ABN AMRO Hypotheken Groep B.V.

Annual Report

2019

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ABN AMRO Hypotheken Groep B.V. at a glance

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

Our active brands

ABN·AMRO

florius

moneyou

Registered office in

Amersfoort, the Netherlands

Number of employees (FTEs)

990

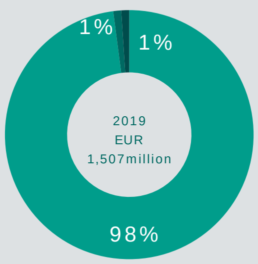
working for AAHG, seconded by ABN AMRO (2018: 947)

Operating income for 2019

1,507 million

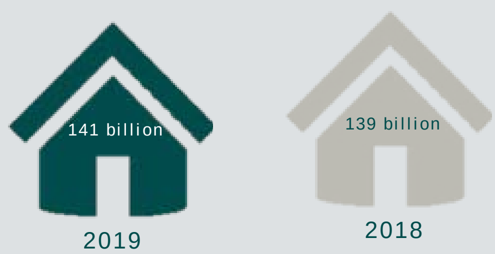
(2018: 1,549 million)

By type of income (in %)



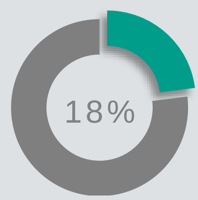
- Net interest income
- Net fee and commission income
- Other operating income

Mortgage portfolio



Market share

Origination



(2018: 17%)

ABN·AMRO

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Corporate structure

ABN AMRO Hypotheken Groep B.V. (AAHG), a private limited liability company founded under Dutch law on 30 December 1991, is a wholly owned subsidiary of ABN AMRO Bank N.V. (ABN AMRO). The financial information of AAHG has been incorporated into the 2019 consolidated financial statements of ABN AMRO.

ABN AMRO has issued a statement of joint and several liability with respect to AAHG. By virtue of this statement, ABN AMRO 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

<u>Responsibilities</u>

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

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

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

<u>Appointment, suspension and dismissal</u>

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 Rules of Procedures of AAHG.

<u>Remuneration</u>

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

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

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

Supervisory Board

Responsibilities

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

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

The Supervisory Board meets at least four times a year and whenever any Supervisory Board member deems necessary. The Audit Committee and Risk Committee are the only sub-committees of the Supervisory Board. The responsibilities of the Audit Committee and the Risk Committee include assessing all matters relating to the accounting policies, 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.

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 2019, two members of the Supervisory Board are external members, one of the four members of the Supervisory Board was female and one of the three members of the Managing Board was female. AAHG strives to meet the gender target of 30% for the Supervisory Board and Managing Board. In the Supervisory Board gender diversity is currently 25%, in the Managing Board this is 33%. When vacancies arise, AAHG gives due consideration to any applicable gender requirements in its search for suitable new members who meet the fit.

Dutch Banking Code

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

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

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

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

General Meeting of Shareholders

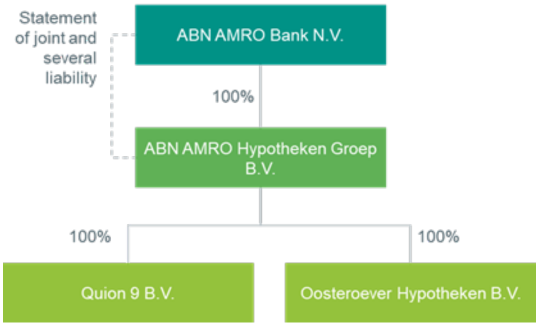
At least one General Meeting is held every year. The General Meeting is competent to adopt the Annual Reports and takes important decisions regarding the identity or character of AAHG. The agenda of the General Meeting includes the following items as a minimum: the Annual Report, adoption of the Statutory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

The last General Meeting was held on 9 May 2019. The General Meeting adopted the 2018 Statutory Financial Statements and granted discharge to the members of the Managing Board and the Supervisory Board.

Legal structure

Despite the legal merger between ABN AMRO Group N.V. and ABN AMRO Bank N.V. of 29 June 2019, which left ABN AMRO Bank N.V. as the surviving entity, AAHG is still a wholly owned subsidiary of ABN AMRO Bank N.V., a company incorporated in the Netherlands. AAHG is a fully licensed bank. Under the Single Supervisory Mechanism implemented in November 2014, ABN AMRO 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.



Report of the Managing Board

2019 was a year characterised by fierce competition in the mortgage market. Because of further decreasing interest rates, growing demand for long-term interest rate mortgages and continued increases in house prices, AAHG kept facing competition from both banks and non-banks. Despite the competition, we managed to grow our mortgage portfolio. In 2019, AAHG had a market share in new production of 18% in the Netherlands.

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

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 Stater N.V.
ABN AMRO sold 75% of the shares in Stater on 23 May 2019.

Strategy

ABN AMRO's purpose is: 'Banking for better, for generations to come'.

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

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

In every mortgage advice we address sustainable improvement opportunities. We experiment with customers and partners to find new opportunities to achieve this. We introduced the 'Duurzaam Wonen Hypotheek' and 'Verduurzaam Hypotheek', two types of sustainable mortgages. With these products we facilitate customers in their energy-saving efforts in their homes by offering favourable terms and an attractive interest rate.

We also introduced the 'Overwaarde Hypotheek' in 2019. This is a new type of equity release mortgage for older homeowners. This product has been awarded the 'Gouden Lotus Award' for being the most innovative mortgage product in the Netherlands.

Reinventing the customer experience:
ABN AMRO wants to be a customer-focused and data-driven bank that treasures the customer relationship and delivers an effortless and unique customer experience by aiming to exceed customer expectations.

At Florius we achieved the first objective through 'Instant Mortgage', a digital application process that relies fully on digital source data instead of paper documents. Customers can now increase their mortgage based on source data.

Florius has been rewarded as 'Global Customer Analytics Team of the Year'. We were presented with the award in London during the Verint Engage EMEA 2019 award ceremony. Florius was lauded for its continuous investments in renewing and improving customer contact. Among other things by being the first party in the Benelux to successfully deploy new technologies, such as Real Time Speech and Speech Analytics.

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

In 2019, we started a new Originate-to-Distribute proposition for 30-year fixed-rate mortgages. This enables us to benefit from the strong demand for long-term interest rate mortgages in the Dutch market.

Financial information

Given the fierce competition in the market, we are content with the overall financial results we achieved in 2019. Our key financial indicators showed the following movements compared to 2018:

- Profit for the year decreased from EUR 919 million to EUR 858 million.
- Operating income decreased from EUR 1,549 million to EUR 1,507 million.
- Operating expenses increased from EUR 314 million to EUR 353 million.
- Impairment charges on financial instruments increased to EUR 19 million.

Principal risks and uncertainties

The Dutch mortgage market deteriorated slightly from 2018 to 2019. Although historically still very high, the volume of new mortgage registrations at the Dutch Land Registry (Kadaster) fell from EUR 105.9 billion in 2018 to EUR 104.4 billion in 2019.

The Dutch mortgage market continues to be attractive to many players because of the low-interest rate environment. Non-banks, such as pension funds, insurance companies and asset managers still have a substantial share in the Dutch mortgage market, either directly or indirectly through so-called 'directing parties'. These competitors have the advantage that Basel IV regulation does not affect them.

Furthermore, non-banks have an appetite for long-term interest rate mortgages (20 years or longer), which currently represent the majority of market demand. These long-term interest rate mortgages do not make a natural fit with the funding profile of a bank. New competitors often have a different funding profile and have a stronger appetite for these long-term interest rate mortgages. In 2019, we explored our options and introduced our new Originate-to-Distribute proposition for 30-year fixed-rate mortgages.

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

Principal risks for AAHG are:

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

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

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The current Covid-19 outbreak will most likely impact the global economy as well as AAHG's financial position and earnings. We expect it to affect expected loan losses in particular. As it stands, AAHG is closely monitoring any financial impact attributable to the Covid-19 outbreak. Given the uncertainties surrounding the health crisis and ongoing developments, AAHG cannot accurately and reliably estimate the quantitative impact for the coming year. However, it is highly expected that AAHG will continue to be profitable.

Rules and regulations
In 2019, we updated and aligned our policies and underwriting criteria to new rules and regulations, and changes in the National Mortgage Guarantee (Dutch acronym: NHG). We updated our risk framework for interest-only mortgages and took measures to comply with new forbearance guidelines.

We also improved our definition of what qualifies as default by applying Unlikely-to-Pay triggers to parts of the mortgage portfolio and we introduced new watch triggers for specific interest-only mortgages.

In order to comply with the Dutch Act on the prevention of money laundering and financing of terrorism (in Dutch: Wwft) we have installed a program to investigate if client files are in good order, if unusual transactions are timely reported and if relationships with clients are discontinued in good time.

