ABN·AMRO

ABN AMRO Group N.V.

Annual Report 2018

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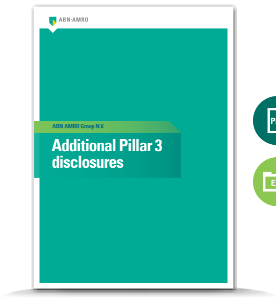
About this report

This is the Annual Report for 2018 of ABN AMRO, which consists of ABN AMRO Group N.V. and its consolidated entities. The purpose of the Annual Report Group and Annual Report Bank is to provide information about our financial and non-financial performance in compliance with regulatory requirements. ABN AMRO provides the following reports next to our Annual Reports:

The purpose of the Integrated Annual Review is to describe the group's ability to create value over time. As our primary report, it examines the themes that are central to achieving our long- and medium-term strategy. Information has been taken from the reports listed here, where applicable.



The Additional Pillar 3 disclosures on our website provides detailed quantitative information in the area of risk and capital management. A description of our main approach to risk management and qualitative Pillar 3 requirements is included in this report.

Other sustainability disclosures complement our Integrated Annual Review by providing detailed sustainability disclosures, background information, key figures and highlights under Reporting, including our Human Rights Report.

Other sustainability disclosures include updates on ABN AMRO's sustainability performance, human rights, value creating topics and stakeholder engagement.

Presentation of information

The Annual Report for 2018 consists of the Executive Board report (sections Strategy and performance, Risk, funding & capital, Leadership & governance), Report of the Supervisory Board and the Annual Financial Statements.

The financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU IFRS). Some chapters in the Risk, funding and capital section contain audited information and are part of the Annual Financial Statements. Audited information in these sections is labelled as 'audited' in the respective headings. All capital metrics and risk exposures in this section are reported under the Basel III (CRD IV/ CRR) framework. Some chapters in this section contain information according to Pillar 3 and Enhanced Disclosure Task Force (EDTF) requirements. These sections are labelled as 'Pillar 3' and 'EDTF' respectively.

This report is presented in euros (EUR), which is ABN AMRO's presentation currency, rounded to the nearest million, and sets out the results for the entire ABN AMRO organisation worldwide (unless otherwise stated). All financial year-end averages in this report are based on month-end figures. Management does not believe that these month-end averages present trends that are materially different from those that would be presented by daily averages. Certain figures in this report may not tally exactly due to rounding. In addition, certain percentages in this report have been calculated using rounded figures.

To download this report or obtain more information, please visit us at abnamro.com/ir or contact us at investorrelations@nl.abnamro.com. The definitions and abbreviations used in this report can be found on the ABN AMRO website via abnamro.com/annualreport.

Key figures and profile

ABN AMRO is a modern, full-service bank with a transparent and client-driven business model, a moderate risk profile, a clean and strong balance sheet with digital and traditional banking products, and a solid capital position and strong funding profile. We serve retail, private and corporate banking clients, with a primary focus on the Netherlands and selective operations internationally. Countries where ABN AMRO is present outside the Netherlands include France, Germany, Belgium and the United Kingdom. ABN AMRO also has branches, subsidiaries or representative offices in Norway, Greece, Guernsey, Australia, Brazil, the USA, Dubai, Singapore, China, Hong Kong and Japan.

Key figures

	Target 2020	2018	2017
Financial results			
Return on average equity	10-13%	11.4%	14.5%
Cost/income ratio	56-58%	58.8%	60.1%
CET1 (fully loaded)	17.5-18.5%	18.4%	17.7%
Dividend pay out ratio[1]	50%	62%	50%
Non-financial results[2]			
Net Promoter Score	Best NPS of Dutch peers		
- Retail Banking		-9	-9
- Commercial Banking		-2	-6
- Private Banking		-1	12
- Corporate & Institutional Banking		45	32
Employee engagement	≥ 80%	80%	79%
Trust monitor AFM/NvB	Leading among large Dutch banks	3.3	3.2
Dow Jones Sustainability Index ranking	Within 10% sector banks[3]	top 5% of sector banks	top 5% of sector banks
Gender diversity (% women)[4]			
- total		44%	46%
- subtop	35% women	27%	28%
- top	30% women	28%	25%
FTEs[5]			
Employee FTEs			
Total employee FTEs		18,830	19,954
- of which the Netherlands		15,557	16,269
- of which Rest of Europe		2,267	2,628
- of which USA		429	428
- of which Asia		440	490
- of which Rest of the World		138	139
Non employee FTEs			
Total non employee FTEs		4,608	4,003

1 Sustainable net profit excludes exceptional items that significantly distort profitability. In the first quarter of 2019, ABN AMRO proposed a dividend pay-out of 62% of the full-year 2018 sustainable net profit (after deduction of AT1 coupon payments and minority interests). The sustainable net profit was identical to the net profit for 2018.
2 For definitions and measurement methods of the non-financial indicators, please refer to the strategy chapter.
3 Target in refreshed strategy updated to top 5% of sector banks. Please note that, under DJSI, scores are not directly comparable because of regular recalibration and changes to methodology (2018: 86; 2017: 91).
4 In the Netherlands.
5 As per 31 December.

ABN AMRO shares

Key developments

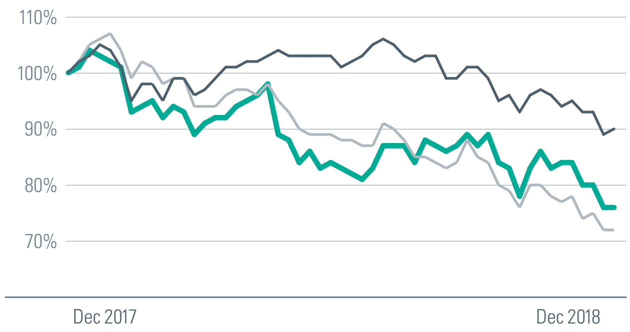
Between 29 December 2017 and 31 December 2018, ABN AMRO's share price (depositary receipts) declined 24%, while the STOXX Europe 600 Bank index declined 28%. Total dividend proposed for 2018 is EUR 1.45 per share, representing a dividend payout ratio of 62%. This consists of an interim dividend of EUR 0.65 paid in September 2018 and a proposed final dividend of EUR 0.80 per share, subject to approval at the annual general meeting.

Listing information and substantial holdings

A total of 470.9 million shares, which is 50.1% of the total issued capital of ABN AMRO Group N.V., are held by the STAK AAG ('Stichting Administratiekantoor Continuïteit ABN AMRO Group'). STAK AAG has issued depositary receipts representing such shares, which are listed on Euronext Amsterdam. NLFI holds 59.7 million (6.4%) of these depositary receipts and has waived, in its capacity of holder of depositary receipts only, any meeting and voting rights attached to the depositary receipts other than the right to vote in the shareholders meeting of ABN AMRO. The remaining 469.1 million shares (49.9%) are held directly by NLFI. More information is provided in the Leadership & governance section of this report. For more information about STAK AAG or NLFI, please go to the 'About ABN AMRO' section of abnamro.com or visit stakaag.org or nlfi.nl. The depositary receipts are traded under ISIN code NL0011540547, Reuters ticker 'ABNd.AS' and Bloomberg ticker 'ABN:NA'. Other than STAK AAG and NLFI, ABN AMRO is not aware of any current or potential shareholders (or owners of depositary receipts) that have an interest in ABN AMRO of 3% or more as at 31 December 2018.

Share price development

(in %)



Source: S&P Global Market Intelligence.

(in millions)	31 December 2018	31 December 2017
Share count		
Total shares outstanding/issued and paid-up shares	940	940
- of which held by NLFI	529	529
- of which listed (in the form of depositary receipts)	411	411
- as a percentage of total outstanding shares	44%	44%
Average number of shares	940	940
Average diluted number of shares	940	940
Key indicators per share (EUR)		
Earnings per share[1]	2.35	2.89
Shareholder's equity per share	20.58	20.53
Tangible shareholder's equity per share	20.41	20.34
Dividend per share[2]	1.45	1.45
Share price development (EUR)		
Closing price (end of period)	20.54	26.90
High (during the period)	28.48	27.16
Low (during the period)	19.81	20.95
Market capitalisation (end of period, in billions)	19.31	25.29
Valuation indicators (end of period)		
Price/Earnings	8.74x	9.31x
Price/Tangible book value	1.01x	1.32x
Dividend yield	7.1%	5.4%
Dividend pay out ratio[2]	62%	50%

[1] Profit for the period excluding reserved coupons for AT1 capital securities (net of tax) and results attributable to other non-controlling interests divided by the average outstanding and paid-up ordinary shares.
[2] Dividend per share and pay out ratio subject to approval of the annual general meeting in April 2019.

Strategy and performance

This section describes the environment in which ABN AMRO operated in the past year. It also includes details of the strategy and performance of the Group and the business lines during the same period.

Economic environment

The economic environment remained relatively favourable in 2018. The key countries in which ABN AMRO operates – Belgium, France, Germany, the United States and the Netherlands – all experienced continued growth. Once again, ABN AMRO's home market outperformed its European counterparts as the Dutch economy expanded by 2.5%.

Continued broad-based growth

The increase in activity in the Netherlands was broad-based, with household consumption, government spending, investments and exports all contributing to growth. Consumption advanced on the back of a positive labour market and developments in the housing market. The number of jobs rose, while unemployment fell to a historic low. Although the government decided to increase spending, supply constraints meant it was unable to meet all its intended expenditure commitments. Businesses experienced strong demand, and a lack of production capacity induced them to step up investments. Meanwhile, housing investments started to flatten after years of acceleration. The external sector benefited from relatively high growth in world trade on the back of strong international demand.

Global trade under pressure

Various signs point to global expansion having reached its peak in 2018, with the clearest sign of a slowdown being the persistent fall in confidence indicators. During the year, growth in world trade, industrial production and global GDP all weakened. This was partly for cyclical reasons as pent-up demand waned and the inventory cycle started running out of steam. In addition, inflation rose in response to higher energy prices and held back the increase in consumer purchasing power. The threat of protectionism also contributed to the declining confidence, while the political uncertainty created by Brexit and concerns about the Italian budget impacted sentiment. Business surveys meanwhile showed a substantial drop in export orders. Moreover, restrictive measures by Chinese policymakers aimed at deleveraging the economy reduced GDP growth in China, while the rate hikes and shortening of the balance sheet by the Federal Reserve also resulted in tighter financial conditions in many other countries.

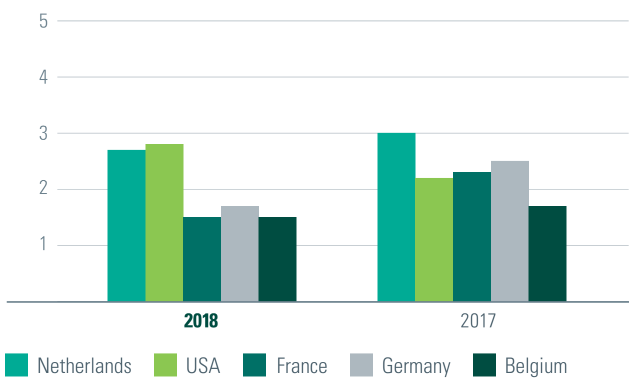
ECB preparing for QE withdrawal

On the back of higher commodity prices, headline inflation rose towards the ECB's 2% target, while core inflation, which disregards volatile price components, remained much lower. Technological change, growing international competition and a more flexible labour market continued to hold back price rises. However, the ECB repeatedly stated that it expects core inflation to rise, with ongoing economic growth and a further improvement in the labour market propping up the pressure on prices. Given this prospect, the ECB gradually reduced the degree of policy accommodation. Its first step was to reduce its monthly asset purchases, while the second step was to announce plans to cease purchases completely by the end of 2018 and then raise the deposit rate. Credit spreads materially widened in 2018, but came down again when signals of a slowing economy became more clear and the ECB notified markets it was about to inject more liquidity into the European banking system and would not raise official rates before 2020.

