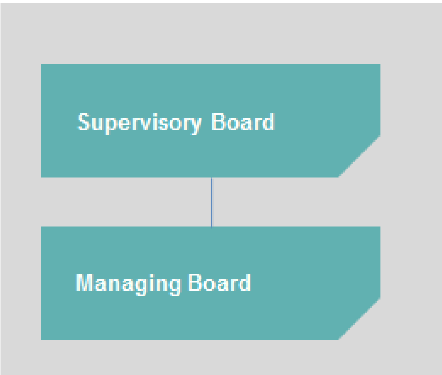


Corporate structure

AAHG, a private limited liability company founded under Dutch law on 30 December 1991, is a wholly owned subsidiary of ABN AMRO, which is on its turn wholly owned by ABN AMRO Group N.V. (the Group). AAHG has been incorporated into the consolidated financial statements of the Group of 2017.

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 the 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 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, Managing Board members have not been able to receive any variable compensation 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, 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.

In 2017, all Supervisory Board members were employed by ABN AMRO and did not receive separate compensation 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 2017, 50% of the members of both the Managing Board and the Supervisory Board were women.

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 Act on Financial Supervision (*Wet op het financieel toezicht*). ABN AMRO applies all principles of the Dutch Banking Code to all 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.

A principle-by-principle overview of the manner in which ABN AMRO 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 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.

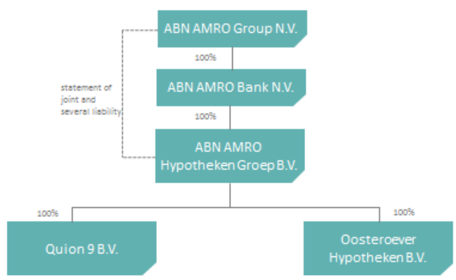
The last AAHG General Meeting was held on 15 June 2017. The General Meeting adopted the 2016 Statutory Financial Statements and granted discharge to the members of the Managing Board and the Supervisory Board.

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, ABN AMRO Group N.V. 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

The Managing Board of AAHG is pleased to report that 2017 was a good year for AAHG, marked by a mortgage market that continued to grow, but also came with a number of regulatory challenges. The four large banks in the Netherlands again managed to acquire a larger share of the mortgage market than in the year before. As at 31 December 2017, AAHG had a market share in new production of 21% in the Netherlands.

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.

Our purpose is: 'With passion and mortgage expertise, we surprise customers in helping them to buy or create the home of their dreams".

Over the coming years, we will focus on five priorities:

- *Surprising customer experience*: We believe that our customers are very important promoters of AAHG. Securing and changing a mortgage is a fast and easy process. Customers choose which channel they start with and experience a seamless transition between the different channels. Customers have the option to manage their own mortgage entirely online. If required, customers can also seek personal advice. Customers perceive the interaction with AAHG as a fully personalised mortgage experience. All interactions are personalised, recognisable and understandable. Customers understand our products and services, and are always up-to-date on their mortgage, their application or the change they have made. To illustrate: In 2017, we introduced the '24-hour Mortgage' from Florius. With this proposition, we have shortened the waiting period for customers who want to buy a home.
- *Proactive customer management*: During the entire customer relationship, our customers perceive us as a partner. We listen, we learn, we are creative and we look for the most suitable solution in all phases of the customer relationship. We record all data in a single location so that we really get to know our customers. We use actual data, provided by our customers. But we also use other sources, to unburden our customers. Based on all the knowledge we have of our customers, we can serve them proactively and allow them to buy or create the home of their dreams. To illustrate: AAHG is actively approaching customers with interest-only mortgages in combination with high LtMV levels to encourage them to amend their mortgage.
- *Sustainability & Innovation*: We enable our customers to make their homes more sustainable. In doing so, we take responsibility for reducing our own carbon footprint. We experiment with customers and partners to find new opportunities to achieve this. We are continuously looking for new innovative solutions to fulfil customer needs and to set us apart in the market. In addition, we will develop appropriate products and services that tie in with the ever-changing situation of our customers. To illustrate: In 2017, we launched our sustainability ambition with Mission 2030: an average energy rating A for the residential properties underlying our total mortgage portfolio by 2030. We initiated a partnership with 'Energiebespaarders' to help customers make their home more energy-efficient.

- *Sustainable technologies and processes*: To pleasantly surprise customers and serve them proactively, our products and services must be based on robust technologies and processes. Our IT platform is future-proof and provides the same information to our customers, the intermediary and our teams. In this process, we use the latest technologies.

  In addition, our processes and systems for making accurate, complete and timely regulatory and other reports are automated and centralised as much as possible, and they comply with the latest standards. This is how we enable our teams to make maximum use of their expertise and to meet the requirements of our supervisors. To illustrate: In 2017, we started to redesign our IT platform and reduced the number of operating systems by migrating mortgages to our main back office system. By doing so, we also reduced the complexity in our modelling landscape for Finance and Risk reporting.

- *Collaboration & Connection*: We use our expertise what it is meant for: serving customers at relevant moments. Teams have been empowered to make an impact with customers. By collaborating closely, customers do not notice that they are being served by a multi-member team. In the chain, it is clear to everyone who is responsible for what. We work together in order to achieve a shared goal, i.e. helping customers to buy or create the home of their dreams. To illustrate: In 2017, we initiated plans to intensify the collaboration in the mortgage chain to simplify the customer journey. We also started a skill pool on mortgage-bound securities with a multidisciplinary team that includes people from different departments. The goal is to provide an adequate solution when our customers want to change their mortgage.

We are very proud that Florius received the ‘Gouden Oor’ award in 2017 and consider this a recognition of its effective handling of customer feedback. Florius also won the ‘Gouden Spreekbuis’ award for best mortgage provider in the Netherlands according to intermediaries. The panel said that Florius offers a wide range of excellent mortgage products, in which process it looks after the best interests of the advisor. It is ahead of the competition, has interesting ideas for the future and is a pioneer in the industry.

Financial information

We are content with the financial results we achieved in 2017.

- Profit for the year increased by 13% to EUR 915 million
- Revenues were stable
- Operational expenses were in line with the budget
- Loan impairments showed a release, partly due to refined models.

Principal risks and uncertainties

The Dutch mortgage market grew in 2017. It is still an attractive market for many players in a low-interest 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 has no impact on them.

Customers are more determined to take mortgage-related decisions themselves. They are increasingly opting for online solutions (often to cut costs) and want personal attention at important times in their lives.

AAHG responds to these and other developments by focusing on omni-channel client services that allow customers to make informed decisions supported by the omni-infrastructure. AAHG also invests in innovation. One example is a binding mortgage offer within 24 hours. This is a unique proposition for ABN AMRO and Florius in the market.

ABN AMRO's strategy 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 the 'Risk management' chapter.

Rules and regulations

Basel IV

Three years ago, the Basel Committee published two consultation papers: a proposal for new rules for standardised RWA calculations and a proposal for capital floor calculation. What followed was an intensive EU-US negotiation/calibration process underpinned by numbers delivered by the industry. ABN AMRO actively participated in this process, individually and via the Dutch Banking Association (NVB). Final agreement was reached in December 2017 to start the process in 2022 and have fully loaded measures in place by 2027. This final agreement still needs to be enshrined in European law and fine-tuned by local regulators such as the ECB, the Dutch Central Bank (DNB) and possibly local government. AAHG is currently assessing the final agreement and potential fine-tuning by local regulators.

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.

General Data Protection Regulation (GDPR)

The GDPR primarily aims to give control back to our customers over their personal data. The GDPR is a high-impact change in rules and regulations. The GDPR will come into effect on 25 May 2018. We are currently implementing these new regulations.