Changes in the Managing Board
There were no changes in the composition of the Managing Board in 2019.

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 Managing Board performed a self-assessment in the fourth quarter of 2019.

Amersfoort, the Netherlands, 7 May 2020

Managing Board
ABN AMRO Hypotheken Groep B.V.

Report of the Supervisory Board

The Supervisory Board is pleased to offer the Annual Report 2019 as presented by the Managing Board. The Supervisory Board is happy with the financial performance of AAHG given the difficult market conditions.

Changes in the Supervisory Board

There were several changes in the composition of the Supervisory Board in 2019.

- On 30 January 2019 L.M.R. (Lieve) Vanbockrijck was appointed as a Supervisory Board member.
- On 30 January 2019 R.M. (Marije) Elkenbracht was given an honourable discharge as a Supervisory Board member.
- On 14 August 2019 D. (Durk) Reitsma was appointed as a Supervisory Board member.
- On 14 August 2019 P.J. (Paul) Scholten was appointed as a Supervisory Board member.
- On 14 August 2019 V.E. (Vanessa) Hart was given an honourable discharge as a Supervisory Board member.

We would like to take this opportunity to thank Marije and Vanessa for their valuable input and their commitment and contributions to AAHG.

The shareholder, ABN AMRO, appoints the members of the Supervisory Board based on a collective suitability profile.

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

Remuneration of the Supervisory Board

AAHG has two external Supervisory Board members. The chair is engaged and remunerated by ABN AMRO under an advisory contract and one member is engaged and remunerated by AAHG. Two members of the Supervisory Board qualify as employees of ABN AMRO and receive no remuneration for their roles as Supervisory Board members.

Supervisory Board meetings

The Supervisory Board held four scheduled meetings, two half-year meetings and a summer session in 2019. 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 members of the Managing Board and the Company Secretary.

The Company Secretary prepared agendas for Supervisory Board meetings in 2019. Recurring agenda items included financial performance, risk management, compliance, audit findings, market and regulatory developments and strategy. In addition to the seven scheduled meetings, the Supervisory Board held a meeting to discuss the outcome of the self-assessment. Three deepdives/lifelong learning sessions were held that concerned the mortgage market and our position. The Supervisory Board interacts regularly with the Managing Board.

Throughout the year, the Supervisory Board monitored the implementation of the strategy and supported the Managing Board in its efforts to put customer interests first and maintain a moderate risk profile as part of the long-term strategy.

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

Audit Committee and Risk Committee

The financial information was audited by both internal and external auditors. AAHG provides the information to the members of the Supervisory Board on a regular basis in order to educate them on the different risk types and share relevant results. The Supervisory Board has closely followed the activities with regards to anti-money laundering and the financing of terrorism. The amount of work has increased considerably.

EY is AAHG's independent external auditor. EY audited the 2019 Annual Report and the Statutory Financial Statements. The Annual Report and accompanying Statutory Financial Statements were discussed by the Supervisory Board on 7 May 2020. In addition, EY presented its Audit Plan for the 2019 audit to the Supervisory Board on 17 December 2019.

In 2019, the Audit Committee and Risk Committee held four plenary meetings. The Risk Management Report, which is provided to the Supervisory Board on a regular basis, served as the basis for effective discussions on principal risks.

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

Covid-19

With regard to the impact of Covid-19 we refer to the report of the Managing Board. The Supervisory Board closely monitors the situation together with the Managing Board.

Advice to the General Meeting of Shareholders

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

Amersfoort, the Netherlands, 7 May 2020

Supervisory Board
ABN AMRO Hypotheken Groep B.V.

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Statutory statement of financial position

(after profit appropriation)

(x EUR 1,000)	Note	31 December 2019	31 December 2018
Cash	3	5,350,882	4,218,852
Loans and advances - banks	4	20,117,993	24,507,018
Loans and advances - customers	5	140,712,555	138,416,318
Participating interests in group companies	6	1,370	1,370
Property and equipment	7	229	257
Other assets	8	4,424,470	3,373,682
Prepayments and accrued income	9	2,073	1,845
Total assets		**170,609,572**	**170,519,342**
Due to banks	10	148,283,792	145,458,830
Due to customers	11	2,492,284	2,346,516
Other liabilities	12	19,361,974	22,203,510
Accruals and deferred income	13	343,674	407,833
Provisions	14	112,385	97,634
Total liabilities		**170,594,109**	**170,514,323**
- Paid-up and called-up capital		19	19
- Other reserves		15,444	5,000
Total equity	15	**15,463**	**5,019**
Total liabilities and equity		**170,609,572**	**170,519,342**
Irrevocable commitments	16	4,798,980	4,024,347

Statutory income statement

(x EUR 1,000)	Note	2019	2018
Interest income		4,762,376	5,562,518
Interest expense		3,293,959	4,051,278
Net interest income	19	1,468,417	1,511,240
Share of profit of associates	6	15,520	14,193
Fee and commission income	20	8,111	8,764
Other operating income	21	14,550	14,687
Operating income		**1,506,598**	**1,548,884**
Personnel expenses and other general and administrative expenses	22	281,051	316,339
Depreciation	7	326	529
Other operating expenses	23	52,418	1,088
Impairment charges on financial instruments	24	19,080	-4,081
Operating expenses		**352,875**	**313,875**
Operating profit before taxation		**1,153,723**	**1,235,009**
Income tax expense	25	295,578	316,413
Profit for the year		**858,145**	**918,596**

Statutory statement of cash flows

(x EUR 1,000)	Note	2019	2018
Cash flows from operating activities			
Profit before tax		1,153,723	1,235,009
Adjustments of non-cash items included in profit:			
Amortisation and depreciation	7	326	529
Changes in impairment charges	5	22,105	-30,972
Changes in other provisions	14	15,161	-4,595
Income tax expense	25	-295,578	-316,413
Changes in operating assets and liabilities			
Changes in loans and advances - banks	4	4,389,024	10,950,456
Changes in loans and advances - customers	5	-2,231,342	749,745
Changes in due to customers	11	145,768	129,297
Changes in prepayments and accrued income	9	-229	-74
Changes in accruals and deferred income	13	-64,159	-80,854
Changes in other provisions	14	-410	-7,538
Changes in other assets	8	-1,050,788	-872,436
Changes in other liabilities	12	-2,770,639	-8,028,906
Net cash from operating activities		**-687,038**	**3,723,248**
Cash flows from investing activities	7	**-299**	**0**
Cash flows from financing activities			
Dividends paid	15	-918,596	-900,078
Changes in due to banks	10	2,737,963	-1,691,304
Net cash from financing activities		**1,819,367**	**-2,591,382**
Net increase/decrease in cash and cash equivalents		**1,132,030**	**1,131,866**
Cash and cash equivalents at 1 January		4,218,852	3,086,986
Increase/decrease in cash and cash equivalents		1,132,030	1,131,866
Cash and cash equivalents at 31 December	3	**5,350,882**	**4,218,852**

Notes to the Annual Financial Statements

What follows are the notes to the Statutory Annual Financial Statements of ABN AMRO Hypotheken Groep B.V. for 2019.

1 General

ABN AMRO Hypotheken Groep B.V. (AAHG) is a private limited liability company. AAHG has its registered office at Computerweg 8, 3821 AB Amersfoort, the Netherlands. All ordinary shares are held by ABN AMRO Bank N.V. (ABN AMRO). AAHG is registered with the Dutch Chamber of Commerce under number 08024285.

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

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

AAHG offers residential mortgages in the Netherlands.

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

1.1 Accounting policies

The Annual Financial Statements have been prepared in accordance with the provisions in Part 9, Book 2 of the Dutch Civil Code. As of 1 January 2018, AAHG has adopted the expected credit loss impairment principles of IFRS 9 "Financial Instruments", including the related disclosure requirements of IFRS 7, which is an option offered in Dutch Accounting Standard 290 "Financial Instruments" applicable under Book 2 of the Dutch Civil Code.

As an intermediate holding company, AAHG applies the consolidation exemption provided by Section 408, Book 2 of the Dutch Civil Code.

1.2 Going concern

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

1.3 Estimates and assumptions

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

1.4 Recognition and derecognition

Financial assets are generally derecognised when AAHG no longer has the economic benefits and risks 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.

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

1.5 Related parties

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

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

1.6 Foreign currency translation

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

1.7 Amortised cost

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

1.8 Fair value

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

1.9 Maturities of assets and liabilities

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

1.10 Impairments

The expected credit loss model (ECL) is forward-looking. The IFRS 9 impairments are applicable to financial assets measured at amortised cost and FVOCI, and to loan commitments. Financial instruments are divided into three groups, depending on the stage of credit quality deterioration:

- Financial instruments without a significant increase in credit risk stage (stage 1, performing);
- Financial instruments with a significant increase in credit risk (stage 2, underperforming);
- Credit-impaired financial instruments (stage 3, non-performing).