Rapidly rising house prices

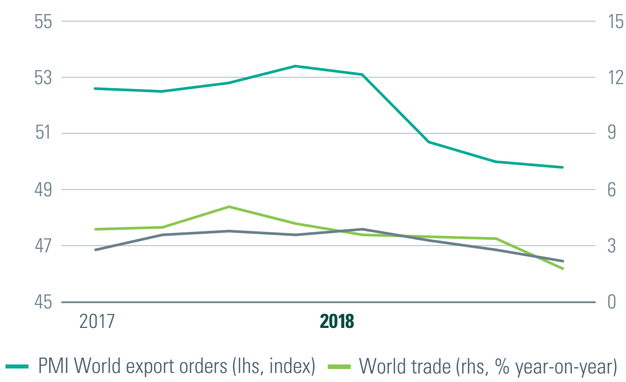
After reaching a historic high in 2017, Dutch housing transaction volume started declining in 2018. While the deceleration was initially confined to the Randstad conurbation, it later also became visible in other parts of the country. The decline was primarily caused by a lack of properties for sale. In response to this shortage, but also because of strong economic growth, the favourable labour

Dutch economic growth continues to outperform key countries
(% year-on-year 2018 figures average over first three quarters)



Source: Thomson Reuters Datastream.

International environment becomes less favourable
(index, % year-on-year)



Source: Thomson Reuters Datastream.

market, low mortgage interest rates and demand from buy-to-let investors, nominal house prices rose beyond their pre-crisis levels. However, regional differences are substantial. Moreover, the construction of new homes is continuing to fall well short of demand. Dutch housebuilders' slow response to market changes is a long-standing problem, which the government is trying to address. The problem will however take a long time to resolve, given the limited number of building permits. The fact that buyers are struggling to find suitable homes is taking its toll on sentiment in the housing market, which is still positive, albeit less buoyant than before.

Marginal growth in lending

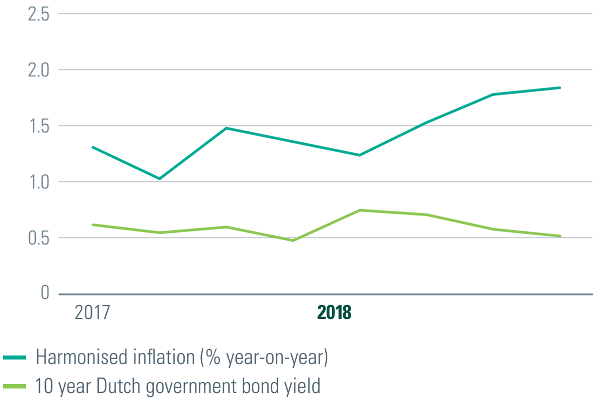
Despite the decline in housing transactions, mortgage production in the Netherlands continued to increase. A large share of mortgage production was attributable to refinancing by homeowners seeking to lock into low mortgage interest rates. At the same time, many other people redeemed all or part of their mortgage to reduce debt. As a result, the total amount of outstanding mortgage debt rose only moderately, and even shrank as a percentage of GDP. Thanks to the sharp increase in house prices and the rise in redemptions, the number of households in negative equity declined substantially during the year. Lending to non-financial businesses continued to decline, albeit less rapidly than before. Instead of using banks, businesses are now increasingly relying on internal funds, equity and corporate bonds to finance their investments. The low interest rate environment is inducing investors to explore a wider realm of investment opportunities and increasingly to flock to corporate bonds. As a result, direct financing options have become more accessible, particularly for larger businesses.

Weaker growth outlook

We expect the US growth momentum to wane, mainly driven by the slowdown in investments, which have been very strong in the past two years. While US government spending will pick up some of the slack, this will come to an end in 2019. Although the rivalry between the US and China is likely to persist, we do not expect China to experience a hard landing as the government is taking offsetting measures to ensure the country's economic slowdown is of a more gradual nature. Weakened confidence and less supportive financial conditions will affect activity in the eurozone. However, the European economy still has some slack. Since the upward effect of oil prices will be only temporary, the rise in inflation is likely to be slow. The overall contribution of external demand will become less supportive for the Netherlands, although domestic spending will continue to grow robustly. Dutch GDP growth will also receive a boost from the increase in public spending that was agreed in the Coalition Agreement. As capacity constraints meant the government had to postpone some of its intended spending in 2018, some of the positive effects of this on GDP growth will roll over to 2019.

Rise in inflation won't worry the ECB too much

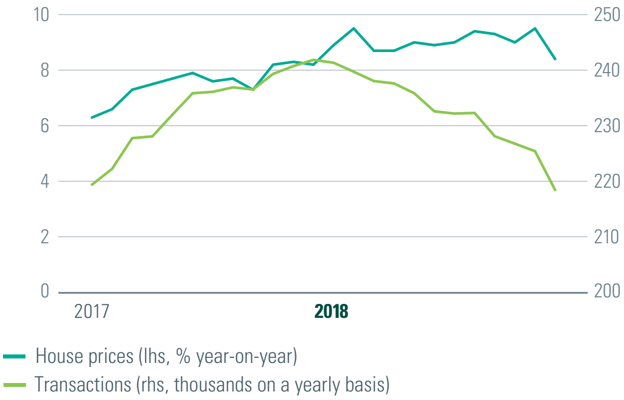
(% year-on-year, percentage)



Source: Thomson Reuters Datastream.

Housing transactions have peaked

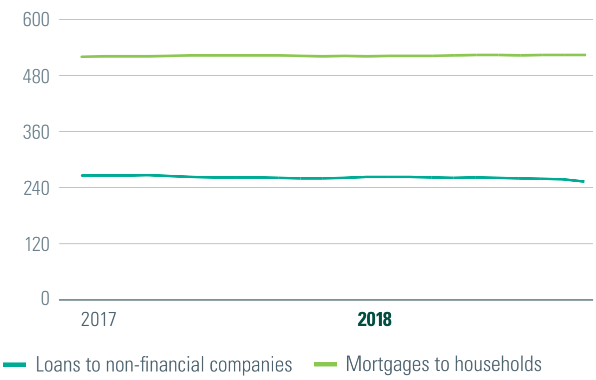
(% year-on-year, thousands on a yearly basis)



Source: Thomson Reuters Datastream.

Loan portfolio remains stable

(in EUR billions, Dutch financial institutions' loan portfolio to Dutch non-financial companies and households)



Source: De Nederlandsche Bank.

Regulatory environment

Introduction

ABN AMRO operates in a highly regulated sector, where regulations are also continually changing. The 2018 financial year saw over 30 significant regulatory developments that were either new or required substantial implementation efforts from ABN AMRO. Some of the key developments during the year are highlighted below.

Sustainability developments in financial legislation

On 8 March 2018 the European Commission unveiled its Action Plan on sustainable finance. This was followed on 24 May 2018 by the Commission's presentation of a package of measures that included three proposals aimed at:

- establishing a unified EU classification system of sustainable economic activities (i.e. a 'taxonomy');
- improving the disclosure requirements on how institutional investors integrate environmental, social and governance (ESG) factors into their risk processes; and
- creating a new category of benchmarks to help investors compare the carbon footprint of their investments.

In addition, the European Commission sought feedback on amendments to delegated acts under the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD), with the aim of including ESG considerations in the advice that investment firms and insurance distributors offer to individual clients. These amended delegated acts are expected to be adopted in 2019-2022.

Brexit

On 23 June 2016 the UK voted to leave the EU. Brexit is now scheduled for 29 March 2019. Planning for Brexit, however, has been difficult against the uncertain political and regulatory backdrop. This has been primarily because of the drawn-out negotiations for a withdrawal agreement, which have been affecting the entire financial market. The transition deal agreed between the UK and the EU in early 2018, which is intended to last until the end of 2020, provides for a smooth transition and legal continuity after Brexit on 29 March 2019. However, this transition period is inextricably linked to the withdrawal agreement; without the latter, there will be no post-Brexit transition. And although the UK and the EU reached such agreement in November 2018, uncertainties remain about whether this withdrawal agreement will survive.

Without a withdrawal agreement, EU financial services' passporting rights will cease to apply after Brexit, and appropriate local authorisations will then be needed by parties wanting to conduct business. The UK government has announced that, if necessary, it will introduce a temporary permissions regime for inbound passporting of European Economic Area (EEA) firms and funds. This will provide a backstop in the absence of a bilaterally agreed transition period and if the EU passporting regime falls away. An area of particular concern has been the continuing uncertainty about access to UK financial market infrastructures and to London's clearing houses. Because of the many uncertainties and the protracted negotiations, the ECB has instructed banks to prepare for a hard, 'cliff-edge' Brexit and to make contingency plans for a 'no-deal' outcome.

Finalisation of Basel III reforms (Basel IV)

The finalised Basel III standards of 7 December 2017 (Basel IV) imply a major change in the way banks have to determine their risk-weighted assets (RWAs) when calculating their minimum regulatory capital. Basel IV will limit the use of internal risk models to those exposure classes for which more default data are available (i.e. retail, small corporate and specialised lending exposures). In addition, a revised standardised approach for calculating credit risk and operational risk, a revised credit valuation adjustment (CVA) risk framework and a revised leverage ratio framework are being introduced. Lastly, where capital requirements are calculated on the basis of internal models, an output floor has been set at 72.5% of the outcome of the calculation based on standardised approaches. This output floor means that institutions basing their calculations on internal models will be required also to apply the revised standardised approaches when calculating their RWAs. Basel IV is due to be transposed into EU law in the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) and will enter into force during a transition period from 2022 onwards.

Reforms of Interbank Offered Rates

Interbank Offered Rates (IBORs) are broadly used in financial markets as benchmark interest rates for a wide range of products, including derivatives, deposits and mortgages. As the existing IBORs are increasingly likely to disappear over the coming years, financial market participants need to prepare for their replacements. Although no clear view has yet been formed on the composition of any new benchmark interest rates and the dates on which they can start to be used, the first IBOR-related reforms may start taking effect in 2019.

General Data Protection Regulation

The EU General Data Protection Regulation (GDPR) became effective on 25 May 2018 in replacement of the EU Data Protection Directive. The existing Dutch Data Protection Act (*Wet bescherming persoonsgegevens*) was consequently repealed, while the powers of the Dutch Data Protection Authority were expanded to include such things as the right to impose administrative fines. The GDPR aims to reinforce the data protection rights of individuals and to facilitate the free flow of personal data in the digital single market. Its requirements are stricter than those that applied under the Data Protection Directive.

Payment Services Directive II

A key objective of the EU Payment Services Directive II (PSD II) is to create a level playing field for all payment service providers, both incumbents and new entrants. Under PSD II, third parties may obtain access to details of payment accounts at banks and so start offering payment initiation and account information services. Therefore, going forward, these parties may play a larger role in the payment system. Dutch legislation implementing PSD II was adopted in December 2018 and entered into force in February 2019.

Strategy

Accelerate the sustainability shift

The sustainability shift in society and in our clients' business models offers new opportunities for ABN AMRO. We want to remain relevant and responsible, both now and in the future. So we are taking a stand with a positive and proactive purpose: "Banking for better, for generations to come". And we have refreshed our strategy to put that purpose at the centre of everything we do.

For us, this means being better for our customers and better for society. It means rethinking our mindset to ensure we have entrepreneurial, energised employees innovating to create the effortless experiences that clients expect, while also building a future-proof bank with strong business results. Supporting the 400,000 companies and 5 million private individuals who are our clients in their transition to sustainability is a business opportunity to capture. We will be designing models that support inclusion and a fairer society, and developing products that promote the transition to a more circular economy and help reduce emissions of CO_2 and other greenhouse gases.

Our ambitious strategy goes beyond purely financial value: it is about creating lasting value for all stakeholders. We want to accelerate the sustainability shift. Our strategy is based on three pillars: supporting our clients' transition to sustainability, reinventing the customer experience, and building a future-proof bank. This is because helping clients shift to sustainable ways of working and living means giving them a flawless experience. And to do that, we need high-performing people and processes. That is why we want to nurture a culture of energetic, engaged, well-trained employees and connected processes.