Environmental and staffing matters

Sustainability is an integral part of our strategy. We want to make a meaningful contribution to reducing our carbon footprint and be transparent towards our customers. The energy performance rating is a key factor in this regard. As part of our sustainability initiatives, we have developed a sustainability proposition by which ABN AMRO customers are offered a discount on energy-efficient newbuilds.

At 31 December 2017, 930 FTE were directly involved in managing and executing policy-related decisions on AAHG's mortgage portfolio. These included both employees of ABN AMRO and external hires, most of whom are on the payroll of ABN AMRO. AAHG does not have any employees of its own.

Changes in the Managing Board

During 2017, there were several changes in the Managing Board. In November 2017, Jan van Baars resigned as CEO to pursue a career outside the bank. We want to take this opportunity to thank Jan his for valuable input and commitment and contributions to AAHG.

In mid-2017, Claire Dumas resigned as a member of the Supervisory Board ahead of her appointment as CEO of AAHG. In November, the shareholder appointed Claire Dumas as the new CEO and Managing Director of AAHG after she had passed the suitability screening by the European Central Bank.

In January 2018, Jan Pieter Kolk was appointed as CRO of AAHG after he passed the suitability screening by the European Central Bank. In March 2018, CFO Maurice Koot resigned. An intended successor has been nominated.

Remuneration of members of the Managing and Supervisory Board

The members of the Managing- and Supervisory Board qualify as employees of ABN AMRO. The role of member of the Supervisory Board is unremunerated.

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 met on four occasions in 2017. The Supervisory Board and the Managing Board will perform a self-assessment in the second quarter of 2018.

Outlook

For the coming years, we will invest in five areas to achieve our main objectives, i.e.:

- *Digitalisation of Customer Journeys*: We will provide personally relevant and understandable digital services that enable us to pleasantly surprise and proactively serve our customers. From start to finish, the customer will be offered a digital experience and be able to switch smoothly between our channels.

- *Data & Analytics*: The customer journey and our services will be based on integrated internal and external data. This will enable us to offer our customers relevant and personalised proposals.

- *Future proof IT platform*: Our IT platform has been transformed from a validation platform, via a supporting platform, to a fully digital platform. The complexity of the platform has increased with immediate consequences for testability, predictability and costs of maintenance and new functionality. Therefore, we will redesign the platform based on the latest technologies and services. These will support the business and the omni-channel world in which we operate.

- *Simplified Finance & Risk Reporting*: Supervisors demand increasingly fast reporting. In 2020, we will be expected to report to ECB within 14 days; in 2017, the reporting deadline was six weeks. We will bring Risk/Return steering to the next level.

- *Simplified Mortgage Chain*: We will enable our advisors to maximise face-to-face contact with customers. The complete mortgage chain will prioritise customer interaction and service and give customers a (near) real-time experience.

Amersfoort, the Netherlands, 23 April 2018

Managing Board

ABN AMRO Hypotheken Groep B.V.

Report of the Supervisory Board

In 2017, the Supervisory Board consisted of members holding senior management positions within ABN AMRO. The shareholder, ABN AMRO, appoints the members of the Supervisory Board based on a collective suitability profile.

The Supervisory Board believes that, as a whole, it possesses 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.

Changes in the Supervisory Board

After having received approval of the European Central Bank, the shareholder appointed Vanessa Hart as a member of the Supervisory Board in January 2017. Furthermore, after approval of European Central Bank, Jos ter Avest and Marije Elkenbracht were appointed as members of the Supervisory Board in November 2017.

Ahead of her appointment as CEO of AAHG, Claire Dumas resigned as a member of the Supervisory Board in mid-2017. In November, the shareholder appointed Claire Dumas as CEO of AAHG after she had passed the suitability screening by the European Central Bank.

Frans Woelders resigned as member of the Supervisory Board in October 2017.

Supervisory Board meetings

The Supervisory Board held four plenary meetings in 2017. 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 Supervisory Board meetings, its members are in regular contact with the Managing Board. The Company Secretary prepared agendas for Supervisory Board meetings in 2017. Recurring agenda items included financial performance, risk management, compliance, audit findings, market and regulatory developments and strategy.

The Supervisory Board is pleased with the financial performance of AAHG. The financial information was audited by both internal and external auditors. On a regular basis, AAHG provides the information to the members of the Supervisory Board in order to show risks and results.

EY is AAHG's independent external auditor. EY audited the 2017 Annual Report and the Statutory Financial Statements. The Annual Report and accompanying Statutory Financial Statements were discussed by the Supervisory Board on 23 April 2018. The members of the Supervisory Board have taken note of the Auditors Report. In addition, EY presented its Audit Plan for the 2017 audit to the Supervisory Board.

Throughout the year, the Supervisory Board monitored 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.

The Risk Management Report, which is regularly provided to the Supervisory Board, served as the basis for effective discussions on key risks. The Managing Board regularly informed and briefed the Supervisory Board on intended organisational changes, strategic initiatives and incidents.

Overall, we conclude that the communication between Supervisory Board and Managing Board is 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.

Audit & Risk Committee (ARC)

Compliance, legal, risk and audit-related topics are discussed in the ARC. In 2017, the ARC held four plenary meetings to discuss these topics.

Corporate governance

AAHG's corporate governance was further strengthened in 2017. AAHG's Articles of Association and the Rules of Procedure for the Managing Board, Supervisory Board and ARC will be revised in the first half of 2018. Supervisory Board members enhanced their knowledge of mortgage-topics by 'come-and-see-' sessions for training and continuing education purposes.

As all members of the Supervisory Board are senior managers at ABN AMRO, they are invited to participate in ABN AMRO's lifelong learning programmes.

Amersfoort, the Netherlands, 23 April 2018

Supervisory Board

ABN AMRO Hypotheken Groep B.V.

Statutory statement of financial position

(after profit appropriation)

(x EUR 1,000)	Note	31 December 2017	31 December 2016
Cash	3	3,086,986	1,571,708
Loans and receivables - banks	4	35,457,474	42,426,474
Loans and receivables - customers	5	139,135,091	137,133,105
Participating interests in group companies	6	1,370	1,370
Property and equipment	7	786	1,558
Other assets	8	2,501,246	2,279,199
Prepayments and accrued income	9	1,771	1,662
Total assets		**180,184,724**	**183,415,076**
Due to banks	10	147,150,134	146,235,298
Due to customers	11	2,217,219	1,992,254
Other liabilities	12	30,198,154	34,635,084
Accruals and deferred income	13	488,687	474,818
Provisions	14	109,767	72,603
Total liabilities		**180,163,961**	**183,410,057**
- Paid-up and called-up capital		19	19
- Other reserves		20,744	5,000
Total equity	15	**20,763**	**5,019**
Total liabilities and equity		**180,184,724**	**183,415,076**
Irrevocable commitments	16	4,472,755	4,327,051

Statutory income statement

(x EUR 1,000)	Note	2017	2016
Interest income		6,357,959	7,689,845
Interest expense		-4,900,276	-6,272,736
Net interest income	19	1,457,683	1,417,109
Share of result of participating interests	6	7,100	6,825
Fee and commission income	20	9,599	7,136
Other operating income	21	20,442	26,884
Operating income		**1,494,824**	**1,457,954**
Personnel expenses and other general and administrative expenses	22	319,373	312,729
Depreciation of tangible assets	7	772	846
Other operating expenses	23	249	1,551
Impairment charges on loans	24	-55,723	49,625
Operating expenses		**264,671**	**364,751**
Operating profit before taxation		**1,230,153**	**1,093,203**
Income tax expense	25	314,331	280,186
Profit for the year		**915,822**	**813,017**