For details, see the 'Risk Management' chapter.

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

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

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

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

2.4 Participating interests in group companies
Participating interests in group companies are recognised using the equity method.

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

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

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

The following depreciation rates are used:

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

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

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

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

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

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

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

2.12 Provisions
A provision is recognised in the statement of financial position when:
- there is a present obligation (legal or constructive) as a result of past events;
- a reliable estimate can be made of the amount of the obligation; and
- it is probable that an outflow of resources will be required to settle the obligation.

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

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

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

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

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

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

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

2.17 Personnel expenses and other general and administrative expenses
Personnel expenses relate to all externally hired staff. The related expense is recognised in the income statement in the period in which the work is performed. The employees are hired from ABN AMRO on the basis of a secondment contract. ABN AMRO charges this expense to AAHG on a monthly basis.

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

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

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

2.20 Impairment charges on financial instruments

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

2.21 Tax

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

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

AAHG forms a corporate income tax group with ABN AMRO and several of ABN AMRO's Dutch subsidiaries. Each member of the tax group bears joint and several liability for the income tax payable by the members of the tax group. Taxes are settled within this tax group as if each company were an autonomous taxpayer.

2.22 Statement of cash flows

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

2.23 Changes in accounting estimates

In June 2019 AAHG improved the definition of default by applying Unlikely-to-Pay (UtP) triggers to parts of the mortgage portfolio and introduced new watch triggers for specific interest-only mortgages. This led to a higher default exposure and hence an increase in loan loss allowances. A gross carrying amount of EUR 89 million was transferred from stage 1 to stage 3. Another gross carrying amount of EUR 283 million was transferred from stage 2 to stage 3. An allowance for credit losses of EUR 13 million was transferred to stage 3.

3 Cash

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Cash in hand and other cash equivalents	5,350,882	4,218,852
Cash	**5,350,882**	**4,218,852**

Cash is at AAHG's free disposal.

4 Loans and advances - banks

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Deposits held with ABN AMRO	17,532,500	22,032,500
Receivables from group companies	2,585,493	2,474,518
Loans and advances - banks	**20,117,993**	**24,507,018**

'Deposits held with ABN AMRO' is the deposit at ABN AMRO. AAHG funds 100% of the mortgages at ABN AMRO and for the money received from the securitisations, AAHG forms a deposit at ABN AMRO.
None of the deposits held with ABN AMRO had a term to maturity of less than three months (2018: EUR 0). Of this item, EUR 4.0 billion relates to deposits with a remaining term to maturity of between three months and one year (2018: EUR 4.5 billion) and EUR 11.5 billion relates to deposits with a remaining term to maturity of between one year and five years (2018: EUR 15.5 billion). The remaining amount relates to deposits with a remaining term to maturity of more than five years.
The average interest rate on the deposits is 0.25% (2018: 0.4%). Receivables from group companies are interest-free.

5 Loans and advances - customers

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Mortgage loans	140,820,594	138,501,540
- of which securitised	*14,395,656*	*18,242,239*
Arrangement fees	810	1,522
Impairment charges	-108,849	-86,744
Loans and advances - customers	**140,712,555**	**138,416,318**

The total collateral (i.e. the net collateral value) provided for the mortgage loans represented EUR 214 billion on 31 December 2019 (2018: EUR 213 billion). The surplus value amounted to EUR 77.5 billion (2018: EUR 78.9 billion). Reference is made to the section on credit risk for further details on the collateral obtained. An amount of

EUR 25.2 billion of the collateral has been encumbered in relation to the securitised portfolio (2018: EUR 30.6 billion).

Of mortgage loans, an amount of EUR 36.3 billion has been pledged in relation to ABN AMRO Covered Bond Company B.V. (2018: EUR 36.3 billion), EUR 24.8 billion has been pledged in relation to ABN AMRO Covered Bond Company 2 B.V. (2018: 18.9 billion) and EUR 3.8 billion has been pledged to a.s.r. (2018: EUR 4.0 billion).

Movements in mortgage loans:

(x EUR 1,000)	2019	2018
At 1 January	138,501,540	139,250,210
Originated (production)	13,094,978	14,039,732
Purchase of PBNL portfolio	2,080,317	
Repayments	-13,154,363	-14,719,696
Change in deeds of assignment	298,122	-68,706
At 31 December	**140,820,594**	**138,501,540**

In November 2019, the beneficial ownership of Private Banking Nederland (PBNL) programme lending residential mortgages was acquired from ABN AMRO.

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

(x EUR 1,000)	2019	2018
Short-term (less than 3 months)	218,546	233,306
Long-term (between 3 months and 1 year)	165,171	170,428
Long-term (between 1 and 5 years)	2,101,076	1,801,013
Long-term (more than 5 years)	138,335,801	136,296,793
At 31 December	**140,820,594**	**138,501,540**

Loan loss allowances

Movements in this item can be broken down as follows:

(x EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2019	15,093	12,279	59,372	86,744
Transfer to stage 1	7,418	-7,245	-7,275	-7,102
Transfer to stage 2	-2,291	49,971	-46,803	877
Transfer to stage 3	-893	-9,267	57,276	47,116
Impairment charges for the period / Reversal of impairment no longer required	-9,119	14,160	15,533	20,574
Change in existing allowances	*-4,885*	*47,619*	*18,731*	*61,465*
Subtotal	**10,208**	**59,898**	**78,103**	**148,209**
Originated (production)	4,333	0	0	4,333
Repayments	-1,261	-8,541	0	-9,802
Write-offs	0	0	-21,690	-21,690
Changes in risk parameters and models	-7,056	1,208	-6,353	-12,201
At 31 December 2019	**6,224**	**52,565**	**50,060**	**108,849**

The loan loss allowance for stage 1 includes an amount of EUR 0.1 million for loan commitments.

(x EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018	22,607	20,818	95,257	138,682
Transfer to stage 1	13,857	-12,059	-12,401	-10,603
Transfer to stage 2	-2,703	22,637	-18,690	1,244
Transfer to stage 3	-2,896	-6,855	18,095	8,344
Impairment charges for the period / Reversal of impairment no longer required	-23,946	5,677	16,846	-1,423
Change in existing allowances	*-15,688*	*9,400*	*3,850*	*-2,439*
Subtotal	**6,919**	**30,218**	**99,107**	**136,244**
Originated (production)	7,473			7,473
Repayments	-2,011	-15,835	-1,641	-19,487
Write-offs			-36,349	-36,349
Changes in risk parameters and models	2,713	-2,104	-1,748	-1,139
At 31 December 2018	**15,093**	**12,279**	**59,372**	**86,744**

In 2018, the loan loss allowance for stage 1 included an amount of EUR 0.2 million for loan commitments.

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

Write-offs

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

6 Participating interests in group companies

AAHG's participating interests in group companies are:

(x EUR 1,000)		2019	2018
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 2019 of EUR 10.2 million (2018: EUR 8.6 million) and Oosteroever Hypotheken B.V. posted a profit for the year of EUR 5.3 million (2018: EUR 5.6 million).

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

(x EUR 1,000)	Quion 9 B.V.	Oosteroever Hypotheken B.V.	Total
At 1 January 2018	**236**	**1,134**	**1,370**
Profit for the year	8,630	5,563	14,193
Interim and final dividend	-8,630	-5,563	-14,193
At 31 December 2018	**236**	**1,134**	**1,370**
Profit for the year	10,183	5,337	15,520
Interim and final dividend	-10,183	-5,337	-15,520
At 31 December 2019	**236**	**1,134**	**1,370**

7 Property and equipment

This item can be broken down as follows:

(x EUR 1,000)	Leasehold improvements	Equipment	Hardware	**Total**
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-2,599	-4,106
At 1 January 2019			**257**	**257**
Investments			299	299
Divestment/disposal	-849	-658	-286	-1,793
Depreciation			-326	-326
Accumulated acquisition costs			2,869	2,869
Accumulated depreciation			-2,640	-2,640
At 31 December 2019			**229**	**229**

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

(x EUR 1,000)	Leasehold improvements	Equipment	Hardware	**Total**
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-2,070	-3,577
At 1 January 2018			**786**	**786**
Depreciation			-529	-529
Accumulated acquisition costs	849	658	2,856	4,363
Accumulated depreciation	-849	-658	-2,599	-4,106
At 31 December 2018			**257**	**257**

8 Other assets

This item can be broken down as follows:

(x EUR 1,000)	**2019**	2018
Receivables from group companies	3,479,700	2,715,002
Cash in transit	471,434	275,605
Trade receivables	25,420	33,412
Current account with insurers	49,851	4,344
Other receivables	398,065	345,319
Other assets	**4,424,470**	**3,373,682**

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

Receivables from group companies mainly consist of receivables from subsidiaries.