Support our clients' transition to sustainability

We want to support our clients' transition to sustainable products and business models, and will use our data, knowledge and expertise to do so in a profitable way. We want to make a positive impact by doing what we are good at – banking. To support our clients' transition to a more sustainable era, we have set three priorities:

- Innovate to support our clients in their sustainability journey;
- Embed sustainability in our current products, services and client touchpoints;
- Lead by example and living our purpose.

Reinvent the customer experience

ABN AMRO is a client-focused and data-driven organisation that treasures the client relationship and delivers an effortless and recognisable experience. We aspire to satisfy fundamental client needs and to 'wow' in the customer experience. To reinvent the customer experience, we have set four priorities:

- Improve clients' immediate pain points – including new client take-on, credit applications, instant help and track & trace – and their future pain points;
- Reinvent end-to-end customer journeys from scratch;
- Invest in capabilities that help us anticipate and respond to changing client needs;
- Enable the organisation to deliver an excellent customer experience and embed a client-focused culture.

Build a future-proof bank

Our organisation unleashes the potential of our people throughout their careers and fully equips them to successfully contribute to our purpose and strategy, with focus, engagement and high productivity. In seeking to become a future-proof bank, we have set two priorities:

- To offer our people a great employee experience in a purpose-led and values-driven culture;
- To design organisational structures, processes and IT systems that make work easier and help us fully realise our three strategic pillars.

Strategic targets

Group targets	Metric	Target 2020	2018	2017
Non-financial	Gender diversity in top	30% women in top	28%	25%
	Gender diversity in subtop	35% women in subtop	27%	28%
	Dow Jones Sustainability Index (DJSI) ranking[1]	Top 5% of banking sector	Top 5% of banking sector	Top 5% of banking sector
	Banking Confidence Monitor	Leading among large Dutch banks	3.3	3.2
Financial	Return on average equity	10-13%	11.4%	14.5%
	Cost/income ratio	56-58%	58.8%	60.1%
	CET1 (fully-loaded)	17.5-18.5%	18.4%	17.7%
	Dividend payout ratio	At least 50% of net sustainable profit	62%	50%

Strategic pillars		Metric	Target 2020	Target 2019	2018[2]
Support our clients' transition to sustainability	We are committed to our clients' transition to become more sustainable	▶ Renewable energy commitment as a % of energy portfolio	20%	14%	
		▶ Sustainability financing	EUR 3.0 billion	EUR 1.5 billion	
		▶ Sustainability investments (client assets)	EUR 16 billion	EUR 14.5 billion	
	We provide our clients with insight into their sustainability performance	▶ Clients rated on our sustainability rating tool	100%[3]	100%[3]	
	We help our clients invest in making their homes and real estate more sustainable	▶ Average energy label (residential properties)	63% rated A-C	61% rated A-C	
		▶ Average energy label (commercial properties)	31% average A	23% average A	
Reinvent the customer experience	Net Promoter Score (relational)	▶ Retail Banking	≥ -3	≥ -6	-9
		▶ Private Banking	≥ +3	≥ +1	-1
		▶ Commercial Banking	≥ +3	≥ 0	-2
		▶ Corporate & Institutional Banking	≥ +36	≥ +32[4]	+45
Build a future-proof bank	Employee engagement		80%	80%	80%

1 Please note that, under the DJSI, scores are not directly comparable because of regular recalibration and changes to methodology (2018: 86; 2017: 91).
2 Blank indicates new targets introduced as part of the 2018 strategy refresh. The targets have been set according to the following baselines (in same sequence as table): 12%; EUR 750 million; EUR 13.9 billion; within Corporate & Institutional Banking: 100%, excluding financial institution clients; 59.4% rated A-C; 13% average A.
3 Within Commercial Banking, this includes all CBC clients; within Corporate & Institutional Banking, this includes all clients with the exception of financial institution clients.
4 For Corporate & Institutional Banking, we expect a decrease in 2019 in our Net Promoter Score (relational) following recent organisational changes.

Long-term value creation

We create value for society, not only as a provider of financial services, but also as an employer and an investor. At the same time, we recognise that, through our business activities, we may also decrease value – if, for example, we close bank branches or invest in projects reliant on natural resources. Our value creation model is based on the IIRC's integrated reporting framework, which recognises six forms of capital – financial, human, intellectual, manufactured, natural, and social and relationship. Our model shows the flow of the value we consume – from the resources, or capital, we need to run our business – to the financial, social and economic value we create (or deplete) as a result of our activities.

We regularly assess our operating environment in order to identify the most important social, economic, financial and environmental issues, and where we believe we can create value for our stakeholders. This assessment is based on input from stakeholders and senior management. Based on their input, we identified over 300 social, economic, financial and environmental issues and narrowed them down to just nine 'strategic differentiators' linking directly to our strategy. We also identified other 'fundamental value creators', which are basic 'hygiene' factors, such as secure banking, compliance and data protection, that will support the implementation of our strategy. See also our Integrated Annual Review 2018 on abnamro.com/annualreport.

Sustainable Development Goals

The United Nations launched its Sustainable Development Goals in 2015. There are 17 goals, on topics ranging from poverty and hunger to human rights and climate change. We have identified three 'strategic' goals – where we believe, through our strategy, we have the most to contribute, both as an investor and as a provider of financial services. We have mapped out our contributions to each of our three strategic SDGs below:

- Decent work and economic growth (SDG 8) "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all."
  - Human rights and labour standards built into ABN AMRO's lending, investment and procurement policies;
  - Loans and support to small and medium-sized businesses to help them expand, drive economic growth and create new jobs;
  - Social impact bonds: raising funds to help young people on state benefits into work.
- Responsible consumption and production (SDG 12) "Ensure sustainable consumption and production patterns."
  - Loans to upgrade infrastructure, improve energy efficiency and retrofit industries with cleaner technologies;
  - EUR 1 billion financing for at least 100 circular economy activities by 2020.
- Climate action (SDG 13) "Take urgent action to combat climate change and its impacts."
  - Mission 2030: upgrading clients' residential and commercial properties to an average label of A for energy efficiency;
  - Green financing through our green bonds, energy transition fund and Green Bank in the Netherlands;
  - Increasing clients' sustainable investments to more than EUR 16 billion;
  - Increasing our sustainability financing to EUR 3 billion by 2020;
  - Increasing our renewable energy commitment to 20% of our energy portfolio by 2020.

Group performance

Financial review

This financial review includes a discussion and analysis of the results and financial condition of ABN AMRO.

Income statement

Financial highlights

- Solid profit in 2018 of EUR 2,325 million, reflecting strong operating result despite elevated impairments.
- Net interest income growth of 2% supported by growth in corporate loans and higher mortgage penalties.
- Costs continue to trend down due to cost-saving programmes and lower restructuring costs. C/I ratio improved to 58.8% (2017: 60.1%).
- Elevated impairments on specific clients and sectors in CIB and Commercial Banking throughout 2018.
- Strong capital position, with CET1 ratio of 18.4% and Return on Equity of 11.4%.

Operating results

(in millions)	2018	2017	Change
Net interest income	6,593	6,456	2%
Net fee and commission income	1,699	1,747	-3%
Other operating income	800	1,086	-26%
Operating income	**9,093**	**9,290**	**-2%**
Personnel expenses	2,441	2,590	-6%
Other expenses	2,910	2,991	-3%
Operating expenses	**5,351**	**5,582**	**-4%**
Operating result	**3,742**	**3,708**	**1%**
Impairment charges on financial instruments	655	-63	
Operating profit/(loss) before taxation	**3,086**	**3,771**	**-18%**
Income tax expense	762	979	-22%
Profit/(loss) for the period	**2,325**	**2,791**	**-17%**
Attributable to:			
Owners of the parent company	2,207	2,721	
Holders of AT1 capital securities	79	53	
Other non-controlling interests	39	18	

Large incidentals

Private Banking divestments

Private Banking's other operating income in 2018 includes EUR 67 million of sales proceeds and provision releases resulting from divestments. In 2017, total sales proceeds of EUR 263 million were recorded in other operating income, with costs related to these sales amounting to EUR 21 million of personnel expenses and EUR 35 million of other expenses.

Positive revaluation of equensWorldline

Other income in 2018 includes a positive revaluation of EUR 69 million for our stake in equensWorldline.

Anti-money laundering

Banks have a responsibility to help protect the financial services sector. We take this responsibility very seriously. ABN AMRO invests significant resources in combating financial crime. We work closely with regulators, governments, other banks and the police.

ABN AMRO has decided, based on existing shortcomings and input from the Dutch Central Bank, to accelerate its Customer Due Diligence (CDD) programme in order to be compliant with anti-money laundering and terrorist financing legislation. We've already carried out a review of our Corporate & Institutional Banking business; a review of our Private Banking clients is now nearly complete. ABN AMRO has developed remediation programmes to speed up remediation actions in relation to International Card Services (ICS) and Commercial Banking and has shared these with the Dutch Central Bank and committed to their execution. For the incremental external costs involved, we've taken a provision in 2018 of EUR 85 million – for ICS (EUR 30 million) and Commercial Banking (EUR 55 million). The amount is based on, among other items, the total number of files, the time needed to review each file and the percentage that will be reviewed using external resources.

Over the past year, a number of European banks have been the object of money laundering investigations. We recognise that, with financial crime, we have to be vigilant. We're constantly looking for ways to strengthen our systems and raise awareness of potential risks within the bank.

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Provision for SME derivatives-related issues
The provision for project costs relating to SME derivatives-related issues was increased by EUR 41 million in 2018, compared with an addition of EUR 139 million in 2017.

Restructuring provisions
Personnel expenses in 2018 includes EUR 129 million of restructuring provisions for further digitalisation, process optimisation and the CIB refocus, compared with EUR 164 million in 2017.

Other indicators

	2018	2017
Net interest margin (NIM) (in bps)	165	157
Cost/income ratio	58.8%	60.1%
Cost of risk (in bps)[1]	24	-2
Return on average Equity[2]	11.4%	14.5%
Earnings per share (in EUR)[3]	2.35	2.89
Dividend per share[4]	1.45	1.45

1 Annualised impairment charges on loans and advances customers for the period divided by the average loans and advances customers (excluding at fair value through P&L) on the basis of gross carrying amount and excluding the fair value adjustments from hedge accounting.
2 Profit for the period excluding coupons attributable to AT1 capital securities and results attributable to other non-controlling interests divided by the average equity attributable to the owners of the company.
3 Profit for the period excluding coupons attributable to AT1 capital securities and results attributable to other non-controlling interests divided by the average outstanding and paid-up ordinary shares.
4 Interim/final dividend per share over the relevant period as declared/proposed by the company, subject to approval at the annual general meeting.

	31 December 2018	31 December 2017
Client Assets (in billions)	285	307
FTE	18,830	19,954

Analysis

ABN AMRO's profit amounted to EUR 2,325 million. The decrease of EUR 466 million compared with full-year 2017 was mainly attributable to the proceeds, recorded in 2017, of the PB Asia divestment and the effect of model refinements driving impairment releases. The return on equity for 2018 was 11.4%, compared with 14.5% in 2017 (13.4% if adjusted for the PB Asia divestment). If adjusted for incidentals, the operating result improved because of net interest income being boosted by corporate loan growth backed by resilient margins and the lower cost levels that resulted from restructuring measures.

Net interest income increased by EUR 137 million to EUR 6,593 (2017: EUR 6,456 million) on the back of corporate loan growth and higher mortgage penalties. Interest income on residential mortgages remained stable as average volumes and margins were broadly flat despite intensifying competition. Interest income on consumer loans was down, due to a combination of lower volumes and margins.

Net fee and commission income decreased by EUR 48 million to EUR 1,699 million (2017: EUR 1,747 million). A third of this decrease was attributable to the PB Asia divestment as the figures for 2017 included four months of fee contributions from this business. The remainder was primarily attributable to Private Banking as financial markets were more favourable in 2017. The decrease was partly offset, however, by higher fees charged for Retail Banking payment packages and by higher fees in the Clearing business following greater market volatility in 2018.