Statutory statement of cash flows

(x EUR 1,000)	Note	2017	2016
Cash flows from operating activities			
Profit before tax		1,230,153	1,093,203
Adjustments on non-cash items included in profit:			
Amortisation and depreciation	6	772	846
Changes in impairment charges on loans	5	-137,520	-78,823
Changes in other provisions	14	41,450	-41,025
Income tax expense	24	-314,331	-280,186
Changes in operating assets and liabilities			
Changes in loans and receivables - banks	4	6,969,000	13,037,783
Changes in loans and receivables - customers	5	-1,864,466	-1,389,976
Changes in due to customers	11	224,964	177,202
Changes in prepayments and accrued income	9	-109	1,142
Changes in accruals and deferred income	13	13,869	-330,135
Changes in other provisions	14	-4,286	24,348
Changes in other assets	8	-222,047	809,052
Changes in other liabilities	12	-4,523,989	-12,240,685
Net cash from operating activities		**1,413,459**	**782,746**
Cash flows from investing activities			
Purchases of property and equipment	7	0	-1,175
Net cash from investing activities		**0**	**-1,175**
Cash flows from financing activities			
Dividends paid	15	-813,017	-764,143
Changes in due to banks	10	914,836	-2,624,939
Net cash from financing activities		**101,819**	**-3,389,082**
Net increase/decrease in cash and cash equivalents		**1,515,278**	**-2,607,510**
Cash and cash equivalents at 1 January		1,571,708	4,179,218
Increase/decrease in cash and cash equivalents		1,515,278	-2,607,510
Cash and cash equivalents at 31 December	3	**3,086,986**	**1,571,708**

Notes to the Statutory Annual Financial Statements

Below we describe the notes to the Statutory Annual Financial Statements of ABN AMRO Hypotheken Groep B.V. for 2017.

1 General

ABN AMRO Hypotheken Groep B.V. (AAHG), having its registered office at Ruimtevaart 24, 3824 MX Amersfoort, the Netherlands, is a private limited liability company. 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

ABN AMRO Bank N.V. is the parent company of AAHG, ABN AMRO Group N.V. is the ultimate parent company. The consolidated financial statements of ABN AMRO Group N.V. can be found on www.abnamro.com.

AAHG mainly offers residential mortgages in the Netherlands.

1.1 Accounting policies

The Statutory Annual Financial Statements have been prepared in accordance with the provisions in Part 9, Book 2 of the Dutch Civil Code. 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

These financial statements have been prepared under 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 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 measurements 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 and capital management. 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 will continue 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:

- Supervisory Board of AAHG
- Managing 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 II B.V.
- Oosteroever Hypotheken B.V.
- Quion 9 B.V.
- ABN AMRO Bank N.V. and its subsidiaries

The following entities no longer qualify as related parties because they were wound up in 2017.

- Fishbowl Asset Purchasing 1 B.V.
- Fishbowl Master Issuer B.V.
- Beluga Asset Purchasing Direktbank B.V.
- Beluga Master Issuer B.V.

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 coupon, 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.

1.10 Mergers

Mergers of entities under joint control are recognised in the financial statements using the pooling of interests method. This means that the assets and liabilities (at their carrying amount) and earnings of the entities are combined at the beginning of the reporting period. Comparative figures are restated as if the combined entity has always existed.

1.11 Comparative figures

The 2016 figures have been adjusted for the items below.

Exclusion of credit offers relating to mortgage renewals and process improvements resulted in a downward adjustment of the comparative figures for 2016 by EUR 1.7 billion.

We have adjusted the presentation of an item of EUR 115 million that was reported as 'accruals and deferred income'. Because this item will not lead to earnings for AAHG, it has been decided to report this item under 'due to banks'.

The presentation of the interest income and expense has been analysed in greater detail, resulting in a reclassification from interest income to interest expense totalling EUR 1.3 billion. The net interest margin has not been impacted by this adjustment.

None of the abovemented adjustments impact the 2016 results or 31 December 2016 equity position.

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 receivables - banks
Loans and receivables - banks include receivables from ABN AMRO that are and are not payable on demand. At initial recognition, loans and receivables - 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 receivables - customers
Loans and receivables - 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 receivables - 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 linear 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
Accrued interest reflects the difference between the measured interest income and the interest payments received to date. Prepaid expenses reflect the expenses paid at balance sheet date relating to future periods.

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 mehod .

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 restructuring is recognised if a detailed restructuring plan has been formalised and communicated at the reporting date. ABN AMRO will form the provision (as the employer) and charge the costs to AAHG.

The restructuring provision covers the costs associated with the restructuring that are not connected to the company's continuing operations.

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 commissions 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 respective condition are met. AAHG only receives direct fees from consumers.

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 and other third parties charge 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 of tangible assets

This item comprises of 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 loans

Loan impairment charges are recognised in the income statement as an allocation to, or release of, the loan impairment charges within the 'Loans and receivables - 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 balance sheet 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 Group N.V. forms a fiscal unity for corporate income tax purposes with several of its Dutch subsidiaries, including AAHG. All the members of the fiscal unity are jointly and severally liable for the corporate income tax liabilities of 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 Change in accounting policy

During Q4 2017 ABN AMRO adjusted its accounting policy for penalty interest received from interest rate renewals of mortgages prior to the end of the interest period. The penalty interest received on these mortgages resulting from the interest rate renewal are amortised over the remaining interest term, previously the new term was used. ABN AMRO is of the opinion that the change in accounting policy enhances comparability with market participants and leads to a more reliable representation as the term is used to which the penalty interest relates. The accounting policy change also results in an alignment with the accounting policies of AAHG's parent company ABN AMRO. The changed policy did not impact the net interest margin since AAHG contractually pays and amount equal to the penalty interest recognised as interest income to ABN AMRO.

3 Cash

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Cash in hand and other cash equivalents	3,086,986	1,571,708
Cash	**3,086,986**	**1,571,708**

Cash is at AAHG's free disposal.

4 Loans and receivables - banks

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Deposits held with ABN AMRO	33,117,550	40,127,550
Receivables from group companies	2,339,924	2,298,924
Loans and receivables - banks	**35,457,474**	**42,426,474**

None of the deposits held with ABN AMRO had a term to maturity of less than three months (2016: EUR 7.6 billion). EUR 5.4 billion relates to deposits with a remaining term to maturity of between three months and one year (2016: EUR 3.5 billion) and EUR 24.0 billion relates to deposits with a remaining term to maturity of between one year and five years (2016: EUR 23.6 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% (2016: 0.5%). Receivables from group companies are interest-free.

5 Loans and receivables - customers

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Mortgage loans	139,250,210	137,383,349
- of which securitised	27,414,080	*32,983,381*
Arrangement fees	2,597	4,992
Loan impairment charges	-117,716	-255,236
Loans and receivables - customers	**139,135,091**	**137,133,105**

The total collateral (i.e. the net collateral value) provided for the mortgage loans represented EUR 181 billion on 31 December 2017 (2016: EUR 168 billion). Reference is made to the credit risk section for further details on the collateral obtained. Of the total collateral, EUR 4.2 billion has been encumbered for a loan from a.s.r. (2016: EUR 4.5 billion), EUR 33.7 billion has been encumbered in connection with ABN AMRO Covered Bond Company B.V. (2016: EUR 35.4 billion) and EUR 35.7 billion has been encumbered in connection with the securitised portfolio (2016: EUR 39.3 billion).