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

9 Prepayments and accrued income

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Prepaid expenses	2,073	1,845
Prepayments and accrued income	**2,073**	**1,845**

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)	2019	2018
- Due to ABN AMRO - Funding	143,805,123	142,489,352
- Due to ABN AMRO - Bank accounts	4,340,758	2,581,047
- Due to group companies	137,911	388,431
Due to banks	**148,283,792**	**145,458,830**

ABN AMRO provides AAHG (including its subsidiaries) with funding to issue mortgage loans, AAHG transfers part of the funding to its subsidiaries (EUR 4.2 billion). The contractual term to maturity of this funding runs until the date of cancellation of the funding agreement. As of the date of cancellation of all or part of the funding, AAHG may request further drawings under all or part of the funding agreement to be cancelled until six months after the cancellation date. After this date, no further drawings may be requested under all or part of the funding agreement. This is referred to as the cut-off date.

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

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

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

11 Due to customers

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Bank savings deposits linked to mortgages	2,315,738	2,183,225
Bank savings deposits not linked to mortgages	15,859	14,613
Savings deposits not linked to mortgages	142,902	126,788
Premium deposit accounts	17,785	21,890
Due to customers	**2,492,284**	**2,346,516**

Maturity of the liabilities:

(x EUR 1,000)	Current liabilities	Between one and 5 years	More than 5 years	Total 31 December 2019
Bank savings deposits linked to mortgages		9,000	2,306,738	2,315,738
Bank savings deposits not linked to mortgag	15,859			15,859
Savings deposits not linked to mortgages	142,902			142,902
Premium deposit accounts	1,100	295	16,391	17,785
Due to customers	**159,861**	**9,295**	**2,323,129**	**2,492,284**

(x EUR 1,000)	Current liabilities	Between one and 5 years	More than 5 years	Total 31 December 2018
Bank savings deposits linked to mortgages		6,000	2,177,225	2,183,225
Bank savings deposits not linked to mortgag	14,613			14,613
Savings deposits not linked to mortgages	126,788			126,788
Premium deposit accounts	1,400	234	20,255	21,890
Due to customers	**142,801**	**6,234**	**2,197,481**	**2,346,516**

The movements in bank savings deposits linked to mortgages were:

(x EUR 1,000)	Bank savings deposits linked to mortgages
At 31 December 2018	2,183,225
Deposits	253,971
Interest	90,267
Withdrawal	-211,726
At 31 December 2019	**2,315,738**

The bank savings deposits are linked to mortgage loans, which means that customers cannot demand their immediate payment.

The bank savings deposits not linked to mortgage loans are due to customers.

The savings deposits not linked to mortgage loans are due to insurers.

Customers use premium deposit accounts to pay future premiums for their mortgage loans. The largest part of the premium deposit accounts (EUR 16.4 million) has an insurer as the counterparty; the remaining part of the premium deposit accounts has a consumer as the counterparty.

12 Other liabilities

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Due to SPEs	14,273,437	18,095,799
Dividends payable	847,701	918,596
Due to group companies	3,384,409	2,489,496
Trade payables and cash in transit	136,359	115,872
Current account with insurers	705,251	558,420
Other liabilities	14,817	25,327
Other liabilities	**19,361,974**	**22,203,510**

Due to SPEs

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

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

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

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

13 Accruals and deferred income

This item can be broken down as follows:

(x EUR 1,000)	**2019**	2018
Advance mortgage receivables	24,915	60,108
Interest payable	59	65
Accounts payable	18,362	26,822
Mortgages payable	5,794	10,464
Tax payable	294,544	310,374
Accruals and deferred income	**343,674**	**407,833**

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

14 Provisions

This item can be broken down as follows:

(x EUR 1,000)	**2019**	2018
Legal provisions	110,139	95,341
Other provisions	2,246	2,293
Provisions	**112,385**	**97,634**

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

Euribor

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

ABN AMRO lost the class action cases in two instances and decided to appeal to the Dutch Supreme Court. On 22 November 2019, the Supreme Court overruled the Amsterdam Court of Appeal in the Euribor collective cases. The case will be referred to another Court of Appeal (The Hague) in order to deal with the case further. This Court will need to take all relevant aspects into account to rule whether the clauses are unfair.

On 13 February 2020, ABN AMRO and the foundation Stichting Euribar reached an agreement on a settlement for customers with Euribor-Woninghypotheek mortgages. Key points of the agreement are:

1) compensation for the past (62.5% of the increases in the margin charge in 2009 and 2012, calculated until 1 April 2019 at the latest and plus statutory interest); and
2) certainty for the future margin charge (until 1 January 2025, the Euribor margin charge will remain fixed at the current Euribor margin charge of 1.0% and beyond 1 January /2025, the margin charge will be 1.0% as a minimum and may be raised to a maximum of 1.2% if costs for the Euribor-Woninghypotheek mortgages were to rise).

A large number of customers with a Euribor-Woninghypotheek mortgage will be eligible. These clients will receive a personal offer from ABN AMRO that reflects their situation, which they can accept or not.
Meanwhile, another foundation, i.e. Stichting Stop de Banken, broke off the negotiations to reach an agreement and has announced that it will proceed with the class action. ABN AMRO has recognised a provision for this matter.

Movements in provisions can be broken down as follows:

(x EUR 1,000)	Legal	Other	Total
At 1 January 2018	**93,680**	**16,087**	**109,767**
Increase in provisions	1,502	624	2,126
Utilised during the year	-7,059	-479	-7,538
Release in provisions	-206	-13,939	-14,144
Accretion of interest	7,424		7,424
At 31 December 2018	**95,341**	**2,293**	**97,634**
Increase in provisions	10,750	1,007	11,757
Utilised during the year	-410	0	-410
Release in provisions	-405	-1,054	-1,459
Accretion of interest	4,863		4,863
At 31 December 2019	**110,139**	**2,246**	**112,385**

The increase in provisions is mainly due to the transfer of the PBNL programme lending residential mortgages to AAHG in 2019.

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 2018	**19**	**20,744**	**20,763**
Impact of IFRS 9 through equity		-15,744	-15,744
Profit for the year		918,596	918,596
Interim and final dividend		-918,596	-918,596
At 31 December 2018	**19**	**5,000**	**5,019**
Profit for the year		858,145	858,145
Interim and final dividend		-847,701	-847,701
At 31 December 2019	**19**	**15,444**	**15,463**

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.

Proposed profit appropriation

The Managing Board has proposed to distribute an interim dividend of EUR 847,700,815. Retained earnings will be added to the other reserves.

16 Irrevocable commitments

Construction facilities are recognised together with an Irrevocable Payment Commitment (IPC) related to the European Single Resolution Fund (SRF) and mortgage offers as irrevocable commitments. The construction facilities amounted to EUR 2.7 billion in 2019 (2018: 2.5 billion). Mortgage offers stood at EUR 2.1 billion (2018: 1.5 billion). The IPC was EUR 13.3 million (2018: 8.1 million).

17 Off-balance commitments and contingent liabilities

Special-purpose entities

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

Claims

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

Other

In order to comply with the Dutch Act on the prevention of money laundering and financing of terrorism (in Dutch: Wwft) AAHG has installed a program to investigate if client files are in good order, if unusual transactions are reported in time and if relationships with customers are discontinued in good time.

Banks are considered gatekeepers of the financial system, which is a responsibility that AAHG takes very seriously. AAHG is making use of many centralized anti-money laundering and terrorist financing legislation (AML) procedures performed by its parent company ABN AMRO, including Customer Due Diligence (CDD) procedures. ABN AMRO invests significant resources to fulfil its role as gatekeeper in general and specifically in combating financial crime and works closely with regulators, governments, other banks and other authorities. As a result of internal review and the latest supervisory findings ABN AMRO has decided to accelerate its CDD program in order to be compliant with AML legislation. ABN AMRO has developed several centralized remediation programs, amongst others to speed up remediation actions for ABN AMRO Bank N.V. and its subsidiaries, including AAHG.

18 Remuneration of Supervisory Board and Managing Board

Two members of the Supervisory Board qualify as employees of ABN AMRO. They do not receive any remuneration for their roles as Supervisory Board members. One of the members of the Supervisory Board is engaged and remunerated by AAHG. The chair of the Supervisory Board is engaged and remunerated by ABN

AMRO. The total remuneration of the members of the Supervisory Board by AAHG was EUR 15,881 in 2019 (2018: EUR 0).

The total remuneration of the members of the Managing Board was EUR 893,755 in 2019 (2018: EUR 877,243).