Other operating income decreased to EUR 800 million in 2018 (2017: EUR 1,086 million). Excluding the PB Asia divestment and incidentals recorded in both years, other operating income decreased due to lower hedge accounting-related income, including the effects of the partial sale of the Public Sector Loan (PSL) portfolio (EUR 79 million versus EUR 181 million in 2017), adverse results for CVA/DVA/FVA (EUR 3 million negative versus EUR 75 million in 2017) and a less favourable equity stake revaluation in 2018 mainly in Commercial Banking. This decrease was largely offset by better results for equity participations (2018: EUR 274 million; 2017: EUR 114 million).

Personnel expenses decreased by EUR 149 million in 2018 to EUR 2,441 million. Part of this decrease was attributable to lower restructuring provisions in 2018 (EUR 129 million versus EUR 156 million in 2017). If adjusted for restructuring provisions, personnel expenses are on a declining trend. This reflects the lower FTE levels resulting from the continued progress being achieved by cost-saving programmes. However, this progress was partly offset in 2018 by wage inflation as the new Collective Labour Agreement provided for a 2% increase in salaries from 1 January 2018 and for a one-off payment of EUR 16 million in 2018.

Other expenses decreased by EUR 82 million in 2018 to EUR 2,910 million. This was largely due to lower incidentals, partly offset by higher regulatory levies. Excluding the incidentals and higher regulatory levies, other expenses fell as a result of cost-saving programmes. The effects of these cost-saving programmes were partly offset, however, by higher costs incurred for the external staff hired to increase our short-term capacity for regulatory projects. Regulatory levies increased by EUR 36 million to EUR 336 million, mainly due to a higher Single Resolution Fund contribution.

Impairment charges on financial instruments amounted to EUR 655 million in 2018, compared with a release of EUR 63 million in 2017. Despite the continued favourable trend in overall credit quality and the positive macroeconomic environment, impairment charges rose in 2018, mainly in CIB and Commercial Banking, reflecting additional impairment charges in energy (mainly offshore), shipping, commodities, diamonds and healthcare. Impairment releases in 2017 benefited from model refinements and a model update. The cost of risk amounted to 24bps in 2018, which was below the through-the-cycle level of 25-30bps.

Balance sheet
Condensed statement of financial position

(in millions)	31 December 2018	31 December 2017
Cash and balances at central banks	34,371	29,783
Financial assets held for trading	495	1,600
Derivatives	6,191	9,825
Financial investments	42,184	40,964
Securities financing[1]	12,375	15,686
Loans and advances banks	8,124	10,665
Loans and advances customers	270,886	274,906
Other[1]	6,668	9,743
Total assets	**381,295**	**393,171**
Financial liabilities held for trading	253	1,082
Derivatives	7,159	8,367
Securities financing[1]	7,407	11,412
Due to banks	13,437	16,462
Due to customers	236,123	236,699
Issued debt	80,784	76,612
Subordinated liabilities	9,805	9,720
Other[1]	4,968	11,488
Total liabilities	**359,935**	**371,841**
Equity attributable to the owners of the parent company	19,349	19,303
AT1 capital securities	2,008	2,007
Equity attributable to other non-controlling interests	2	20
Total equity	**21,360**	**21,330**
Total liabilities and equity	**381,295**	**393,171**
Committed credit facilities	61,166	55,295
Guarantees and other commitments	15,241	16,165

1 ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.

Main developments in assets

Total assets decreased to EUR 381.3 billion (2017: EUR 393.2 billion). The decline was largely driven by lower loans and advances to banks and customers, securities financing and derivatives.

Derivatives decreased to EUR 6.2 billion (2017: EUR 9.8 billion) on the back of mid- to long-term interest and FX rate movements impacting on the valuation of derivatives and also mirrored in derivatives liabilities.

Financial investments increased to EUR 42.2 billion (2017: EUR 41.0 billion), mainly due to USD investments.

Loans and advances – customers decreased to EUR 270.9 billion (2017: EUR 274.9 billion). Loans to professional counterparties decreased by EUR 8.2 billion, mainly in Global Markets and Clearing. Residential mortgages decreased by EUR 1.8 billion, largely due to lower origination as a result of maintaining pricing discipline in a competitive environment. Consumer loans remained broadly stable, whereas corporate loans increased by EUR 5.8 billion. The growth of EUR 1.8 billion in Commercial Banking was reflected across all sectors on the back of the strong Dutch economy. CIB client loans increased by EUR 3.7 billion (including EUR 1.2 billion attributable to the impact of the USD appreciation), mainly in corporates in the Netherlands and Natural Resources and partly offset by the decline in Trade and Commodity Finance, including diamonds. The rate of growth slowed in 2018 following the CIB refocus, which is expected to gradually impact on volumes throughout 2020.

Loans and advances – customers

(in millions)	31 December 2018	31 December 2017
Residential mortgages	148,791	150,562
Consumer loans	12,263	12,426
Corporate loans to clients[1]	91,265	85,455
- of which: Commercial Banking	41,753	40,082
- of which: Corporate & Institutional Banking	42,521	38,814
Total client loans[2]	**252,319**	**248,443**
Loans to professional counterparties and other loans[3]	17,642	25,224
Total Loans and advances customers[2]	**269,961**	**273,666**
Fair value adjustments from hedge accounting	3,185	3,700
Less: loan impairment allowance	2,260	2,460
Total Loans and advances customers	**270,886**	**274,906**

1 Corporate loans excluding loans to professional counterparties.
2 Gross carrying amount excluding fair value adjustment from hedge accounting.
3 Loans to professional counterparties and other loans includes loans and advances to government, official institutions and financial markets parties.

Main developments in liabilities and equity

Total liabilities decreased to EUR 359.9 billion (2017: EUR 371.8 billion), mainly owing to a decrease in securities financing liabilities, amounts due to banks and other liabilities.

Derivatives decreased by EUR 1.2 billion on the back of mid- to long-term interest and FX rate movements impacting on the valuation of derivatives.

Due to banks decreased by EUR 3.1 billion owing to more active balance sheet management.

Due to customers decreased by EUR 0.7 billion as a result of active balance sheet management. The decreases in CIB and Retail Banking were partly offset by increases in Commercial Banking and Private Banking.

Issued debt securities increased by EUR 4.2 billion as a result of higher long-term funding.

Total equity remained stable at EUR 21.4 billion as the inclusion of profit for the period was offset by a decrease in other comprehensive income (OCI).

Due to customers

(in millions)	31 December 2018	31 December 2017
Retail Banking	93,482	94,320
Commercial Banking	44,958	44,190
Private Banking	66,156	65,031
Corporate & Institutional Banking	28,018	30,273
Group Functions	3,509	2,886
Total Due to customers	**236,123**	**236,699**

Non-financial review

The following sub-sections are based on the reporting requirements set out in Section 2:391, paragraphs 1 and 5, of the Dutch Civil Code (*Burgerlijk Wetboek*) pertaining to non-financial information.

Employee experience

We aspire to build a future-proof bank that unleashes the potential of our people and fully equips them to successfully contribute to our purpose and strategy.

Our people are our most valuable asset as ABN AMRO can only properly serve its clients if it has a highly talented and committed workforce. We therefore offer our people a highly valued, integrated and relevant employee experience in a purpose-led and values-driven culture. We believe in an open corporate culture in which employees have a say and are encouraged to help build the organisation. In October 2018, we conducted our latest global Employee Engagement Survey (EES). With 18,510 people (internal and external staff) completing the survey, the response rate was 78%, making the results representative. Our engagement index score rose from 79 to 80. This is on-target (80) and comparable to the Global Financial Services norm of 81 in 2019.

Talent and development

ABN AMRO aims to create long-term value for its clients, employees and investors, as well as for society as a whole. Attracting new talents and investing in employee development is a prerequisite for creating long-term value. These investments come in the form of formal training, supervision, coaching, on-the-job learning and mandatory training to develop our professional knowledge. We have modified our performance management system in order to give employees a greater sense of ownership of the role that their personal and professional development play in contributing to our strategy. The new system focuses on having the right type of dialogue and on creating a feedback culture.

Investment and appreciation

In 2018 we made significant investments in employer branding and talent sourcing and in optimising our journey to attract talent. We are also continuing to invest in employee training and development in order to accelerate skill building. These investments account for around 1.8% of our overall personnel costs.

We measure the extent to which staff appreciate Talent and Development opportunities in our annual Employee Engagement Survey. Overall satisfaction with Talent and Development stood at 78% in 2018, which was 3 percentage points higher than that of our industry peers. We value these results as it is important, in a rapidly changing world, for employees to feel encouraged to continue working on their personal development.

Transformation

The transformation team was formed in mid-2017 to design, accelerate and support the bank-wide transformation in cooperation with HR. Over the past year, our transformation efforts focused primarily on further aligning our strategic ambitions and corporate culture with the bank's purpose of "Banking for better, for generations to come". These transformation efforts now serve as a clear imperative and as a framework for the bank's ongoing transformation into a purpose-led business. Our executive management teams have worked in partnership with our transformation facilitators to strengthen the teams' leadership capabilities and practices so that they can lead and manage the transformation of their respective businesses and organisations and give our employees clear insight into ABN AMRO's vision and direction.

Diversity and inclusion

To be successful, we need to have a diverse workforce that reflects the communities we serve. An inclusive environment plays a pivotal role in developing an open culture. ABN AMRO's commitment to diversity and inclusion includes promoting equal treatment and equal opportunities for employees, preventing harassment and ensuring non-discrimination.

ABN AMRO pursued various diversity initiatives in 2018, including externally and internally organised mentoring programmes, such as the Career Accelerator Programme, for women and for employees with a bicultural background. We have also set up a dedicated taskforce to accelerate the advancement of our non-Western colleagues.

To further professionalise the process of hiring people with a disability and also support existing colleagues with a disability, we have set up the B-Able Desk to respond to questions from employees and managers and to provide help in the form of coaching and practical advice. We have also launched the Sign Language Coffee Bar, where colleagues order their coffee in sign language from a hearing-impaired barista. In addition, we have boosted our Warm Welcome project by hiring thirty staff with an employment disability in various offices throughout the country.

Over the years, substantial numbers of refugees have come to the Netherlands and requested political asylum. Those allowed to stay are called status holders. We have launched the Reboot initiative to help status holders find their way in the Dutch labour market by giving them an opportunity to work and build a career at ABN AMRO.

In July 2018 we were one of the first companies in the Netherlands to sign the 'Talent to the Top' Cultural Diversity Charter. By doing so, ABN AMRO committed itself to a concrete and self-determined objective for appointing non-Western talent to top and subtop positions. Having set a target of 7% for non-Western staff in subtop positions and 6% in top positions by 2020, we were able in 2018 to achieve a 4.4% share for subtop positions and 3.4% for top positions. We have also set up a series of Diversity Circles and the Diversity Table to further engage our network.

The 2018 LGBT+ survey showed a positive tendency in attitudes within the bank. Most of our employees have a positive stance on LGBT+ colleagues. The bank has also signed the UN standards of conduct supporting the business community in tackling discrimination against LGBT+ people and the Sustainable Development Goals in the LGBTI Manifesto (SDG LGBTI).

Detecting financial crime

ABN AMRO acknowledges the importance of its role as a gatekeeper in safeguarding the financial system against financial crime. It therefore focuses on seeking to continually improve its procedures, systems and controls in order to reflect our beliefs and live up to our regulatory and societal obligations and expectations, to minimise the risk of being involved in or associated with money laundering, the financing of terrorism, bribery, corruption and tax evasion and to comply with economic sanctions.

ABN AMRO has programmes in place to bolster its resilience to financial crime and unethical and illegal behaviour and to strengthen its governance regarding the detecting of financial crime.

Client and third-party integrity

Both before entering into and during business relationships, ABN AMRO carries out due diligence on its prospective clients and third parties such as agents, intermediaries and suppliers. ABN AMRO does this, using a risk-based approach, to minimise the risk of being involved in or associated with money laundering, the financing of terrorism, bribery, corruption or tax evasion.

ABN AMRO systematically monitors the activities of its clients and reports any suspicious or unusual transactions to the relevant authorities. In high-risk situations (such as those involving politically exposed persons or adverse media, or clients in countries or sectors with an inherently higher risk of financial crime), prospective and existing clients undergo additional due diligence. The bank also considers geopolitical factors when assessing the risks of financial crime in relation to specific countries or sectors. Unacceptable risks lead to a client exit or, in the case of prospective clients or third parties, to rejection.