Movements in mortgage loans:

(x EUR 1,000)	2017	2016
At 1 January	137,383,349	135,992,493
Production (+)	16,025,673	13,786,154
Repayments (-)	-14,588,024	-12,750,448
Repurchase of portfolio (+)	322,711	158,034
Change in deeds of assignment	106,501	197,116
At 31 December	**139,250,210**	**137,383,349**

Of the total portfolio, EUR 134 million relates to mortgage loans granted in Germany (2016: EUR 208 million).

The remaining terms to maturity of the mortgage loans can be specified as follows:

(x EUR 1,000)	2017	2016
Short-term (less than 3 months)	196,400	138,422
Short-term (less than 1 year)	190,405	240,927
Long-term (between 1 and 5 years)	1,810,500	1,740,831
Long-term (more than 5 years)	137,052,905	135,263,169
At 31 December	**139,250,210**	**137,383,349**

Impairment charges on loans

Movements in this item can be broken down as follows:

(x EUR 1,000)		
At 1 January 2016		**-334,059**
Changes in loan impairment charges	-73,894	
Write-off	113,168	
Accretion	39,549	
	78,823	
At 31 December 2016		**-255,236**
Changes in loan impairment charges	31,419	
Write-off	67,551	
Accretion	38,550	
	137,520	
At 31 December 2017		**-117,716**

AAHG uses internally developed models to calculate the expected loss on the mortgage portfolio. These models calculate the Incurred but not Identified (IBNI) losses and the impaired allowance. The impairment calculation is based on two key factors, i.e. probably of default (PD) and loss given default (LGD). The models have been developed by the Central Risk Management – Risk Modelling Department and have been validated by ABN AMRO's Model Validation Department.

AAHG updated its provisioning model inputs, resulting in a lower IBNI and collective provision balance.

Write-off
When a client cannot recover from payment arrears, their home is foreclosed and the residual debt is written off. If any funds are received after the residual debt has been fully written-off, these are recognised in the income statement under impairment charges.

6 Participating interests in group companies

AAHG's participating interests in group companies are:

(x EUR 1,000)		2017	2016
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 2017 of EUR 6.6 million (2016: EUR 4.3 million) and Oosteroever Hypotheken B.V. posted a profit for the year of EUR 0.5 million (2016: EUR 2.5 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 Januari 2016	**236**	**1,134**	**1,370**
Profit for the year	4,341	2,484	6,825
Interim and final dividend	-4,341	-2,484	-6,825
At 31 December 2016	**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**

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	-1,298	-2,805
At 1 January 2017			**1,558**	**1,558**
Investments				
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**

Property and equipment is depreciated using the linear 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	1,681	3,188
Accumulated depreciation	-708	-554	-697	-1,959
At 1 January 2016	**311**	**230**	**816**	**1,229**
Investments			1,175	1,175
Depreciation	-141	-104	-601	-846
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-1,298	-2,805
At 31 December 2016			**1,558**	**1,558**

8 Other assets

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Receivables from group companies	1,783,318	1,229,983
Cash in transit	657,512	774,897
Trade receivables	42,215	152,988
Current account with insurers	2,345	91,380
Third-party portfolio		10
Deferred tax assets	578	
Other receivables	15,278	29,941
Other assets	**2,501,246**	**2,279,199**

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

The deferred tax assets concern a deferred receivable against ABN AMRO, given that AAHG is a member of the fiscal unity and ABN AMRO is responsible for the settlements with tax authorities. Of deferred tax assets, EUR 0.4 million has a remaining term to maturity of between three months and one year and the remaining part has a term to maturity of between one and five years.

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)	2017	2016
Accrued interest	7	60
Prepaid expenses	1,764	1,602
Prepayments and accrued income	**1,771**	**1,662**

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

10 Due to banks

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
- Due to ABN AMRO - Funding	144,938,016	144,347,715
- Due to ABN AMRO - Bank accounts	2,016,369	1,002,510
- Due to group companies	195,749	885,073
Due to banks	**147,150,134**	**146,235,298**

ABN AMRO provides AAHG with funding to issue mortgage loans. The contractual term to maturity of this funding is one month. However, because of the intention to refinance, the expected maturity of this funding is in line with the average interest term maturity of the mortgage loans. The interest paid on funding is at a market level. The required funding is reassessed every month.

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

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)	2017	2016
Bank savings deposits linked to mortgages	2,011,013	1,788,559
Bank savings deposits not linked to mortgages	19,249	16,102
Savings deposits not linked to mortgages	159,741	153,780
Premium deposit accounts	27,216	33,813
Due to customers	**2,217,219**	**1,992,254**

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 4.0 million has a term to maturity of less than five years (2016: EUR 2.3 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 24.9 million) has an insurer as counterparty; the remaining part of the premium deposit accounts has a consumer as counterparty.
Of the premium deposit accounts, EUR 3 million has a term to maturity of less than three months (2016: EUR 2 million). None of the premium deposit accounts has a term to maturity of between three months and one year (2016: EUR 7 million). The remaining part of the premium deposit accounts qualifies as long-term.

12 Other liabilities

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Due to SPEs	27,049,789	32,600,517
Dividends payable	900,078	806,192
Due to group companies	1,677,438	647,235
Trade payables and cash in transit	65,460	187,053
Current account with insurers	465,890	322,464
Other liabilities	39,499	71,623
Other liabilities	**30,198,154**	**34,635,084**

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 liability towards the SPEs has been recognised.

This liability is based on the amortised cost and term to maturity of the securitised mortgage loans. An overview of the remaining contractual terms to maturity of the total portfolio can be found in the risk section (liquidity risk).

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

13 Accruals and deferred income

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Advance mortgage receivables	84,739	90,944
Interest payable	81	7,101
Accounts payable	26,598	35,782
Mortgages payable	61,474	58,583
Tax payable	315,795	282,408
Accruals and deferred income	**488,687**	**474,818**

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

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14 Provisions

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Legal provisions	94,005	47,929
Restructuring provision	60	359
Deferred tax liabilities		1,337
Other provisions	15,702	22,978
Provisions	**109,767**	**72,603**

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

In the past, ABN AMRO has provided variable-rate mortgage loans, the majority of which were based on the Euribor rate (nearly 1% of the total mortgage portfolio of the Group). A key element of the pricing model of these mortgage loans is the option for ABN AMRO to charge costs (allocated and unallocated) to its customers by adjusting the margin charge on the variable interest rate. For many of these products, ABN AMRO has the option to unilaterally adjust the pricing or the contract terms within the boundaries of the conditions that were set.

Due to an increase in funding costs (margin on Euribor), ABN AMRO was forced to increase the margin two times on many of these loans. Customers have challenged ABN AMRO's decision to increase the margin. Customer complaints are based on a number of specific and general legal principles.

In 2012, Stichting Stop de Banken and in 2014 Stichting Euribar lodged legal proceedings in relation to Euribor-based variable-rate mortgage contracts, arguing that ABN AMRO had no contractual right to unilaterally increase the margin and by doing so failed to comply with its duty of care. The Amsterdam court of appeal ruled against ABN AMRO in November 2015. In its ruling, the court took a rather principled stance with respect to unconditional provisions governing pricing and other adjustments. ABN AMRO filed for appeal against this judgement and on 19 December 2017, the Amsterdam Court of Appeal Amsterdam ruled that the bank was not allowed to increase the margin on these mortgages. The Court ruled that the amendment clauses the bank used in its general conditions to increase the margin, are unfair based on the European Directive on unfair conditions in consumer contracts. Consequently, these clauses were quashed. The bank decided to lodge an appeal to the Supreme Court of the Netherlands and filed the relevant documents on 16 March 2018.