The loans AAHG had granted to the incumbent members of the Managing Board and the Supervisory Board, and the related interest rates, were as follows on 31 December 2019:

(x EUR 1,000)	2019	Average interest rate (%)	2018	Average interest rate (%)
Loans to members of Managing Board	1,968	2.1	2,016	2.1
Loans to members of Supervisory Board	1,944	2.6	1,549	2.4
Outstanding loans	**3,912**		**3,565**	

In 2019, the members of the Managing Board made repayments in the sum of EUR 47,293. The members of the Supervisory Board repaid EUR 32,512.

19 Net interest income

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Interest received on mortgage loans	4,035,561	4,431,449
Interest paid on funding	-2,685,380	-3,085,563
Portfolio-related net interest income	1,350,181	1,345,886
Other interest income	726,815	1,131,069
Other interest expense	-608,579	-965,715
Non-portfolio-related net interest income	118,236	165,354
Net interest income	**1,468,417**	**1,511,240**

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

20 Fee and commission income

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Service fees	5,706	6,943
Collection fee	50	57
Other fee and commission income	2,355	1,764
Fee and commission income	**8,111**	**8,764**

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)	2019	2018
Reimbursements received from SPEs	6,191	9,177
Other operating income	8,359	5,510
Other operating income	**14,550**	**14,687**

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)	2019	2018
Personnel expenses	63,475	60,411
Housing, office and IT expenses	18,662	16,932
Services provided by third parties	57,847	55,836
Portfolio expenses	29,357	79,565
Selling and advertising expenses	3,150	1,645
Other expenses (including statutory levies)	108,560	101,950
Personnel expenses and other general and administrative expenses	**281,051**	**316,339**

At 31 December 2019, 990 people (FTEs) were directly involved in managing the mortgage portfolio (2018: 947 FTEs). A number of them are employees of ABN AMRO and ABN AMRO recharges the costs associated with employing them to AAHG on a monthly basis. AAHG does not have any employees of its own.

ABN AMRO sold 75% of the shares in Stater on 23 May 2019. From the time of sale, expenses associated with Stater have been recognised as operating expenses rather than portfolio expenses.

Other expenses mainly comprise advisory fees, operating expenses and statutory levies, such as Dutch Banking Tax and the European Single Resolution Fund (SRF).

Banks operating in the Netherlands are liable to Dutch Banking Tax. There are two Dutch Banking 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)	2019	2018
Other operating expenses	52,418	1,088
Other operating expenses	**52,418**	**1,088**

Other operating expenses consist of such costs as servicing fees paid. ABN AMRO sold 75% of the shares in Stater on 23 May 2019. From the time of sale, expenses associated with Stater have been recognised as operating expenses rather than portfolio expenses.

24 Impairment charges on financial instruments

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Change in impairments	42,442	15,589
Recovery and other	-23,362	-19,670
Impairment charges on financial instruments	**19,080**	**-4,081**

25 Income tax expense

This item can be broken down as follows:

(x EUR 1,000)	2019	2018
Income tax expense	295,578	316,413
Income tax expense	**295,578**	**316,413**

Corporate income tax group

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

Corporate income tax is due at the highest rate of 25% (2018: 25%). The effective tax rate is 25.6% (2018: 25.6%). No corporate income tax is due on the annual bank tax.

26 Events after the reporting date

Developments around Euribor-based mortgage loans are addressed in Note 14, 'Provisions'.

The current Covid-19 outbreak will most likely impact the global economy as well as AAHG's financial position and earnings. We expect it to affect expected loan losses in particular. As it stands, AAHG is closely monitoring any financial impact attributable to the Covid-19 outbreak. Given the uncertainties surrounding the health crisis and ongoing developments, AAHG cannot accurately and reliably estimate the quantitative impact.

Risk management

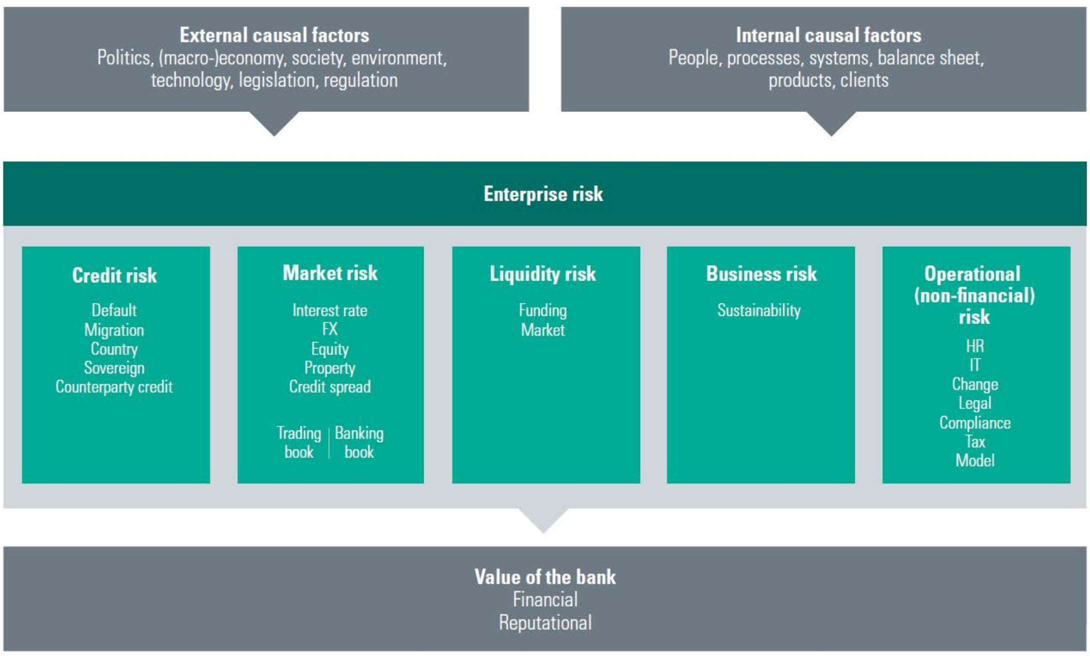
Strategy

AAHG's strategy, in line with that of ABN AMRO, explicitly states that we pursue a moderate risk profile. The following are key elements to keep the risk profile at a moderate level:

- Risk taxonomy
- Risk appetite
- Risk culture
- Risk governance
- Risk measurement

Within the **risk taxonomy**, risks are classified by risk types that might occur at 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 ABN AMRO that will help to manage all material risks and identify roles and responsibilities.

Risk taxonomy

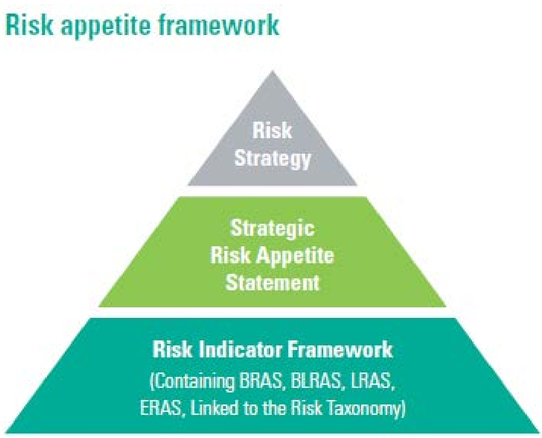


The principal risks AAHG incurs are:

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

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

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

Examples of KRIs in AAHG's risk appetite include:

- Return on equity
- Bad-rate new loans
- Portfolio size to manage concentration risk
- Cost/income ratio
- Average energy label

The risk appetite statement of AAHG qualifies as an Entity Risk Appetite Statement (ERAS).

Risk culture

AAHG has a continuous focus on risk awareness; this is an integral part of ABN AMRO's risk culture. Pursuing a moderate risk profile is embedded in the risk culture through training. The risk profile is monitored through performance management.

Employees are expected to be familiar with the drivers of AAHG's risk profile and to feel accountable for the risks they take. A continuing education tool and training app are used to continually reinforce bank-wide awareness of non-financial risks, while more specific training is also available for specific roles or functions. Employees are also expected to adhere to the ABN AMRO culture principles and to act in accordance with the code of conduct. These culture principles are fundamental to everything AAHG does and describe how AAHG acts as a bank, makes decisions and deals with various dilemmas, and - as such - are included in the continuing education tool.

Risk governance

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

The **three-lines-of-defence** principle consists of a clear division of activities and responsibilities in risk management at different levels within ABN AMRO 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 second LoD activities have been outsourced to ABN AMRO. The-three-lines-of-defence principle is explained in the following figure.

Risk measurement

AAHG uses risk models and systems developed by ABN AMRO, for instance to determine provisions and capital. Service level agreements are in place between ABN AMRO in its capacity as the supplier and AAHG in its capacity as the customer to ensure that AAHG can rely on the services provided by ABN AMRO.
ABN AMRO develops and uses internal models to quantify the risk for most risk types in the risk taxonomy. The models for credit, operational, market and liquidity risk are most widely used and allow for measuring the level of risk. They support day-to-day decision-making as well as periodic monitoring and reporting on developments in the bank's portfolios and activities. In most cases, models quantify the probability and severity of an event, i.e. the likelihood that an event occurs and the loss the bank may suffer as a consequence of that event. This serves as the basis for ABN AMRO's internal risk controls and forms key input for the calculation of the minimum regulatory capital requirements according to the Basel framework (regulatory capital).