The Q4 2018 figures included a provision of EUR 85 million in Retail Banking (ICS) and Commercial Banking for additional costs of accelerating Customer Due Diligence (CDD) remediation programmes. See note 29 Provisions of the Consolidated Annual Financial Statements for further information.

Combating bribery and corruption

Corruption undermines fair and competitive business, restricts international trade, reduces investor confidence, and impacts on regional and global economic growth and international stability.

In addition to the risks posed to the financial system, ABN AMRO itself can also face reputational and financial risks from potentially becoming directly exposed to or being abused for corrupt practices. We take these risks seriously and take mitigating measures to limit them.

It is our corporate social responsibility to conduct business with integrity and without any form of bribery and corruption.

Organisational and employee integrity

All staff members undergo mandatory training to recognise signs of financial crime, including 'red flags' of money laundering, bribery, corruption and conflicts of interest. It is ABN AMRO's policy for all actual or suspected incidents, irregularities or breaches relating to bribery and corruption to be reported immediately. Employees are encouraged, where possible, to first discuss such suspicions with their manager. If this is undesirable for any reason, they should report their suspicions through the bank's whistleblowing channels, which are also open to external parties.

In accordance with regulatory requirements, we monitor the risks of money laundering, the financing of terrorism, bribery and corruption in our organisation so as to maintain a strong control system and to mitigate the risks. The risks of money laundering, the financing of terrorism, bribery and corruption are assessed as part of our Systematic Integrity Risk Analysis (SIRA), which is based on qualitative and quantitative information and creates awareness of the inherent and residual integrity risks faced by ABN AMRO. In addition to the SIRA, ABN AMRO continually works to create data-driven insight into integrity risks. More information can be found in our anti-bribery and corruption policy.

Resilience to security threats

We have an information security framework in place that defines management and staff responsibilities and sets out security directives applying to the bank, its vendors and third parties with whom the bank exchanges information. The Corporate Information Security Office (CISO) systematically monitors client transactions in order to detect fraudulent transactions. Security and Integrity Management (SIM) monitors and reports the number of detected issues relating to fraud, information security and compliance breaches, while also monitoring losses suffered by the bank's clients and the bank itself. In addition, ABN AMRO has a security framework in place to manage the risk of, and prevent, financial crime and unethical behaviour. Before introducing new products and services, the bank uses Change Risk Assessments (CRA) to assess the potential risks related to these products and services, including the possibility of fraud.

The bank is focused on raising awareness among clients and employees of how to recognise and prevent financial and economic crime. The bank cooperates with other banks, as well as with the police and justice departments, to shield financial transactions from potential criminals.

Cybercrime

ABN AMRO's information infrastructures connect the bank's networks to public networks. As a result, banking processes and their supporting information systems are inherently vulnerable. This vulnerability threatens the security and availability of client data and services. The bank faces a constant threat of cybercrime, including computer-assisted fraud, unauthorised disclosure of confidential information, virus infections, computer hacking and denial of service attacks.

In the first quarter of 2018, ABN AMRO experienced multiple Distributed Denial of Service (DDoS) attacks via a relatively new method. Most of these attacks were successfully mitigated and had minimal impact on clients and employees. ABN AMRO filed several police reports and is actively sharing information with the police and other banks, through the Electronic Crimes Task Force, to support the ongoing police investigations.

We have established a structured approach to information security in recognition of the importance of protecting the information and associated assets, such as systems and infrastructures, of our clients and of the bank. This is designed to ensure the confidentiality, integrity and availability of information at all times. This approach defines the organisational framework, the management and staff responsibilities, and the information security directives applying to the bank, its vendors and third parties with whom the bank exchanges information. As part of this approach, the bank continuously monitors cybercrime threats and adapts the bank's defences wherever necessary.

Responsible tax

It is our corporate social responsibility to pay our share of tax. We communicate on our tax approach transparently and publish our tax principles on the ABN AMRO website. Our tax principles illustrate how we fulfil our social responsibility relating to tax. Our tax policy is based on these principles and provides guidance on what we believe is responsible tax behaviour for the whole ABN AMRO Group, both regarding our own affairs and in our dealings with clients.

Actions to improve tax control in 2018

In 2018 we implemented further measures to increase our management of tax risks. Tax is part of our Risk Management Cycle. Tax evasion and tax integrity are both part of our Systematic Integrity Risk Analysis (SIRA), which supports our risk-based approach to all integrity risks, including tax risks. Tax was also a risk theme during 2018 and will continue to be so in 2019. Group Tax is involved in all relevant risk and control self-assessments. Tax risks are assessed in conjunction with the businesses where these arise. Any key tax risks identified are monitored and the controls in place are tested.

Tax embedded in client and product approval procedures

Our client acceptance and review procedures include a review of potential tax evasion – which is never acceptable – and also review clients from a tax integrity perspective. Group Tax supports relationship managers in assessing clients' tax positions and in defining appropriate actions. We consult and discuss tax integrity with relevant clients. As well as the tax awareness sessions that Group Tax continued arranging for client-facing staff in 2018, we have also included questions on tax in our standard training programmes for all staff.

As we wish to steer clear of aggressive tax planning and tax avoidance, our intention is to offer products that comply with the intention and spirit of the law and that are commercial rather than tax-driven. This approach is also reflected in our tax principles and tax policy and embedded in the product approval process.

Transparency

Our tax principles and tax policy and our aim to be a good corporate citizen support our objective to pay our share of tax. We report taxable income in each country we operate in and in line with the value created in that specific country. The country-by-country report in note 10 of the Annual Financial Statements shows, among other things, our revenue and tax expense for each country. We met our legal obligation under the FATCA (Foreign Account Tax Compliance Act) and Common Reporting Standards (CRS) regulations to report information on our clients to the tax authorities in 2018. We are currently reviewing the impact of the new EU Directive on Mandatory Disclosure (also known as DAC6) on our business and reporting obligations.

Cum/ex transactions

ABN AMRO's legal predecessor, Fortis Bank (Nederland) N.V., ABN AMRO and several (former) subsidiaries were directly or indirectly involved in so-called cum/ex transactions in the past. This has been the subject of discussions between ABN AMRO and the German tax authorities for the past years. Currently, there are no disputes between the German tax authorities and ABN AMRO relating to these transactions. Since 2010, a number of subsidiaries associated with these transactions have been sold by means of a management buy-out and the desks of ABN AMRO that were (directly or indirectly) involved in these trading strategies have been closed. That does not mean, however, that there are no legal risks remaining with regard to these transactions in particular civil and/or criminal law risks.

In the second half of 2018 public reports appeared on the involvement of subsidiaries of ABN AMRO or former Fortis in dividend stripping activities and particularly in so-called cum-ex activities in the past. This has raised questions in Dutch parliament. In as far as these questions were directed to ABN AMRO itself these questions have been answered. The Dutch Minister of Finance has answered further questions on 3 December 2018. In case Dutch or foreign authorities request information on these activities, ABN AMRO co-operates in these investigations as required by law, or beyond as long as it does not potentially harm the position of other stakeholders. For further information we refer to our website.

Business performance

ABN AMRO

Retail Banking

- Leading position in the Netherlands
- Principal bank for 20%[1] of the Dutch population
- Market share of 21% in the savings and deposits market
- Ranked #2[2] in new mortgage production
- ± 5 million retail clients
- Seamless omnichannel distribution with a nationwide network of 135 branches, 24/7 Contact Center and top-class digital offering

Commercial Banking

- Established business partner of the Dutch SME and corporate sector
- Approximately 365,000 clients[3] with an annual turnover up to EUR 250 million across a wide variety of sectors
- Broad range of products and services based on in-depth client and sector knowledge
- Actively seeks collaboration with partners:
  - Ecochain
  - Opportunity network
  - Social finance NL
- Leading player in Leasing & Factoring in Northwest Europe

Private Banking

- Market leader in the Netherlands
- Ranked #3 in Germany and #5 in France
- Fully integrated financial advice and a full array of digital services focused on wealth structuring, wealth protection and wealth transfer
- Present in the Netherlands, France, Germany, Belgium and the Channel Islands

Corporate & Institutional Banking

- Present in the key financial and logistical hubs providing sector and product expertise
- Client base totalling more than 3,000, serving clients with revenues in excess of EUR 250 million
- Sector-led and a wide range of services and products in global markets and lending
- Specialised activities in Clearing and Trade & Commodity Finance

Group Functions

- Innovation & Technology
- Finance including Investor Relations, ALM, Treasury and Tax
- Risk Management, Legal and Compliance
- HR, Transformation and Communications
- Group Audit, Corporate Office and Strategy & Sustainability

1 GfK online tracker, 2018.
2 Calculated based on information provided by the Dutch Land Registry (Kadaster), 2018.
3 In January 2018, a group of approximately 300,000 small business clients were transferred from Retail Banking to Commercial Banking.

Retail Banking

Business description

Retail Banking provides a full range of transparent banking products and high-quality services to individuals. We have a proven track record in delivering products and services under the ABN AMRO brand, and specific products and services under other labels. Our operations provide a seamless omni-channel distribution network for our clients, with extensive digital and physical coverage.

Retail Banking has a strong foundation and a recognised market position in the Netherlands. In 2018 we retained our strong foothold in the Dutch market and maintained our number three primary bank position for retail clients (20% of the Dutch population). ABN AMRO captured a number 2 market position in new mortgage production in 2018, with a combined market share of all ABN AMRO brands in the Dutch mortgage market of approximately 17%. Retail and Private Banking held a combined market share of 21% in the savings and deposits market.

We are also continually adjusting our service model to better match the needs of our clients and to maintain our position for the future. We have decided to maximise our focus on the digital transformation in our product and service offering, where we are now shifting towards a digital-first service concept and aiming to become a frontrunner in the market.

Business developments

Introduction

The banking sector is undergoing significant transformation. We are facing societal and banking trends that are shaping the context in which we operate, as well as experiencing competition from many different directions. New players are entering the market, while technological and regulatory developments are changing the competitive landscape and traditional ways of banking. During the year we continued seeking to achieve our ambition of being at the forefront of digitalisation and technological developments so that we can deliver innovative products and solutions, enhance the client experience and provide relevant and personal expertise. In order to continue delivering in our business we will use the strategy refresh as a guideline, with 'Banking for better' as the basis for embedding our strategic pillars of reinventing the customer experience, sustainability and building a future-proof bank.

Supporting our clients' transition to sustainability

ABN AMRO is committed to the preconditions of the International Energy Agency's 2-degree scenario. The main way in which ABN AMRO can have an impact in this respect is by making real estate more sustainable. ABN AMRO is therefore aiming for all our real estate, including our own offices and Retail branches, to average energy label 'A' by 2030. As at 31 December 2018 we had 104,657 'label A' houses in our mortgage portfolio, representing an increase of 23.3% on the position at the 2017 year-end. Good progress has also been achieved in various ongoing initiatives in the mortgage market, while multiple initiatives have been started in the Personal Banking domain to help vulnerable groups such as the elderly. These include making more use of financial coaches and encouraging elderly people to use digital and video banking.

Retail Banking is currently looking into opportunities to broaden the scope of and prospects for sustainability. Multiple initiatives have already been launched as part of our Mission 2030, including the energy-savings check. In addition, we are taking steps to guide vulnerable clients towards a more responsible approach to credit. During the year we also worked with Green Choice to launch a new, sustainably-themed savings account for children.

Reinventing the customer experience

Retail Banking plans to build on its success, its track record for delivery and its chosen route in the field of customer experience and digitalisation. We will position our digital offering, customer journey and data capabilities as true enablers for our products and processes, while seeking opportunities to broaden our role in selected ecosystems.