Movements in provisions can be broken down as follows:

(x EUR 1,000)	Legal	Restructuring	Deferred tax liabilities	Other	Total
At 1 January 2016	**41,336**	**655**	**1,337**	**45,952**	89,280
Increase in provisions				1,078	1,078
Utilised during the year		-296		-24,052	-24,348
Accretion of interest	6,593				6,593
At 31 December 2016	**47,929**	**359**	**1,337**	**22,978**	**72,603**
Increase in provisions	43,104			1,670	44,774
Utilised during the year	-2,754	-58		-1,474	-4,286
Release in provisions	-965	-241	-1,337	-7,147	-9,690
Accretion of interest	6,366				6,366
At 31 December 2017	**93,680**	**60**	**0**	**16,027**	**109,767**

Restructuring

Provisions for ABN AMRO wide restructuring programs are recognised by ABN AMRO, being the employer of the employees subject to such a program. The restructuring provision left, dates back to the period that AAHG still had its own employees.

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 2016	**19**	**5,000**	**5,019**
Profit for the year		813,017	813,017
Interim and final dividend		-813,017	-813,017
At 31 December 2016	**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**

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 915,821,757 in the form of a dividend of EUR 900,077,664 and to add EUR 15,744,093 to the other reserves to allow for the potential IFRS 9 impact.

16 Irrevocable commitments

Construction facilities are recognised together with mortgage offers as irrevocable commitment. The construction facilities amounted to EUR 2.2 billion (2016: 1.6 billion). The mortgage offers amounted to EUR 2.3 billion (2016: 2.8 billion).

17 Off-balance commitments and contingent liabilities

Special-purpose entities
ABN AMRO uses securitisations for its funding need 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.

Credit agreement
AAHG has contracted a credit agreement from ABN AMRO for the funding of mortgage loans. At 31 December 2017, the undrawn portion was EUR 4.7 billion (2016: EUR 7.4 billion).

Mortgage offers
Exclusion of credit offers relating to mortgage renewals and process improvements resulted in a downward adjustment of the comparative figures for 2016 by EUR 1.7 billion.

AAHG's outstanding mortgage offers amounted to EUR 2.3 billion on 31 December 2017 (2016: EUR 2.8 billion). The outstanding offers are recognised as irrevocable commitments.

Guarantee received
ABN AMRO has provided a guarantee to AAHG for any debts arising from its legal acts.

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

The members of the Supervisory Board and the Managing Board are on the payroll of ABN AMRO. The role of member of the Supervisory Board is unremunerated. The remuneration of the members of the Managing Board was EUR 690,142 in 2017 (2016: EUR 671,116).

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 2017:

(x EUR 1,000)	**2017**	**Average interest rate (%)**	2016	Average interest rate (%)
Loans to members of Managing Board	1,773	2.1	1,689	3.4
Loans to members of Supervisory Board	2,888	2.3	4,014	2.6
Outstanding loans	**4,661**		**5,703**	

In 2017, the members of the Managing Board repaid EUR 31,941. The members of the Supervisory Board repaid EUR 89,829.

19 Net interest income

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Interest received on mortgage loans	4,901,753	5,598,583
Interest paid on funding	-3,565,942	-4,298,142
Portfolio-related net interest income	1,335,811	1,300,441
Other interest income	1,456,206	2,091,262
Other interest expense	-1,334,334	-1,974,594
Non-portfolio-related net interest income	121,872	116,668
Net interest income	**1,457,683**	**1,417,109**

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)	2017	2016
Service fees	6,781	5,832
Collection fee	64	71
Other fee and commission income	2,754	1,233
Fee and commission income	**9,599**	**7,136**

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)	2017	2016
Reimbursements received from SPEs	11,097	15,016
Other operating income	9,345	11,868
Other operating income	**20,442**	**26,884**

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)	2017	2016
Personnel expenses	*60,991*	*51,567*
Other general and administrative expenses		
Housing, office and IT expenses	22,517	26,391
Services provided by third parties	64,673	82,267
Portfolio expenses	67,303	59,550
Selling and advertising expenses	2,045	2,485
Other expenses	101,843	90,469
	258,382	*261,162*
Personnel expenses and other general and administrative expenses	**319,373**	**312,729**

At 31 December 2017, 930 people (FTEs) were directly involved in managing the mortgage portfolio (2016: 944 FTEs). A number of the people are employees of ABN AMRO and ABN AMRO recharges the costs associated with employing them to AAHG on a monthly basis. Other external hires are on the payroll of third parties, AAHG does not have any employees of its own.

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)	2017	2016
Other operating expenses	249	1,551
Other operating expenses	**249**	**1,551**

Other operating expenses consist of such costs as servicing fees paid.

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24 Impairment charges on loans

This item can be broken down as follows:

(x EUR 1,000)	2017	2016
Change in loan impairments	-31,419	73,894
Recovery	-24,305	-24,269
Impairment charges on loans	**-55,723**	**49,625**

25 Income tax expense

(x EUR 1,000)	2017	2016
Income tax expense	314,331	280,186
Income tax expense	**314,331**	**280,186**

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. ABN AMRO however pays the tax instalment to the tax authorities, taxes are therefore accounted via AAHGs current account with ABN AMRO in the statement of financial position.

Corporate income tax is due at the highest rate of 25% (2016: 25%). The effective tax rate is 25.6% (2016: 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, Provision.

In Q1 2018 an insurer signed a proof of exemption, as a result of which part of the provision was released (EUR 10 million). At the end of 2017 it was not yet clear whether the insurer would issue an indemnity nor the scope of insurance policies covered by such indemnity. As such, the provision was considered the best estimate of future outflows based on the information available at that moment. The proof of exemption Is a non-adjusting subsequent event.

No other events that are relevant to this report have occurred after the reporting date.

27 Approval of financial statements by Supervisory Board

The Supervisory Board approved these financial statements on 23 April 2018. The financial statements will be adopted by the General Meeting of Shareholders.