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

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

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

AAHG uses stress testing and scenario analysis as an important risk management instrument, looking at profitability and capital from a mortgage portfolio perspective in various scenarios on an annual basis.

Credit risk

AAHG's credit risk showed positive developments over the past year due to economic growth, the low unemployment rate and falling interest rates. In 2019, the Dutch housing market was characterised by significantly higher house prices (6.5%) than in 2018 and an acute housing shortage. Credit quality indicators remained positive in line with the performance of the Dutch economy and the Dutch housing market.
The mortgage portfolio grew by EUR 2.3 billion. This was mainly attributable to the transfer of the PBNL programme lending residential mortgages to AAHG in 2019. The proportion of redeeming mortgages increased to 34% of the mortgage portfolio at 31 December 2019 (31 December 2018: 30%).

Breakdown of mortgage loans by type of loan

(x EUR 1,000)	2019	%	2018	%
Interest-only	65,225,322	46	66,609,495	48
Redeeming mortgages (annuity / linear)	48,257,274	34	41,301,756	30
Savings	13,557,041	10	15,246,493	11
Life (investment)	9,245,965	7	10,634,413	8
Other	4,534,992	3	4,709,383	3
At 31 December	**140,820,594**	**100**	**138,501,540**	**100**

The total of EUR 140.8 billion is the gross carrying amount, excluding loan loss allowances

The government-guaranteed (NHG) share of the residential mortgage portfolio decreased to 23% at 31 December 2019 (31 December 2018: 24%). The share of origination backed by government guarantees was slightly lower than in the total portfolio, but higher than last year (22% in 2019 versus 15% in 2018). Because of an increase in the NHG limit (EUR 290,000 in 2019 versus EUR 265,000 in 2018), more mortgages were eligible for an NHG guarantee in 2019.

Mortgages to indexed market value (LtMV)

(x EUR 1,000)	2019	%	2018	%
Government-guaranteed mortgages (NHG)	32,919,391	23	33,624,781	24
< 50%	31,934,266	23	30,989,092	22
50% - 80%	49,908,512	35	47,458,089	34
80% - 90%	15,262,598	11	15,093,653	11
90% - 100%	9,273,857	7	8,949,649	7
> 100%	1,521,970	1	2,386,276	2
At 31 December	**140,820,594**	**100**	**138,501,540**	**100**

The total of EUR 140.8 billion is the gross carrying amount, excluding loan loss allowances

AAHG's credit risk on NHG loans is low 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 slight improvement of the average LtMV, both NHG-guaranteed and unguaranteed. 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). Increases in the price index are now subject to a haircut, while decreases are not, which results in a better estimate of the actual house price.

The gross carrying amount of mortgages with an LtMV above 100% decreased further to EUR 1.5 billion (31 December 2018: EUR 2.4 billion). Please note that LtMVs in excess of 100% do not necessarily indicate that the related customers are in financial difficulties. AAHG actively approaches customers with interest-only mortgages or mortgages with any other uncertain repayment option in combination with high LtMV levels. AAHG informs them of the risks of their interest-only mortgage and discusses possible measures they can take to keep affording their mortgage after events such as retirement, further restrictions on interest rate deductibility and at maturity. The long-term LtMV of AAHG's portfolio is expected to decrease further as a result of rising housing prices, extra repayments and current tax regulations.

Mortgage indicators

(x EUR 1,000)	**2019**	2018
Gross carrying amount	140,820,594	138,501,540
- of which guaranteed mortgages (NHG)	32,919,391	33,624,781
Credit quality indicators		
Past due ratio	0.9%	1.3%
Stage 3 Impaired ratio*	0.7%	0.5%
Stage 3 Coverage ratio*	6.2%	10.0%
Mortgage indicators		
Average LtMV (indexed)	64%	64%
Average LtMV - excluding NHG loans (indexed)	62%	62%
Total risk mitigation/gross carrying amount	153%	154%
Cost of risk (year to date, in bps)	3	0

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

The stage 3 impaired ratio increased as a result of applying Unlikely-to-Pay (UtP) triggers to parts of the mortgage portfolio in 2019. The stage 2 exposure increased because of the recalibration of IFRS 9 models as well as a reclassification of customers with an interest-only mortgage that have a high refinancing risk at maturity.

Managing credit risk

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

AAHG's credit risk is managed based on a bank-wide credit risk policy and a detailed credit risk policy for mortgage loans. Management is responsible for managing and monitoring the credit risk (first line of defence). The business identifies, assesses, monitors and reports potential and actual credit risk losses within the defined credit risk framework. Credit risk is monitored on an ongoing basis to ensure credit risk developments remain within the set limits of the risk appetite. Customers with payment arrears are transferred to our collection partners, who help to identify the root cause of the payment problem and, if possible, resolve these problems.

The afore-mentioned programme includes an affordability test to determine whether a customer can refinance their mortgage at maturity. Based on the results of the affordability test, customers with a significant increase in credit risk are moved to stage 2.

Uncollateralised portions of mortgage loans

(x EUR 1,000)	2019	2018
Due from customers	140,712,555	138,416,318
Collateral value	212,090,641	211,169,814
Collateral bank savings	2,315,648	2,183,080
Other guarantees (e.g. NHG)	1,091,208	1,159,792
Surplus value of collateral	-77,530,435	-78,948,395
At 31 December	**2,745,493**	**2,852,027**

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

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

(x EUR 1,000)	2019	2018
Credit-impaired portfolio	990,539	690,018
Collateral value	1,144,787	825,499
Collateral bank savings	11,033	6,771
Other guarantees (e.g. NHG)	7,800	7,252
Surplus value of collateral	-241,939	-206,298
At 31 December	**-68,858**	**-56,794**

The credit-impaired portfolio increased as a result of applying Unlikely-to-Pay triggers to parts of the mortgage portfolio. Given this increase, the uncollateralised portions of the credit-impaired portfolio show a similar trend to that in the total mortgage portfolio. This was attributable to the improved economic circumstances in the Netherlands.

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

Breakdown of past due mortgage loans (<90 days)

(x EUR 1,000)	2019	2018
Mortgages	140,820,594	138,501,540
-of which not past due	138,946,691	136,318,825
Breakdown by days past due:		
≤ 30	1,651,217	1,929,470
> 30 & ≤ 60	155,442	178,392
> 60 & ≤ 90	67,244	74,853
At 31 December	**1,873,903**	**2,182,715**

The amount of EUR 140.8 billion is the gross carrying amount, excluding loan loss allowances

In 2019, past due mortgages developed positively overall.

Forbearance, past due credit exposures and loan loss allowances

Loans at risk are primarily exposures for which there are signs indicating that the customer may become credit-impaired in the future. Loans at risk are classified into different risk categories for individual counterparties and into days-in-arrears buckets for groups of aggregated customers in order to optimise monitoring and review of these loans.

Forbearance

Forbearance is the process of making concessions to customers who are or will soon be experiencing financial difficulties, with the intention of restoring their payment capacity. A forborne asset is any loan that has been entered into with a customer who is in or about to face financial difficulties, and that has been refinanced or modified on terms and conditions that we would not have accepted if the customer had been financially healthy.

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

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

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

(x EUR 1,000)	2019	2018
Total forborne assets	795,770	661,348
Forborne assets not past due and not stage 3	362,792	259,119
Forborne assets past due but not stage 3	70,994	83,495
Impaired forborne assets	361,984	318,733
Allowance (collective)	17,770	24,675

Other modifications pertain to interest-rate resets that are elected by the customer and resulted in a modification loss of EUR 25.9 million within 2019.

Past due credit exposures

A mortgage loan is past due if a customer fails to make a payment on the contractually agreed due date or if the customer has exceeded an agreed limit. AAHG uses instalments past due as a proxy for days past due.

Loan loss allowances

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

Change in credit quality since initial recognition		
Stage 1	**Stage 2**	**Stage 3**
Performing (Initial recognition)	**Underperforming** (Assets with significant increase in credit risk since initial recognition)	**Default = Impaired** (Credit impaired assets)
Recognition of ECL		
12 month ECL	Lifetime ECL	Lifetime ECL
Interest revenue		
Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on amortised gross carrying amount (i.e. net of credit allowance)

Stage triggers

AAHG uses quantitative and qualitative stage triggers to determine whether a mortgage should be classified as stage 1 or stage 2.