We added more self-service features to our Mobile Banking app in 2018. These additions, which are designed to ensure our digital offering maintains a leading position, included the launch of the chatbot Anna and iDIN mobile. We also maintained our top-class ranking in the app stores (with scores in the Apple App store and Google Playstore of 4.5 and 4.4 respectively, on a scale of 1 to 5). Meanwhile, Banking.nl ranked our mobile banking app as the best Dutch mobile banking app. As for our other apps, we expanded the user base of Tikkie (5 million+ users), GRIP (500,000+ users) and the &Meer loyalty programme (250,000+ users). The Net Promoter Score in 2018 was -9 (2017: -9).

In 2018, we opened the first Office 3.0 in Amstelveen (Netherlands). This office was developed based on the needs of our customers, with the central focus being on the shift to digital. Examples of the new features include meeting rooms that can be used for video banking, and the video wall displaying information about our products.

Retail received several awards during the year, including the 'Rookie of the Year' award for Speech Analytics, the *Sterrenregen* award for ABN AMRO's car insurance, the Dutch Consumers Association's 'Best of the Test' award for our legal aid insurance and, for the fourth year in a row, a 5-star award from *MoneyView* for our travel insurance. Last but not least, in October 2018 ABN AMRO was awarded the 'Gouden spreekbuis', a prize for excellent mortgage customer service.

Building a future-proof bank

By building a future-proof bank, we want to achieve maximal flexibility through a simpler product assortment, lean process flows and systems, and empowered employees. In the Mortgage domain the comprehensive optimisation programme we recently completed across the chain has achieved strong results. While we are continuing to further improve and digitalise our mortgage activities, we are also shifting our focus to another strategic important portfolio: consumer credit. Driven by our ambition to remain a responsible consumer credit provider, with a sustainable business model, we will be optimising and rationalising our entire consumer credit chain over the next few years. As well as optimising our core product groups, including the underlying process flows and systems, we are continuing to empower our employees by, for example, taking the next steps in promoting agile ways of working and further embedding the shift to self-organising. We are also well positioned to participate in and build business models outside the traditional banking channels, with Tikkie as our best example to date. Overall, the Employee Engagement Survey showed the engagement score (80%) to have remained almost the same as in 2017 (81%).

Financial review

Financial highlights

- Profit for the period decreased by 15%, mainly due to lower operating income and lower impairment releases.
- Net interest income decreased by 3%, primarily due to the impact of a model update for non-maturing deposits. Interest income on mortgages remained stable despite the competitive environment, while consumer loans saw lower volumes and margins year-on-year.
- Operating expenses decreased owing to FTE reductions resulting from ongoing digitalisation.
- Lower residential mortgage volumes, reflecting lower origination as a result of our maintaining pricing discipline.

Operating results

(in millions)	2018	2017	Change
Net interest income	3,122	3,233	-3%
Net fee and commission income	365	338	8%
Other operating income	31	150	-80%
Operating income	**3,517**	**3,721**	**-5%**
Personnel expenses	442	473	-7%
Other expenses	1,586	1,566	1%
Operating expenses	**2,028**	**2,040**	**-1%**
Operating result	**1,489**	**1,682**	**-11%**
Impairment charges on financial instruments	-12	-101	89%
Operating profit/(loss) before taxation	**1,501**	**1,783**	**-16%**
Income tax expense	375	454	-17%
Profit/(loss) for the period	**1,126**	**1,329**	**-15%**

Retail Banking's **profit** decreased by 15%. This was driven by lower impairment releases and lower operating income as the figure for 2017 included net positive incidentals.

Net interest income decreased by 3% to EUR 3,122 million (2017: EUR 3,233 million). If adjusted for incidentals in both periods, the decrease was mainly attributable to the combined impact (of approximately EUR 60 million) of the model update for non-maturing deposits (NMD) and the reallocation of net interest income from Group Functions. Interest income from residential mortgages remained stable as the lower average volume was offset by the slight improvement in margins that resulted from good pricing discipline in a highly competitive market. Interest income on consumer loans declined as a result of lower average volumes and margins. Deposit income continued to be impacted by ongoing margin pressure in the low interest rate environment.

Net fee and commission income increased by EUR 27 million to EUR 365 million (2017: EUR 338 million), mainly due to the increase in payment package fees in 2018.

Other operating income came out lower at EUR 31 million (2017: EUR 150 million) as the figure for 2017 included a book gain of EUR 114 million following the sale of the remaining equity stake in Visa Inc.

Personnel expenses decreased by EUR 31 million in 2018 to EUR 442 million (2017: EUR 473 million). This was mainly due to lower restructuring costs in 2018 (EUR 5 million versus EUR 24 million in 2017) and declining FTE levels. The decrease in the latter was partly offset, however, by the new Collective Labour Agreement, which resulted in salary increases of 2% and a one-off payment of EUR 1,000 per employee. The decrease in the number of FTE by 615 to 4,445 as at 31 December 2018 as a result of digitalisation and cost-saving programmes is also reflected in a further reduction in the number of branches.

Other expenses increased by EUR 20 million to EUR 1,586 million (2017: EUR 1,566 million), mainly due to the provision of EUR 30 million recorded in ICS for additional costs to accelerate customer due diligence (CDD) remediation programmes and to higher regulatory levies (EUR 169 million, compared with EUR 155 million in 2017). See note 29 Provisions of the Consolidated Annual Financial Statements for further information. The increase was partly offset by lower cost allocations from Group Functions.

The operating result decreased by 11%. **The cost/income ratio** increased to 57.7% in 2018 (2017: 54.8%), mainly due to lower income.

Impairment charges amounted to a release of EUR 12 million, compared with a release of EUR 101 million in 2017. The impairment charges in 2017 benefited both from favourable model updates and from additional IBNI releases of EUR 60 million.

Other indicators

	2018	2017
Cost/income ratio	57.7%	54.8%
Cost of risk (in bps)[1]	-1	-6

[1] Annualised impairment charges on loans and advances customers for the period divided by the average loans and advances customers (excluding at fair value through P&L) on the basis of gross carrying amount and excluding the fair value adjustments from hedge accounting.

	31 December 2018	31 December 2017
Loan-to-Deposit ratio	165%	166%
Loans and advances customers (in billions)	154.5	156.3
- of which Client loans (in billions)	154.8	156.7
Due to customers (in billions)	93.5	94.3
Risk-weighted assets (in billions)	27.6	27.6
FTE	4,445	5,060
Total Client Assets	103.5	106.4
- of which Cash	93.5	94.3
- of which Securities	10.1	12.1

Loans and advances – customers decreased to EUR 154.5 billion (2017: EUR 156.3 billion). This was driven by lower residential mortgage and consumer portfolios.

Total client assets decreased to EUR 103.5 billion (2017: EUR 106.4 billion). This was due to lower securities, primarily driven by internal transfers of clients to Private Banking.

Commercial Banking

Business description

Commercial Banking is an established business partner of the Dutch SME and corporate sector, with a selective asset-based finance presence in the United Kingdom, Germany, Belgium and France. We serve approximately 365,000 clients[1] with annual turnovers of up to EUR 250 million across a wide variety of sectors. Commercial Banking offers a broad range of products and services based on in-depth client and sector knowledge.

Business developments

Introduction

The Commercial Banking team has continued its journey of meeting changing client needs. Our strategy is guided by client intimacy where it matters and efficiency everywhere else. With our sector focus we aim to be a valuable strategic partner for our clients, resulting in strong and personal client relationships. We offer our clients a wide range of innovative digital services to meet their basic needs.

Supporting our clients' transition to sustainability

We want to accelerate the sustainability shift of our clients. We do this through new business propositions and by leveraging on partners on topics such as energy transition and circular transition. In 2018, we reopened ABN AMRO Groenbank, a wholly owned subsidiary of ABN AMRO that provides financing for sustainable projects based on the Green Scheme established by the Netherlands Enterprise Agency (RVO). In addition, ABN AMRO now offers real estate owners a fast and convenient way to check how their buildings measure up to the requirements of the sustainability label BREEAM-NL In-Use. BREEAM is an international standard for assessing, improving and certifying the sustainability performance of buildings. This quick scan, developed in cooperation with CFP Green Buildings and the Dutch Green Building Council, has been added to ABN AMRO's sustainable investment tools. Lastly, as one of the founding partners of Social Finance NL, a start-up issuing social impact bonds on the Dutch financial market, ABN AMRO provides access to finance for social entrepreneurs.

Reinventing the customer experience

We aim to provide services and products that improve our clients' businesses. We use the drivers of our Net Promoter Score and continually engage with our clients so that we can better understand their wishes and challenges and can support them where needed. As well as improving our current processes and offerings, Commercial Banking aims to innovate and to create new partnerships. One example of such initiatives is the strategic partnership that ABN AMRO has agreed with Opportunity Network, an online cross-border platform providing entrepreneurs with insight into real-life opportunities for growth, acquisitions, expansion, sales and so on. An example of our fee-based initiatives is Tikkie, an app for payment requests. Commercial Banking has also been expanding the opportunities for business applications, including among the municipalities, universities and other organisations that are already using Tikkie. In 2018, our Net Promoter Score increased to -2 (2017: -6).

Building a future-proof bank

Commercial Banking has further improved its operational efficiency by developing simple solutions and optimising processes and documentation. SME prospects whose current account overdraft requirement is less than EUR 125,000 can now, for example, check whether they are eligible for a loan without having to become an ABN AMRO client first. Technological developments such as blockchain can create opportunities for us to improve our existing client propositions and develop new business offerings. This is illustrated by the pilot we have launched with the Port of Rotterdam and Samsung SDS, Samsung's logistics and IT division. The pilot aims to use blockchain technology to build a platform for efficient and paperless administration processes for international finance and logistics relating to container transport. The platform should make it just as easy to transport, track and finance goods and services as it is to order a book online. ABN AMRO's wholly owned subsidiary New10 showed potential in 2018. New10 provides Dutch SMEs with loans ranging between EUR 20,000 and EUR 1 million. With around 500 clients (approximately 60% of whom are not clients of ABN AMRO), and a Net Promoter Score of more than 50, New10 has proved that the digital model works for SMEs. Our employee engagement score for 2018 came out at 77%, which is in line with 2017.

Financial review

Financial highlights

- Net interest income supported by strong growth of 4% in client lending and improved margins.
- Higher operating expenses due to a provision of EUR 55 million for additional costs to accelerate CDD remediation programmes.
- Elevated impairment charges reflect additions in Industrial goods and services, Healthcare and Shipping, with the remainder spread across various sectors.

[1] In January 2018, a group of approximately 300,000 small business clients were transferred from Retail to Commercial Banking.

Operating results

(in millions)	2018	2017	Change
Net interest income	1,602	1,628	-2%
Net fee and commission income	258	270	-4%
Other operating income	39	63	-38%
Operating income	**1,899**	**1,961**	**-3%**
Personnel expenses	335	328	2%
Other expenses	711	664	7%
Operating expenses	**1,046**	**991**	**5%**
Operating result	**853**	**969**	**-12%**
Impairment charges on financial instruments	253	-179	
Operating profit/(loss) before taxation	**600**	**1,148**	**-48%**
Income tax expense	153	288	-47%
Profit/(loss) for the period	**448**	**860**	**-48%**

Commercial Banking's **net profit** was down 48% due to higher impairments and costs.

Net interest income decreased by EUR 26 million to EUR 1,602 million (2017: EUR 1,628 million) as the figure for 2017 included a favourable incidental related to a release of EUR 37 million for unearned interest. Excluding this item, net interest income rose on the back of continued growth in client lending across all sectors and improved margins. This increase was partly offset by the combined impact of the model update for NMD and the reallocation of net interest income from Group Functions, which negatively impacted on net interest income in 2018 by approximately EUR 40 million.

Other operating income in 2018 totalled EUR 39 million (2017: EUR 63 million) as the figure for 2017 benefited from more favourable revaluation results.

Personnel expenses increased by EUR 7 million in 2018 to EUR 335 million (2017: EUR 328 million). The increase was driven by the higher restructuring provision in 2018 of EUR 31 million (2017: EUR 12 million), the one-off payment under the Collective Labour Agreement and salary increases, but was largely offset by the decline in FTE numbers resulting from well-executed cost-saving programmes.