For the Managing Board

- Ms C.M. Dumas
- Mr J.P. Kolk

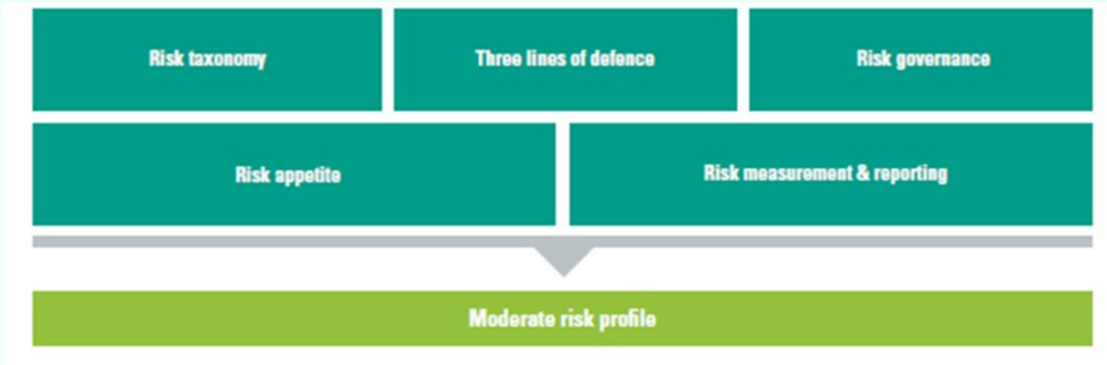
For the Supervisory Board

- Mr J.G. ter Avest
- Ms V.E. Hart
- Ms R. Elkenbracht

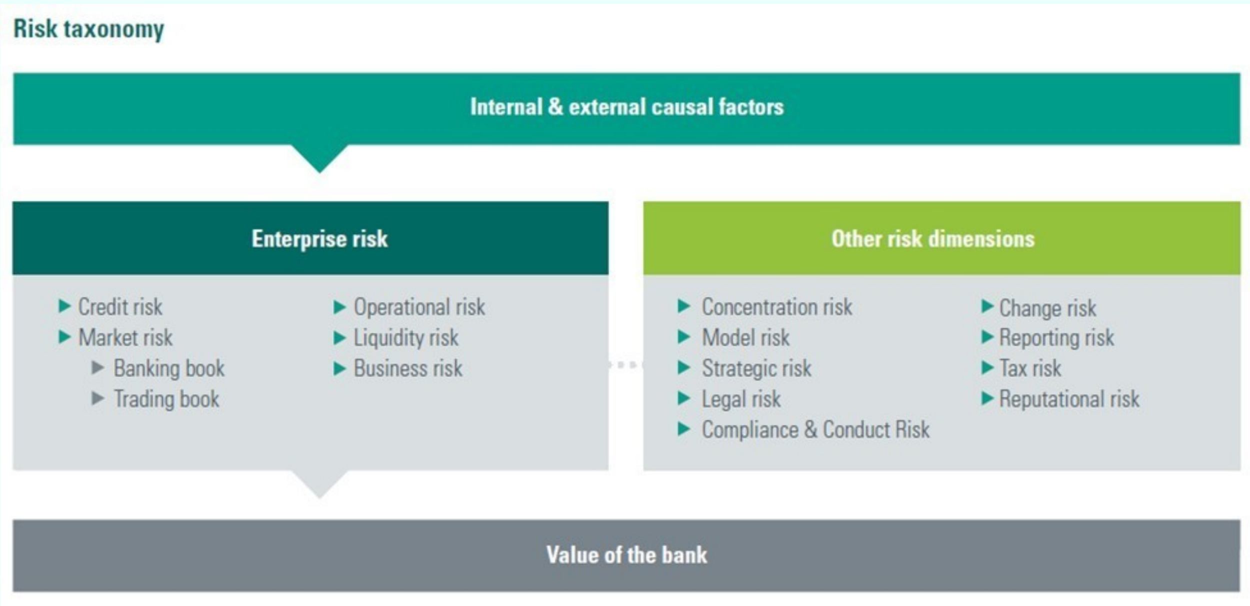
Risk management

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.



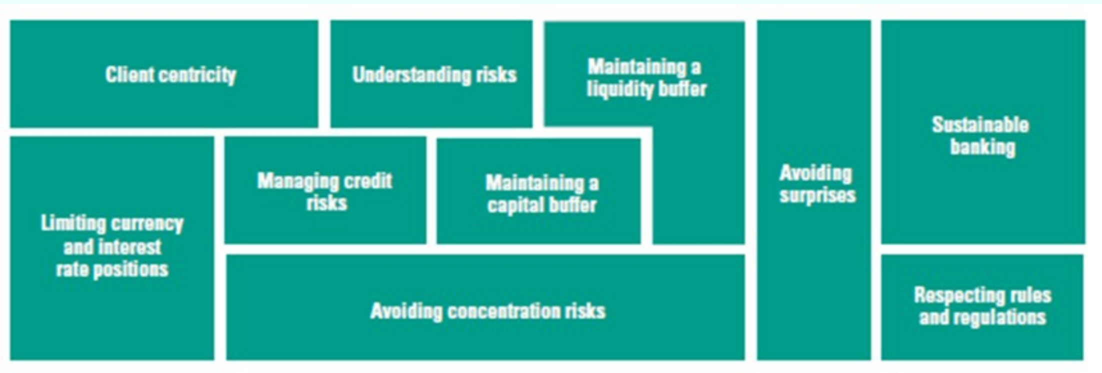
The principal risks AAHG incurs are:

- 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 an efficient and effective Risk Control Management throughout, and at all levels of, the bank. The Risk Management organisation operates under the direct responsibility of the Chief Risk Officer, who is a member of the Executive Board. 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. Key guidance has been introduced as part of the risk appetite. Our goal of a moderate risk profile has been translated into guidance, which consists of ten guidelines that provide a qualitative explanation.



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 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, liquidity, and business 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 are key input for the calculation of the minimum regulatory capital requirements according to the Basel framework (regulatory capital).

The modelling departments develop the models in close cooperation with business and risk experts from AAHG. The models are reviewed annually. This means that the models are back-tested against historical data.

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.

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 regulator.

Credit risk

The mortgage portfolio increased by 1.3%. New mortgage production exceeded total redemptions. The NHG-guaranteed proportion of the residential mortgage portfolio decreased further to 25% at 31 December 2017 (31 December 2016: 27%). The proportion of redeeming mortgages increased to 25% of the mortgage portfolio at 31 December 2017 (31 December 2016: 19%).

The proportion of new mortgage production backed by NHG guarantees amounted to 14%, which was lower than in 2016. Rising housing prices and a gradual reduction in the maximum NHG limit in recent years have resulted in fewer mortgages being eligible for a NHG guarantee.

Breakdown of mortgage loans by type of loan

(x EUR 1,000)	**2017**	**%**	2016	%
Interest only	69,822,136	50	71,177,535	52
Redeeming mortgages (annuity / linear)	34,744,180	25	25,835,008	19
Savings	17,278,286	12	19,851,301	14
Life (investment)	12,171,573	9	14,063,646	10
Other	5,234,034	4	6,455,859	5
At 31 December	**139,250,210**	**100**	**137,383,349**	**100**

Mortgages to indexed market value

(x EUR 1,000)	2017	%	2016	%
Government-guaranteed mortgages (NHG)	35.141.463	25	36.385.003	27
< 50%	26.038.103	19	21.720.204	16
50% - 80%	41.660.987	30	35.074.789	26
80% - 90%	15.306.723	11	14.398.766	10
90% - 100%	13.363.430	10	14.287.002	10
100% - 110%	5.874.088	4	9.666.424	7
110% - 120%	1.579.465	1	4.499.288	3
> 120%	285.953	0	1.351.873	1
At 31 December	**139.250.210**	**100**	**137.383.349**	**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 a LtMV > 100%.

The gross carrying amount of mortgages with an LtMV above 100% decreased further to EUR 7.7 billion (31 December 2016: EUR 15.5 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 to 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 redemptions 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)	2017	2016
Gross carrying amount	139,250,210	137,383,349
- of which guaranteed mortgages (NHG)	35,141,463	36,385,003
Past due ratio	1.6%	1.4%
Impaired ratio	0.7%	0.8%
Coverage ratio	10.9%	16.7%
Cost of risk (year tot date, in bps)	-3	4
Average LtMV (indexed)	70%	76%
Average LtMV - excluding NHG loans (indexed)	67%	73%
Total risk mitigation/gross carrying amount	130.0%	123.6%

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

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) credit risk losses within the defined credit risk framework. Credit risk is monitored on an ongoing basis to ensure credit risks developments remain within the set limits of the risk appetite.

AAHG's credit risk showed positive developments over the past year thanks to economic improvements and lower interest rates. In 2017, the housing market was characterised by high transaction volumes and significantly higher house prices (8.3%) than in the previous year. Customers who have fallen into arrears are transferred to our collection partners, which help them identify the root cause of the payment problem and, if possible, resolve these problems.