Quantitative stage triggers

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

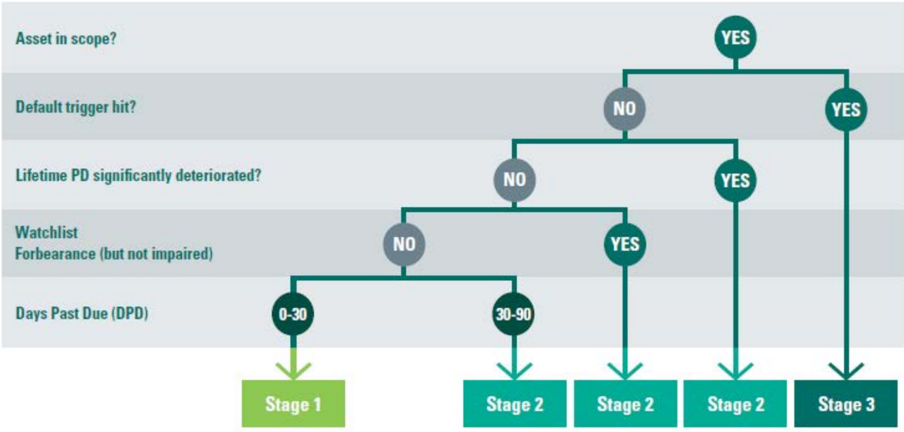
Qualitative stage triggers

When a mortgage loan meets one of the following qualitative triggers, the bank will transfer the instrument from stage 1 to stage 2:

- Forborne status of a borrower;
- Watch status of a borrower. AAHG assigns the watch status to customers with an increased credit risk. This process allows for intensive monitoring, early detection of deterioration in the credit portfolio and appropriate follow-up measures;
- The client has become non-performing (but is not in default);
- More than 30 days past due, based on number of instalments past due.

A transfer to stage 3 will always be the result of the default on a mortgage loan. A default is considered to have occurred when one of the default triggers (e.g. Unlikely-to-Pay (UtP), distressed debt restructuring, bankruptcy or fraud) has occurred. In addition, 90 days past due is used as a backstop for default.

The staging model can be summarised as follows:



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

Calculation method

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

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

Forward-looking information

Three different scenarios of future economic developments are incorporated into the IFRS 9 expected credit loss calculation and the probability-weighted risk stage determination (at 31 December 2019: baseline 60%, up 15%, down 25%). These scenarios are developed by ABN AMRO Group Economics at least quarterly and reviewed at each reporting date. Macroeconomic variables (e.g. GDP, unemployment rate, 10-year government bond yield, house price index) forecast by ABN AMRO Group Economics are used for the expected credit loss calculation and are chosen per specific segment and based on statistical relevance, such as credit risk drivers and expert judgement of the business. ABN AMRO has aligned its forward-looking scenarios with those used in the budgeting process. Specific forecasts of macroeconomic variables are made for two to three years; subsequent periods are gradually aligned to the long-term average.

Impairments

(x EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount	133,234,541	6,595,515	990,538	140,820,594
Allowances for credit losses	6,222	52,565	50,062	108,849
Coverage ratio	0.0%	0.8%	5.1%	
Stage ratio	94.6%	4.7%	0.7%	

Of the total exposure, 5.4% can be classified as stage 2 or stage 3. The total allowances for credit losses are EUR 108.8 million.

Credit quality by internal rating scale mapped to stages

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

(x EUR 1,000)	PD scale	Stage 1	Stage 2	Stage 3	Total
Investment grade	0.0000% - < 0.0346%	9,315,412	92,480		9,407,892
	0.0346% - < 0.1265%	60,685,426	592,086		61,277,512
	0.1265% - < 0.4648%	51,937,441	1,061,198		52,998,639
Sub-investement grade	0.4648% - < 2.2249%	10,217,544	1,651,749		11,869,293
	2.2249% - < 19.9706%	953,523	3,083,947		4,037,470
	19.9706% - < 100%	125,195	114,056		239,251
Default	100%			990,538	990,538
Total	**Total**	**133,234,541**	**6,595,515**	**990,538**	**140,820,594**

Concentration risk on ABN AMRO deposits

No collateral has been secured for the deposits held with ABN AMRO (2019: EUR 17.5 billion; 2018: EUR 22.0 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 (2018: EUR 0). EUR 4.0 billion relates to deposits with a term to maturity of between three months and one year (2018: EUR 4.5 billion) and EUR 11.5 billion to deposits with a term to maturity of between one year and five years (2018: EUR 15.5 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 0.25% (2018: 0.4%).

Maximum credit risk

The maximum credit risk that AAHG incurred was EUR 175.4 billion (2018: EUR 174.5 billion), consisting of EUR 140.8 billion in mortgage loans (2018: EUR 138.5 billion), EUR 17.5 billion in ABN AMRO deposits (2018: EUR 22.0 billion), EUR 12.3 billion in other assets (2018: EUR 10.0 billion) and EUR 4.8 billion in irrevocable commitments (2018: EUR 4.0 billion).

Market risk

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

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

AAHG has a funding agreement with ABN AMRO to finance the mortgage loans issued. AAHG pays ABN AMRO a funds transfer price (FTP) for financing the mortgage loans. The FTP is considered an at arm's length funding price that makes allowance for interest rate risk and liquidity risk stemming from the mortgage contracts. For this reason, as part of this agreement, market-risk-type interest rate risk, related to such aspects as customer behaviour, is 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)	2019	%	2018	%
Short-term (less than 3 months)	8,424,027	1.9	8,413,863	2.1
Long-term (between 3 months and 1 year)	6,366,628	3.2	6,146,252	3.6
Long-term (between 1 and 5 years)	22,813,359	3.5	24,875,646	3.8
Long-term (more than 5 years)	103,216,580	2.7	99,065,779	2.9
At 31 December	**140,820,594**		**138,501,540**	

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

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

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

(x EUR 1,000)	2019	%	2018	%
Short-term (less than 3 months)	0		0	
Long-term (between 3 months and 1 year)	4,000,000	0.0	4,500,000	0.5
Long-term (between 1 and 5 years)	11,532,500	0.3	15,532,500	0.3
Long-term (more than 5 years)	2,000,000	0.8	2,000,000	0.8
At 31 December	**17,532,500**		**22,032,500**	

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

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

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

The prepayment ratio has risen over the past few years, particularly due to falling interest rates. For many customers, 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 AAHG 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.

Fair value

(x EUR 1,000)	2019 Carrying amount	2019 Fair value	2018 Carrying amount	2018 Fair value
Financial assets				
Cash	5,350,882	5,350,882	4,218,852	4,218,852
Loans and receivables - banks	20,117,993	20,393,568	24,507,018	24,742,623
Loans and receivables - customers	140,712,555	150,653,662	138,416,318	146,429,353
Other assets	4,424,470	4,529,735	3,373,682	3,512,870
Prepayments and accrued income	2,073	2,073	1,845	1,845
Financial liabilities				
Due to banks	148,283,792	148,283,792	145,458,830	145,458,830
Due to customers	2,492,284	2,510,420	2,333,483	2,326,729
Other liabilities	19,361,974	20,696,190	22,216,543	23,656,184
Accruals and deferred income	343,674	343,674	407,833	407,833

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

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

The fair value of the mortgage portfolio (recognised within 'Loans and advances - customers') has been determined by calculating the discounted cash flows, which are estimated based on the average of all mortgage loan interest rates, by maturity and by risk category on 31 December 2019, based on online public information.

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 the ALM and Treasury departments of ABN AMRO. By means of the FTP, AAHG transfers liquidity risk to ABN AMRO, 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)	2019	2018
Short-term (less than 3 months)	218,546	233,306
Long-term (between 3 months and 1 year)	165,171	170,428
Long-term (between 1 and 5 years)	2,101,076	1,801,013
Long-term (more than 5 years)	138,335,801	136,296,793
At 31 December	**140,820,594**	**138,501,540**

AAHG's proceeds from the transfer of the legal title of financial assets (mortgage loans) to the SPE are placed on deposit with ABN AMRO. The contractual term of the deposit (2019: EUR 17.5 billion; 2018: EUR 22.0 billion) corresponds to that of the RMBS notes issued by the SPE. For an overview, see the overview of the Notes outstanding of Dolphin Master Issuer B.V. in the next section.

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

Securitisation

AAHG uses securitisation as a funding tool and for capital management purposes. In this process, AAHG transfers the legal title of financial assets (mortgage loans) to an SPE, which – for its part – issues RMBS notes to investors.

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

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

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

Dolphin Master Issuer B.V.