Other expenses increased by EUR 47 million to EUR 711 million (2017: EUR 664 million), largely due to a provision of EUR 55 million for additional costs to accelerate CDD remediation programmes (see note 29 Provisions of the Annual Financial Statements for further information) and to higher regulatory levies (EUR 48 million versus EUR 40 million in 2017). The increase was partly offset by lower cost allocations from Group Functions.

The operating result decreased by 12%, while the **C/I ratio** increased to 55.1%.

Impairments amounted to a charge of EUR 253 million, compared with a net release of EUR 179 million in 2017, mainly reflecting impairment charges in industrial goods and services, healthcare and shipping. The remainder was spread across various sectors. The release in 2017 was largely attributable to model refinements and updates, compared with limited releases in 2018.

Other indicators

	2018	2017
Cost/income ratio	55.1%	50.6%
Cost of risk (in bps)[1]	60	-44

[1] Annualised impairment charges on loans and advances customers for the period divided by the average loans and advances customers (excluding at fair value through P&L) on the basis of gross carrying amount and excluding the fair value adjustments from hedge accounting.

	31 December 2018	31 December 2017
Loan-to-Deposit ratio	93%	91%
Loans and advances customers (in billions)	41.6	40.1
- of which Client loans (in billions)	42.3	40.5
Due to customers (in billions)	45.0	44.2
Risk-weighted assets (in billions)	27.3	24.9
FTE	2,734	2,905

Total client loans increased to EUR 42.3 billion (2017: EUR 40.5 billion) on the back of the cross-sector strength of the Dutch economy.

Private Banking

Business description

We are a leading private bank in Northwest Europe in terms of client assets, with dedicated professionals who have in-depth knowledge of their clients. This strength allows us to continually adapt to changing client needs and market developments, and to thoroughly understand the financial situation of our clients. We offer clients multi-channel wealth management services that enable them to use our services whenever and wherever it suits them.

We are an enterprising private bank aiming to have an impact on society. We support and engage our clients by offering forward-looking, expert advice enabling them to manage their overall wealth in a risk-controlled manner and taking both life and business events into account.

Private Banking targets high net worth individuals with more than EUR 500,000 in investable assets in the Netherlands or more than EUR 1 million outside the Netherlands, and ultra-high net worth individuals with more than EUR 25 million in investable assets.

Business developments

Introduction

In line with our ambition to continue to be a leading Northwest European private bank, we took further steps during the year to build our One Private Bank, including investing in and further integrating our activities across our core markets to achieve benefits of scale. Given that the wealth management market is changing rapidly and consolidating, scale is increasingly important if we are to invest in the staff and systems needed to optimise the services we provide to our clients. As we saw no opportunities to achieve the scale required in Luxembourg to optimally serve our clients we concluded that it would be in their best interests to transfer our Luxembourg-based wealth management and insurance activities to BGL BNP Paribas.

In July, we announced plans to acquire Société Générale's private banking subsidiary in Belgium. This acquisition fits in perfectly with our strategy of consolidating our private banking position in Northwest Europe. It will enable us to serve our clients better and continue expanding our Belgian activities. The acquisition was completed on 28 February 2019.

Supporting our clients' transition to sustainability

To live up to our promise of 'Banking for better, for generations to come' and to accelerate the sustainability shift, we are taking responsibility for the impact that our products and services have on society by offering sustainable investment services. We choose our in-house managed sustainable products and solutions by using a combination of positive ESG (environmental, social and governance) selection criteria. We actively engage with companies that do not meet our criteria, while also monitoring and seeking to improve their progress on engagement objectives and evaluating their results. If a company does not meet the objectives that have been set, we may decide to end the relationship.

Our ambition is to achieve EUR 16 billion of sustainable assets by 2020. By the end of 2018 we had achieved EUR 13.9 billion in support of this transition. We are also introducing internal key performance indicators (KPIs) to monitor progress. We have designed an education programme on sustainability, with over 500 people participating in our online e-learning seminars on ESG and sustainable investment. We have also signed an academic partnership with Oxford University on sustainable investment and asset management, and sponsor social entrepreneurship chairs at the Erasmus University Rotterdam and the University of Utrecht.

In the course of 2018, we started to offer the sustainable investment option as the default option for new clients in the Netherlands. The majority of new Discretionary Portfolio Management (DPM) clients in the Netherlands now chooses the sustainable investment option.

Reinventing the customer experience

Our strategy includes the ambition to offer our clients open architecture solutions. ABN AMRO Investment Solutions (AAIS) has accordingly completed the sale of its direct investment business and can now focus on offering a 'pure' open architecture and creating further opportunities for growth across the private bank.

Throughout the year we continued working to deliver products and services that fit our clients' needs. In July, we launched our customised advice service, which provides ideas for strategic, tactical, thematic and sustainable investments to experienced and committed clients with assets under management of at least EUR 2.5 million. In the Netherlands we introduced an investment theme app in the second quarter of the year, aimed at execution only clients. The themes covered in this app include sustainable energy, sustainable investing, connected world, healthcare technology, biotechnology, emerging markets and water. To address the appetite for alternative investments in portfolios, we launched our Carlyle private equity product for clients in Germany, France and the Netherlands. During the year we hosted many events to update clients on developments in the market. In Berlin, for example, we hosted a client event for large investors interested in meeting start-ups and incubators, while in the Netherlands we introduced video banking so that we can have live discussions with clients whenever and wherever they want.

Our efforts to deliver products and services fitting our clients' needs are being recognised in the market, as exemplified by various awards, such as the WealthBriefing Award for the best domestic clients team among private banks in Europe. Nevertheless, our Net Promoter Score went down to -1, which underpins the need to continuously focus on clients' demands and needs.

Building a future-proof bank

In 2017 we initiated organisation-wide functional management in order to harmonise platforms, processes and product offerings across locations, to accelerate the introduction of digital solutions, and to leverage knowledge and activities across geographies. We have now completed the reorganisation in the Netherlands and are making good progress in France and Germany. While change naturally impacts on staff, we have found that our strategy to harmonise, digitalise and grow is resonating well with our employees. As a result, the annual employee engagement score increased from 72% (2017) to 75% (2018) across Private Banking, with client focus and sustainability being seen as key strengths. The strategic direction chosen by the bank to accelerate the sustainability shift is also fully endorsed by Private Banking staff.

Financial review

Financial highlights

- Excluding PB Asia results, net interest income rose by 12% on the back of margin improvements, whereas net fee and commission income decreased by 9% owing to less favourable market sentiment.
- Personnel expenses decreased owing to the FTE reductions resulting from the PB Asia and Private Banking Luxembourg divestments and restructuring programmes.
- Client assets decreased owing to a negative market performance and some custody outflows.

Operating results

(in millions)	2018	2017	Change
Net interest income	719	659	9%
Net fee and commission income	509	573	-11%
Other operating income	111	307	-64%
Operating income	**1,340**	**1,540**	**-13%**
Personnel expenses	390	472	-17%
Other expenses	539	624	-14%
Operating expenses	**929**	**1,095**	**-15%**
Operating result	**411**	**444**	**-7%**
Impairment charges on financial instruments	3	-6	
Operating profit/(loss) before taxation	**408**	**450**	**-9%**
Income tax expense	95	64	48%
Profit/(loss) for the period	**312**	**386**	**-19%**

Private Banking's **profit** for 2018 amounted to EUR 312 million (2017: EUR 386 million). Excluding PB Asia results, profit increased by EUR 100 million because of higher income resulting from favourable incidentals (sale proceeds and provision releases from divestments) and lower costs.

Net interest income rose by EUR 60 million to EUR 719 million (2017: EUR 659 million). Excluding the contribution of PB Asia, net interest income rose by EUR 79 million. This increase was mainly due to margin improvements, which were partly offset by the combined impact of the NMD model update and the reallocation of the net interest income with Group Functions that negatively impacted on net interest income by EUR 20 million. Net interest income in 2017 was negatively impacted by the Euribor provision of EUR 10 million.

Net fee and commission income declined by EUR 64 million to EUR 509 million (2017: EUR 573 million). Excluding the contribution of PB Asia, net fee and commission income decreased by EUR 49 million. Due to the volatility in the financial markets, Private Banking clients were less active in securities transactions, while more clients also opted for execution only instead of managed portfolios. In addition, the raised client threshold for advisory services resulted in lower advisory volumes.

Other operating income decreased by EUR 195 million to EUR 111 million (2017: EUR 307 million). Excluding the sale proceeds of EUR 263 million (tax exempt) from the PB Asia divestments in 2017, other operating income in 2018 rose by EUR 68 million. This was mainly the result of positive incidentals of EUR 60 million relating to the sale proceeds and provision releases from divestments (the sale of Private Banking Luxembourg and asset management activities in France).

Personnel expenses decreased by EUR 82 million to EUR 390 million (2017: EUR 472 million). Excluding the results of PB Asia in 2017, personnel expenses decreased as a result of substantial FTE reductions, which were partly offset by salary increases. FTE numbers decreased by 445 compared with 2017, primarily due to the progress made in the restructuring programmes and the divestment of PB Luxembourg.

Other expenses amounted to EUR 539 million, compared with EUR 624 million in 2017. Excluding the results of PB Asia in 2017, other expenses decreased because of the goodwill impairment of EUR 36 million included in 2017.

The operating result decreased by 7% year-on-year, while the **cost/income ratio** improved slightly to 69.3% (2017: 71.1%).

Impairment charges totalled EUR 3 million, compared with a release of EUR 6 million in 2017. This was driven by limited releases in 2018 and additions in the Netherlands.

Due to customers increased to EUR 66.2 billion (2017: EUR 65.0 billion), mainly in the Netherlands.

Other indicators

	31 December 2018	31 December 2017
Loan-to-Deposit ratio	19%	19%
Loans and advances customers (in billions)	12.5	12.2
- of which Client loans (in billions)	12.6	12.4
Due to customers (in billions)	66.2	65.0
Risk-weighted assets (in billions)	9.8	9.4
FTE	2,795	3,240

	2018	2017
Cost/income ratio	69.3%	71.1%
Cost of risk (in bps)[1]	3	-5
Gross margin on client assets (in bps)	68	77

[1] Annualised impairment charges on loans and advances customers for the period divided by the average loans and advances customers (excluding at fair value through P&L) on the basis of gross carrying amount and excluding the fair value adjustments from hedge accounting.

Client assets

(in billions)	31 December 2018	31 December 2017
Opening balance Client Assets	**200.6**	**204.9**
Net new assets	1.8	5.7
Market performance	-11.8	6.8
Divestments/acquisitions	-9.0	-16.7
Closing Balance Client Assets	**181.7**	**200.6**
Breakdown by type		
Cash	66.3	67.2
Securities	115.4	133.4
- of which Custody	30.9	36.7
Breakdown by geography		
The Netherlands	58%	55%
Rest of Europe	42%	45%

Client assets amounted to EUR 181.7 billion at 31 December 2018 (2017: EUR 200.6 billion). The decline was mainly driven by the negative market performance and the Private Banking Luxembourg divestment.

Net new assets totalled EUR 1.8 billion, mainly driven by the internal transfer of clients from Retail Banking.

Corporate & Institutional Banking

Business description

Corporate & Institutional Banking (CIB) has a client base totalling more than 3,000. We have a strong market position in the Netherlands, serving clients with revenues in excess of EUR 250 million. We are leveraging the Dutch franchise in four selected Northwest European countries (France, Germany, United Kingdom and Belgium), where we serve clients in a variety of sectors. Globally we focus on three selected sectors and are present in 14 countries or jurisdictions. CIB is sector-led and offers a wide range of services and products in global markets and lending. We have specialised activities in Clearing and Trade & Commodity Finance.

Business developments

Introduction

In August 2018, CIB updated its strategic direction and set a financial target of delivering >10% RoE in 2021[1]. The updated strategic direction has three main drivers. These are to:

- Reduce capital usage by EUR 5 billion RWA by 2020, among lower-yielding and cyclical clients, as well as in financing structures that are sensitive to higher capital floors under Basel IV.
- Save EUR 80 million in costs through FTE reductions and IT rationalisation.
- Transform into a capital-efficient business model by centralising lending and coverage activities, implementing central portfolio management, and increasing our focus on distribution and on clients with multiple product needs.