Uncollateralised parts of mortgage loans

(x EUR 1,000)	**2017**	2016
Due from customers	139,135,091	137,133,105
Collateral value	178,762,556	167,523,217
Collateral bank savings	2,010,105	1,782,778
Other guarantees (e.g. NHG)	3,916,670	5,726,933
Surplus value of collateral	-54,290,637	-48,481,646
At 31 December	**8,736,398**	**10,581,823**

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

Uncollateralised parts of impaired mortgage loans (>90 days and covered by an impairment)

(x EUR 1,000)	**2017**	2016
Impaired portfolio	870,506	1,094,628
Collateral value	859,119	1,018,862
Collateral bank savings	6,320	7,157
Other guarantees (e.g. NHG)	30,062	50,556
Surplus value of collateral	-136,762	-143,727
At 31 December	**-111,768**	**-161,780**

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

Breakdown of past due mortgage loans (<90 days)

(x EUR 1,000)	2017	2016
Mortgages	139.250.210	137.383.349
-of which not past due	136.886.080	135.314.668
Breakdown by days past due:		
≤ 30	2.195.701	1.856.205
> 30 & ≤ 60	145.920	177.682
> 60 & ≤ 90	22.508	34.794
At 31 December	**2.364.130**	**2.068.681**

Past due mortgages rose slightly as a result of the volatility of the first bucket (≤ 30 days); the other buckets are still developing positively.

Forbearance

The process of making concessions for clients, with the purpose of providing a sustainable solution, is referred to as forbearance. We consider a forborne asset to be any contract under which the counterparty experiences, or is about to face, financial difficulty and for whose terms and conditions have been modified or which has been refinanced by the bank due to these financial difficulties on terms that we would not have accepted (concession) if the counterparty had been financially healthy.

AAHG has recognised EUR 1.1 billion of forborne assets in its financial statements (2016: EUR 1.1 billion), as a result of which the forbearance rate was 0.8% (2016: 0.8%).

Concentration risk on ABN AMRO deposits

No collateral has been secured for the deposits held with ABN AMRO (2017: EUR 33.1 billion; 2016: EUR 40.1 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 (2016: EUR 7.6 billion). EUR 5.5 billion relates to deposits with a term to maturity of between three months and one year (2016: EUR 3.5 billion) and EUR 24.0 billion to deposits with a term to maturity of between one year and five years (2016: EUR 23.6 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% (2016: 0.5%).

Maximum credit risk

The maximum credit risk that AAHG incurred was EUR 184.6 billion (2016: EUR 187.7 billion), consisting of EUR 139.2 billion in mortgage loans (2016: EUR 137.4 billion), EUR 33.1 billion in ABN AMRO deposits (2016: EUR 40.1 billion), EUR 7.8 billion in other assets (2016: EUR 5.9 billion) and EUR 4.5 billion in irrevocable commitments (2016: EUR 4.3 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 the 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 movements. 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 an 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 which takes into account interest rate risk and liquidity risk stemming from the mortgage contracts. Therefore, as part of this agreement market risk type interest rate risk, related to amongst others client behavioural aspects, are hedged by AAHG via the agreement with ABN AMRO.

The interest maturities of the mortgage portfolio, 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)	9,268,523	2.4	12,622,984	2.7
Long-term (between 3 months and 1 year)	8,985,589	3.9	21,970,700	4.3
Long-term (between 1 and 5 years)	29,227,348	4.1	32,503,070	4.3
Long-term (more than 5 years)	91,768,749	3.2	70,286,596	3.5
At 31 December	**139,250,210**		**137,383,349**	

The contractual term of the funding attracted from ABN AMRO is one month. However, because of the intention to refinance, the expected maturity of this funding is in line with the average interest term maturity of the mortgage loans. 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 Bank N.V., including the related weighted average interest rates, is 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.

Because AAHG economically retained the mortgage loans from its statement of financial position, a liability towards the SPEs has been recognised. This liability mirrors the amortised cost and remaining contractual terms to maturity of the securitised mortgage loans.

Another key aspect of interest rate risk is due to differences in actual versus 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 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 shifts liquidity risk away from commercial business lines of AAHG, 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)	2017	2016
Short-term (less than 3 months)	196,400	138,422
Long-term (between 3 months and 1 year)	190,405	240,927
Long-term (between 1 and 5 years)	1,810,500	1,740,831
Long-term (more than 5 years)	137,052,905	135,263,169
At 31 December	**139,250,210**	**137,383,349**

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AAHG's proceeds from the transfer of the legal title to financial assets (mortgage loans) to SPEs are placed in a deposit with ABN AMRO. The contractual term of the deposit (2017: EUR 33.1 billion; 2016: EUR 40.1 billion) corresponds to that of the RMBS notes issued by the SPEs.

AAHG has signed a loan agreement with ABN AMRO for EUR 154 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)	**2017 Carrying amount**	**2017 Fair value**	2016 Carrying amount	2016 Fair value
Financial assets				
Cash	3,086,986	3,086,986	1,571,708	1,571,708
Loans and receivables - banks	35,457,474	36,015,334	42,426,474	42,966,134
Loans and receivables - customers	139,135,091	148,978,396	137,133,105	146,011,593
Other assets	2,501,246	2,754,871	2,081,944	2,686,600
Prepayments and accrued income	1,771	1,771	1,662	1,662
Financial liabilities				
Due to banks	147,150,134	147,150,134	146,235,298	146,235,298
Due to customers	2,217,219	2,140,104	1,992,254	2,118,274
Other liabilities	30,198,154	32,606,912	34,635,084	37,684,738
Accruals and deferred income	488,687	488,687	474,818	474,818

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 receivables - 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 2017, based on online public information. Allowance is made for an average prepayment of 10% (2016: 7%).

Securitisation

ABN AMRO uses securitisations as a funding tool and for capital management purposes. In this process, AAHG transfers the legal title to 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 no longer to 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 for each securitisation programme. 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.

Goldfish Master Issuer B.V.

	Isin	Step-up dates	Margin	Step-up margin	Denomi-nation	Balance 1 jan 2017	Issued 2017	Redeemed / Cancelled 2017	Balance at year-end
Series 2007-I									
Class A2	XS0305090309	28 May 2017	0,02%	0,20%	50.000	500.000.000	-	500.000.000	-
Class B	XS0305090648	28 May 2017	0,17%	0,35%	50.000	7.000.000	-	7.000.000	-
Series 2008-I									
Class B	XS0342181459	28 May 2017	1,00%	2,00%	50.000	6.300.000	-	6.300.000	-
Series 2008-2									
Class A	XS0401511257	28 May 2017	0,35%	1,00%	50.000	443.500.000	-	443.500.000	-
Class B	XS0401511331	28 May 2017	1,00%	3,00%	50.000	63.700.000	-	63.700.000	-
Series 2010-1									
Class B	XS0480096469	28 Aug 2021	1,00%	5,00%	50.000	157.050.000	-	-	157.050.000
Class C	XS0480096626	28 Aug 2021	2,00%	6,00%	50.000	371.000.000	-	-	371.000.000
Series 2013-1									
Class A2	XS0891457755	28 May 2017	0,55%	1,10%	100.000	1.000.000.000	-	1.000.000.000	-
Series 2013-2									
Class A2	XS0935139831	28 May 2017	0,55%	1,10%	100.000	1.000.000.000	-	1.000.000.000	-
Class A3	XS0935140334	28 May 2018	0,65%	1,30%	100.000	1.000.000.000	-	-	1.000.000.000
Class A4	XS0935140920	28 May 2019	0,75%	1,50%	100.000	1.000.000.000	-	-	1.000.000.000
Class A5	XS0935141654	28 May 2020	0,85%	1,70%	100.000	1.000.000.000	-	-	1.000.000.000
Class A6	XS0935142389	28 May 2021	0,95%	1,90%	100.000	500.000.000	-	-	500.000.000
Class A7	XS0935143601	28 May 2021	0,95%	1,90%	100.000	2.183.000.000	-	-	2.183.000.000
Class B	XS0935144914	28 May 2021	1,00%	1,00%	100.000	134.000.000	-	-	134.000.000
Class C	XS0935145721	28 May 2021	2,00%	2,00%	100.000	290.000.000	-	-	290.000.000
Total						9.655.550.000	-	3.020.500.000	6.635.050.000

Dolphin Master Issuer B.V.