	Isin	Step-up dates	Margin	Step-up margin	Denomi- nation	Balance 1 jan 2019	Issued 2019	Redeemed / Cancelled 2019	Balance at year-end
Series 2010-I									
Class A3	XS049557191	28 Mar 2030	1.15%	2.00%	50,000	1,000,000,000	-	-	1,000,000,000
Class A4	XS049557299	28 Mar 2040	1.15%	2.00%	50,000	1,000,000,000	-	-	1,000,000,000
Series 2013-1									
Class A2	XS097291390	28 Sep 2019	0.95%	1.90%	50,000	2,000,000,000	-	2,000,000,000	-
Series 2014-1									
Class A	XS104622313	28 Sep 2019	0.75%	1.50%	50,000	2,000,000,000	-	2,000,000,000	-
Series 2014-3									
Class A	XS111796165	28 Sep 2019	0.37%	0.74%	50,000	500,000,000	-	500,000,000	-
Series 2015-1									
	XS119950279	28 Sep 2020	0.35%	0.70%	50,000	2,000,000,000	-	-	2,000,000,000
	XS119950287	28 Sep 2021	0.40%	0.80%	50,000	2,000,000,000	-	-	2,000,000,000
	XS119950295	28 Sep 2022	0.45%	0.90%	50,000	1,279,000,000	-	-	1,279,000,000
Series 2015-3									
	XS133417087	28 Sep 2022	0.45%	0.90%	50,000	500,000,000	-	-	500,000,000
Series 2016-1									
	XS138503712	28 Sep 2020	0.35%	0.70%	50,000	2,000,000,000	-	-	2,000,000,000
	XS138503828	28 Sep 2021	0.40%	0.80%	50,000	2,000,000,000	-	-	2,000,000,000
	XS138503879	28 Sep 2022	0.45%	0.90%	50,000	2,000,000,000	-	-	2,000,000,000
	XS138503798	28 Sep 2023	0.50%	1.00%	50,000	1,678,500,000	-	-	1,678,500,000
Series 2017-1									
	XS168869428	28 Sep 2022	0.50%	0.50%	50,000	550,000,000	-	-	550,000,000
	XS168869479	28 Sep 2022	0.75%	0.75%	50,000	700,000,000	-	-	700,000,000
	XS168869452	28 Sep 2022	1.00%	1.00%	50,000	575,000,000	-	-	575,000,000
	XS168869436	28 Sep 2022	8.00%	16.00%	50,000	250,000,000	-	-	250,000,000
Total						22,032,500,000	-	4,500,000,000	17,532,500,000

No new securitisation programmes were initiated in 2019.

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.

Operational risk

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

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

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

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

AAHG has launched a Customer Due Diligence program (CDD) to ensure compliance with the revised ABN AMRO Global Standards for CDD and to strengthen our internal procedures.

Banks are considered gatekeepers of the financial system, which is a responsibility that AAHG takes very seriously. AAHG is making use of many centralized anti-money laundering and terrorist financing legislation (AML) procedures performed by its parent company ABN AMRO, including CDD procedures. ABN AMRO invests significant resources to fulfil its role as gatekeeper in general and specifically in combating financial crime and works closely with regulators, governments, other banks and other authorities. As a result of internal review and the latest supervisory findings ABN AMRO has decided to accelerate its CDD program in order to be compliant with AML legislation. ABN AMRO has developed several centralized remediation programs, amongst others to speed up remediation actions for ABN AMRO Bank N.V. and its subsidiaries, including AAHG.

Approval of Annual Financial Statements by Supervisory Board

The Supervisory Board approved these Annual Financial Statements on 7 May 2020. The Annual Financial Statements will be adopted by the General Meeting of Shareholders.

For the Managing Board:
- Ms C.M. Dumas
- Mr S.L. van der Bijl
- Mr J.P. Kolk

For the Supervisory Board:
- Mr J.G. ter Avest
- Ms L.M.R. Vanbockrijck
- Mr D. Reitsma
- Mr P.J. Scholten

Other Information

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Independent auditor’s report

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

Report on the audit of the financial statements 2019 included in the annual report

Our opinion

We have audited the financial statements 2019 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 2019, and of its result for 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The statutory statement of financial position as at 31 December 2019
- The statutory statement of income for 2019
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

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

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

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

Materiality

Materiality	€55.000.000 (2018: € 60.000.000)
Benchmark applied	5% of operating profit before taxation (rounded)
Explanation	In determining the nature, timing and extent of our audit procedures, we use operating profit before tax as a basis for setting our planning materiality. We believe that this benchmark is the most important metric for the performance of AAHG.

We have also taken into account misstatements 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 € 2.750.000, 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.

Credit risk on loans, Note 5 to the financial statements 2019	
Risk	At 31 December 2019, the total mortgage loans amounted to EUR 140,8 billion with an associated loan impairment allowance for loans and advances – customers amounting to EUR 108,8 million. The impairment allowance represents the bank's best estimate of expected credit losses (ECL) on the loans and advances - customers at balance sheet date, which is calculated collectively. Key judgements and estimates in respect of the measurement of ECL includes the measurement of significant deteriorated credit risks and defaulted loans, modelling assumptions used to build the models that calculate the ECL per stage, assumptions used to estimate the impact of multiple economic scenarios, post model management adjustments and the accuracy and adequacy of the financial statement disclosures. The provision for loan losses for mortgage lending is disclosed in Note 5 Loans and receivables – customers of the annual financial statements. Related credit risk disclosures are included in the Risk management section of the financial statements. This estimated amount is considered a significant estimation balance and considered a key audit matter for our audit.
Our audit approach	We have assessed and tested the design and operating effectiveness of the controls within the mortgage origination, mortgage collection, credit risk management processes, including monitoring of arrears and the period end estimation process for determining impairment allowances including the governance over the collective provisioning. This included testing data accuracy and completeness, staging, and reporting. 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 are outsourced to ABN AMRO Bank NV. Furthermore, we performed substantive and analytical procedures over data, models, impairment calculation and overlays. Finally, we assessed the completeness and accuracy of the credit risk disclosures and whether the disclosures are compliant with requirements of Dutch GAAP.

Key observations	Based on our procedures performed we consider the loan impairment allowances for loans and receivables to be reasonable. The disclosures on loans and advances customers and loan impairment allowance are considered adequate and appropriate and meet the requirements under Dutch GAAP.
Related party transactions, Note 1.5 to the financial statements 2019	
Risk	AAHG reported its substantial related party transactions in the financial statements, providing disclosure on the nature and size of the transactions with related parties. AAHG entered into substantial transactions in terms of the funding of the lending operations, this includes regular funding transactions as well as funding operations through special purpose vehicles. Furthermore, major operations are outsourced to ABN AMRO Bank NV and Stater NV, a subsidiary of ABN AMRO Bank NV up to and including May 2019. This includes personnel, IT services and mortgage operations. These transactions are carried out at arm's length. With regards to funding, there are several judgmental and subjective elements in determining the pricing, including the dependency of AAHG with respect to the funding of the operations. These judgements and related disclosures are considered significant statements by the Company and considered a key audit matter for our audit. We also refer to the explanation about the related party transactions note 1.5 for the most important characteristics of these transactions.
Our audit approach	We verified the completeness of the disclosure on related party transactions as well as the correctness of the disclosed information in the related party section. We evaluated the interest charges that are based on the funds transfer price methodology of ABN AMRO Bank NV and controls related to the correct application of the methodology applied for setting the term and conditions of the funding operations. We have tested the internal controls based on which monitoring of outsourced activities by AAHG takes place. With respect to the outsourced operations to Stater NV, management obtains an assurance report from Stater NV, of which have assessed the controls in the report including 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.
Key observations	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.
Reliability and continuity of electronic data processing	
Risk	The continuity and reliability of the IT environment are crucial for AAHG's operations, and investigating usage of new technologies is vital for future growth. Additional IT challenges such as increasing data granularity in regulatory requirements urge for changes in processes, data quality and ownership. Having data directly available to clients through web applications require high security measures given the increased threat of cybercrime. It is becoming more and more important to optimize security and availability of the online services as well as the underlying IT infrastructure. During the 2019 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.

Our audit approach	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.
Key observations	For the audit of the financial statements we found the reliability and continuity of the automated data processing systems adequate.

Emphasis of matter relating to Corona developments

The developments surrounding the Corona (Covid-19) virus have a profound impact on people's health and on our society as a whole, as well as on the operational and financial performance of organizations and the assessment of the ability to continue as a going concern. The financial statements and our auditor's report thereon reflect the conditions at the time of preparation. The situation changes on a daily basis giving rise to inherent uncertainty. The impact of these developments on AAHG is disclosed by management in the Principal risks and uncertainties section of the Report of the Managing Board and in the Events after the reporting date disclosure in the 2019 annual report. We draw attention to these disclosures.

Our opinion is not modified in respect of this matter.

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 as required by 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 substantially 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 management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

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

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

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

Description of responsibilities for the financial statements

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

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

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

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

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

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

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

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

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

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

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

Amsterdam, 7th May 2020
Ernst & Young Accountants LLP

P.J.A.J. Nijssen

Supplementary 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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