	Isin	Step-up dates	Margin	Step-up margin	Denomi-nation	Balance 1 jan 2017	Issued 2017	Redeemed / Cancelled 2017	Balance at year-end
Series 2010-I									
Class A3	XS0495571910	28 Mar 2030	1,15%	2,00%	50.000	1.000.000.000	-	-	1.000.000.000
Class A4	XS0495572991	28 Mar 2040	1,15%	2,00%	50.000	1.000.000.000	-	-	1.000.000.000
Series 2012-I									
Class E	XS0797437125	28 Sep 2017	8,00%	16,00%	50.000	153.750.000	-	153.750.000	-
Series 2012-2									
Class A1	XS0831097935	28 Sep 2017	1,20%	2,40%	50.000	500.000.000	-	500.000.000	-
Class A5	XS0831099550	28 Sep 2017	1,20%	2,40%	50.000	1.823.000.000	-	1.823.000.000	-
Class A6	XS0831099717	28 Sep 2017	1,20%	2,40%	50.000	500.000.000	-	500.000.000	-
Class A7	XS0831099808	28 Sep 2017	1,20%	2,40%	50.000	500.000.000	-	500.000.000	-
Class B	XS0831099980	28 Sep 2017	1,50%	1,50%	50.000	663.100.000	-	663.100.000	-
Class C	XS0831100150	28 Sep 2017	2,00%	2,00%	50.000	783.650.000	-	783.650.000	-
Class D	XS0831100234	28 Sep 2017	2,50%	2,50%	50.000	663.100.000	-	663.100.000	-
Class E	XS0831100317	28 Sep 2017	8,00%	8,00%	50.000	49.600.000	-	49.600.000	-
Series 2013-1									
Class A2	XS0972913908	28 Sep 2019	0,95%	1,90%	50.000	2.000.000.000	-	-	2.000.000.000
Class E	XS0974152851	28 Sep 2017	8,00%	16,00%	50.000	60.300.000	-	60.300.000	-
Series 2013-2									
Class A	XS0977073161	28 Sep 2018	0,85%	1,70%	50.000	750.000.000	-	-	750.000.000
Series 2014-1									
Class A	XS1046223134	28 Sep 2019	0,75%	1,50%	50.000	2.000.000.000	-	-	2.000.000.000
Series 2014-2									
Class A	XS1113209008	28 Sep 2018	0,35%	0,70%	50.000	1.700.000.000	-	-	1.700.000.000
Class D	XS1113209420	28 Sep 2017	1,50%	1,50%	50.000	300.000.000	-	300.000.000	-
Series 2014-3									
Class A	XS1117961653	28 Sep 2019	0,37%	0,74%	50.000	500.000.000	-	-	500.000.000
Series 2015-1									
	XS1199502441	28 Sep 2018	0,25%	0,50%	50.000	2.000.000.000	-	-	2.000.000.000
	XS1199502797	28 Sep 2020	0,35%	0,70%	50.000	2.000.000.000	-	-	2.000.000.000
	XS1199502870	28 Sep 2021	0,40%	0,80%	50.000	2.000.000.000	-	-	2.000.000.000
	XS1199502953	28 Sep 2022	0,45%	0,90%	50.000	1.279.000.000	-	-	1.279.000.000
Series 2015-2									
	XS1245839342	28 Sep 2017	8,00%	16,00%	50.000	68.000.000	-	68.000.000	-
Series 2015-3									
	XS1334170872	28 Sep 2022	0,45%	0,90%	50.000	500.000.000	-	-	500.000.000
Series 2016-1									
	XS1385037129	28 Sep 2020	0,35%	0,70%	50.000	2.000.000.000	-	-	2.000.000.000
	XS1385038283	28 Sep 2021	0,40%	0,80%	50.000	2.000.000.000	-	-	2.000.000.000
	XS1385038796	28 Sep 2022	0,45%	0,90%	50.000	2.000.000.000	-	-	2.000.000.000
	XS1385037988	28 Sep 2023	0,50%	1,00%	50.000	1.678.500.000	-	-	1.678.500.000
Series 2017-1									
	XS1688694287	28 Sep 2022	0,50%	0,50%	50.000	-	550.000.000	-	550.000.000
	XS1688694790	28 Sep 2022	0,75%	0,75%	50.000	-	700.000.000	-	700.000.000
	XS1688694527	28 Sep 2022	1,00%	1,00%	50.000	-	575.000.000	-	575.000.000
	XS1688694360	28 Sep 2022	8,00%	16,00%	50.000	-	250.000.000	-	250.000.000
Total						30.472.000.000	2.075.000.000	6.064.500.000	26.482.500.000

The total of these programs is EUR 33 billion. No new securitisation programmes were initiated in 2017.

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.

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Independent auditor's report

To: the shareholder of ABN AMRO Hypotheken Groep B.V.

Report on the audit of the financial statements 2017

Our opinion
We have audited the financial statements 2017 of ABN AMRO Hypotheken Groep B.V. (AAHG) based in Amersfoort.

In our opinion the accompanying financial statements give a true and fair view of the financial position of AAHG as at 31 December 2017, and of its result for 2017 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:
The statement of financial composition as at 31 December 2017
The statement of income for 2017
The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion
We conducted our audit 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	EUR 60 million
Benchmark applied	5% of earnings before tax (rounded)
Explanation	In determining the nature, timing and extent of our audit procedures, we use earning 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 EUR 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.

The key audit matters are consistent with prior year.

Risk	Our audit approach	Key observations
Valuation mortgage portfolio		
The provision for loan losses for mortgage lending as at 31 December 2017 amounts EUR 118 million. This estimated amount is considered the most significant estimation balance and considered a key audit matter for our audit. The appropriateness of the provision for loan losses for mortgage lending requires judgment of management. Loan losses are incurred if there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the mortgage loans that can be reliably estimated. The identification of impairment and the determination of the recoverable amount are part of the estimation process at AAHG including, amongst others, the assessment of objective evidence for impairment, the financial condition of the counterparty and the expected future cash flows. The use of different modelling techniques and assumptions impacts the estimate of the provision for loan losses for mortgage lending . As the mortgage loans represent the majority of AAHG's balance sheet and given the related estimation uncertainty on impairment charges, we consider this a key audit matter. The provision for loan losses for mortgage lending are 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. 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. 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. The disclosures on loans and receivables - customers and loan impairment allowances for loans and receivables meet the requirements under Dutch GAAP.

Risk	Our audit approach	Key observations
Related party transactions		
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 term 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 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. 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. The disclosures on related party transactions meet the requirements under Dutch GAAP.

Risk	Our audit approach	Key observations
Reliability and continuity of the automated system		
The reliability and continuity 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 2017 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 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 pursuant to 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

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 assignment 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.

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 e.g.,:

- 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 presentationWe communicate with management, 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.

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 those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. 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.

Amersfoort, 23 April 2018
Ernst & Young Accountants LLP

Signed by 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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