The strategic redirection of CIB is in line with the three bank-wide strategic pillars of supporting our clients' transition to sustainability, reinventing the customer experience and building a future-proof bank.

Dutch banks – including ABN AMRO – have agreed to compensate small business clients who were sold interest rate derivatives in recent years, possibly without sufficient advice. Payments follow an agreement between the banks, the Netherlands Authority for the Financial Markets and the government. ABN AMRO is reassessing approximately 7,500 client files. Currently, we're finalising offers to the last few hundred clients entitled to compensation under the agreement. Our aim is to deliver offer letters to all eligible clients by the end of the first quarter 2019. At present, we don't expect any adjustment to the provision we took in recent years to cover compensation to clients.

Supporting our clients' transition to sustainability

We aim to create long-term value for and with our clients and other stakeholders. We want to contribute to the transition towards a sustainable economy that is Green House Gas (GHG) emission-neutral and respectful of human rights, and that protects our planet's life, land and water. We want to play a leading role in the transition to a more sustainable world and help our customers in their transition to more sustainable business models.

Our firm belief in 'Banking for better' is reflected in the many initiatives we started in 2018, examples of which include:

- The launch of the Energy Transition Fund in May; a EUR 200 million fund focusing on opportunities in sustainable energy, energy efficiency/carbon reduction, smart infrastructures and clean mobility.
- Our seven sustainable sector plans with clear objectives for the years to come.
- The issue in April, of our third green bond. The green assets underlying this bond are mortgage loans for energy-efficient homes and financing for offshore windfarm projects.
- The launching by ABN AMRO, ING and Rabobank of joint circular economy finance guidelines designed to provide better insight into financial backing for the circular economy and help drive such financing.
- Being one of the leading banks developing responsible ship recycling standards through our partnership in the Sustainable Shipping Initiative.

Reinventing the customer experience

CIB's business model is built on sustainable relationships with multi-product clients. We use the drivers of our Net Promoter Score, and we continually engage with our clients in order to better understand their wishes and challenges and to support them where needed. Our Net Promoter Score in 2018 was 45 (2017: 32).

Technological developments such as blockchain are creating opportunities for us to improve our existing client propositions and to develop new business offerings. In 2018, for example, we and 14 of the world's largest financing, trading and production institutions launched komgo SA. This venture digitalises trade and commodities finance processes through a blockchain-based open platform and will transform the way these operations are processed.

[1] Basel III RWAs and a CET1 target of 13.5%.

Building a future-proof bank

CIB has started transforming its business model in order to drive capital efficiency under Basel IV. This means all coverage and lending activities are being centralised to focus more on multi-product clients and improve cross-selling and lending efficiency. We will also centralise portfolio management to maximise capital efficiency through disciplined capital allocation, and centralise all distribution activities to focus on higher capital velocity by increasing fee income through distribution.

Together with our IT department, we will work on optimising our systems to further improve operational efficiencies and save costs. Operational efficiencies will be achieved through the organisational optimisation of our Global Markets department and through other measures, including the phased closure of our UAE office and Moscow office.

We want to stimulate the personal development of our employees so that, together, we can achieve our strategic objectives and contribute to our purpose through an optimal employee experience. Our employee engagement score came out at 78%, which is in line with 2017.

Financial review

Financial highlights

- Net interest income rose 20%, mainly on the back of growth in client lending and the favourable impact of new deals.
- Other operating income benefited from favourable Equity Participations results, partly offset by lower CVA/DVA/FVA.
- Operating expenses decreased as a result of lower provisions for SME derivatives-related issues, partly offset by higher restructuring provisions following the CIB refocus.
- Elevated impairment charges in 2018.

Operating results

(in millions)	2018	2017	Change
Net interest income	1,166	975	20%
Net fee and commission income	527	538	-2%
Other operating income	423	317	34%
Operating income	**2,116**	**1,830**	**16%**
Personnel expenses	480	442	9%
Other expenses	708	827	-14%
Operating expenses	**1,189**	**1,269**	**-6%**
Operating result	**927**	**561**	**65%**
Impairment charges on financial instruments	427	219	95%
Operating profit/(loss) before taxation	**501**	**342**	**46%**
Income tax expense	75	121	-38%
Profit/(loss) for the period	**426**	**221**	**93%**

Corporate & Institutional Banking's **net profit** increased by EUR 205 million. The increase was driven by income growth and cost reductions, partly offset by elevated impairments.

Net interest income increased by EUR 191 million to EUR 1,166 million (2017: EUR 975 million) owing to the favourable impact of new deals and on the back of increased client lending, although growth slowed throughout 2018 as a result of the strategy refocus. Deposit income was also higher as margins improved modestly, offsetting lower deposit volumes. As well as higher results in Global Markets and Clearing, the increase included a positive amount of approximately EUR 40 million representing the combined impact of the updating of the model used for NMD and the reallocation of net interest income from Group Functions.

Net fee and commission income decreased by EUR 11 million to EUR 527 million (2017: EUR 538 million). The decrease was mainly in Global Markets, which is volatile by nature, and was partly offset by higher fees in Clearing as a result of greater market volatility.

Other operating income came out at EUR 423 million (2017: EUR 317 million). The increase was mainly attributable to favourable Equity Participations results (EUR 274 million versus EUR 114 million in 2017) and more favourable revaluations in Clearing, and was partly offset by adverse CVA/DVA/FVA results (EUR 2 million negative versus EUR 75 million in 2017).

Personnel expenses amounted to EUR 480 million (2017: EUR 442 million). The increase was driven by restructuring provisions in 2018, mainly relating to the previously announced strategy refocus and, to a lesser extent, to salary rises.

Other expenses decreased by EUR 118 million to EUR 708 million (2017: EUR 827 million), mainly due to lower provisions for project costs relating to SME derivatives-related issues (EUR 41 million versus EUR 139 million in 2017) and higher regulatory levies (EUR 86 million versus EUR 76 million in 2017). The decrease was partly offset by lower cost allocations from Group Functions.

Impairment charges amounted to EUR 427 million (2017: EUR 219 million). The higher impairments were mostly taken on existing impaired loans and primarily in energy (mainly offshore), diamonds, shipping and commodities.

Income tax expense decreased to EUR 75 million (2017: EUR 121 million) as the figure for 2017 included an impairment of deferred tax assets following a tax reform in the United States.

Other indicators

	2018	2017
Cost/income ratio	56.2%	69.3%
Cost of risk (in bps)[1]	70	38

[1] Annualised impairment charges on loans and advances customers for the period divided by the average loans and advances customers (excluding at fair value through P&L) on the basis of gross carrying amount and excluding the fair value adjustments from hedge accounting.

	31 December 2018	31 December 2017
Loan-to-Deposit ratio	183%	173%
Loans and advances customers (in billions)	56.8	59.7
- of which Client loans (in billions)	42.6	38.9
Due to customers (in billions)	28.0	30.3
Risk-weighted assets (in billions)	35.0	37.7
FTE	2,528	2,542

Total client loans increased to EUR 42.6 billion (2017: EUR 38.9 billion). Excluding the USD FX appreciation impact of EUR 1.2 billion, client loans increased by EUR 2.5 billion. The increase was mainly in Corporates NL and Natural Resources and was partly offset by a decrease in Trade and Commodity Finance, including diamonds. The rate of growth slowed in 2018 as a result of the CIB refocus, which is expected to gradually impact volumes throughout 2020.

Due to customers decreased to EUR 28.0 billion (2017: EUR 30.3 billion). The decrease was mainly reflected in corporates in the Netherlands and Financial Institutions.

Group Functions

Business description

Group Functions is organised into the following main departments: Innovation & Technology, Finance, Risk Management, Legal and Compliance, HR, Transformation & Communications, Group Audit, Strategy & Sustainability and the Corporate Office. The majority of Group Functions' costs are allocated to the businesses.

Innovation & Technology

Innovation & Technology supports the Group by facilitating innovation, managing Group programs, and providing services in the areas of IT, information security, data, back-office processing, facilities management and procurement, both in the Netherlands and internationally.

Finance

Finance helps keep the Group on track to achieve the goals defined in its long-term strategy. It is the primary supplier of management and reporting information to the Group's internal and external stakeholders, and plays an independent role in delivering management information and challenging business decisions. Finance provides a strong financial control environment and ensures compliance with accounting standards and requirements set by the regulatory authorities. It consists of the following main departments: Financial Accounting, Controlling, Investor Relations, ALM, Treasury and Tax.

Risk Management, Legal and Compliance

A strong, sustainable bank is reliant on sound risk management. Risk management secures a sound risk/reward ratio by maintaining a bank-wide, moderate risk profile as part of our long-term strategy. This risk profile is managed on the basis of an integrated risk management framework, in which all risk types, cross-risk types and overarching risks are identified in order to provide a single, integrated view of the risk profile of the bank and its various businesses. Risk Management takes careful account of this integrated risk profile and seeks to balance actions so as to ensure the moderate risk profile is maintained. The main risk types are credit, market, liquidity, business and operational (non-financial) risks. Underlying these main risk types are various sub-risk types. Risk appetite statements are set both for the main and the sub-risk types. The Risk, funding & capital management section of this report elaborates on the bank's risk profile, risk taxonomy and risk appetite.

HR, Transformation & Communications

The primary responsibility of HR, Transformation and Communications is to help the Group's businesses put clients centre stage by managing human resources and the bank's corporate identity and reputation. HR, Transformation and Communications aims to prevent reputational damage and to manage and improve the Group's reputation, brand name and brand value within and outside the Netherlands in a consistent manner and to position the Group as a trustworthy and sustainable organisation. As part of this process, ABN AMRO Foundation runs social projects and coordinates activities that promote social engagement.

Group Audit, Strategy & Sustainability and Corporate Office

Group Audit provides independent oversight and control, on behalf of senior and executive management, of the core processes, policies and procedures that are designed to ensure that the Group complies with both the letter and spirit of general and industry-specific legislation and regulations. In this way, it helps to protect the Group's reputation. Strategy & Sustainability provides advice on strategy and the implementation of various strategic initiatives and activities, including acquisitions and divestments, and strategic programmes for the Group and its stakeholders. Additionally it formulates the Group's overall sustainability strategies and ensures that sustainable banking is embedded in the Group's business practices. The Corporate Office is also part of Group Functions.

Financial review

Financial highlights

- Operating income decreased by 8%, mainly due to lower hedge accounting results and partly offset by positive revaluations and incidentals.
- Expenses directly incurred by Group Functions decreased as a result of lower restructuring provisions and the benefits of cost-saving programmes.

Operating results

(in millions)	2018	2017	Change
Net interest income	-16	-38	58%
Net fee and commission income	40	28	42%
Other operating income	196	248	-21%
Operating income	**220**	**238**	**-8%**
Personnel expenses	794	876	-9%
Other expenses	-635	-689	8%
Operating expenses	**160**	**187**	**-14%**
Operating result	**60**	**51**	**17%**
Impairment charges on financial instruments	-16	4	
Operating profit/(loss) before taxation	**76**	**48**	**60%**
Income tax expense	64	52	22%
Profit/(loss) for the period	**13**	**-4**	

Net profit rose by EUR 17 million owing to lower costs, which were partly offset by lower revenues.

Net interest income amounted to EUR 16 million negative (2017: EUR 38 million negative). The figure for 2018 includes a provision release relating to securities financing activities discontinued in 2009 (EUR 35 million). If adjusted for this, the decrease was mainly attributable to a decline in duration-related interest results, partly offset by the positive impact of approximately EUR 80 million resulting from the updating of the model used for non-maturing deposits and the reallocation of net interest income to the business segment, as well as higher mortgage penalty fees.

Net fee and commission income increased by EUR 12 million to EUR 40 million (2017: EUR 28 million), partly due to the increase in net fee and commission income from Stater (mortgage service provider).

Other operating income decreased to EUR 196 million (2017: EUR 248 million). This was due to less favourable hedge accounting-related income, including the partial sale of the public sector loan portfolio (EUR 79 million versus EUR 181 million in 2017), and to the lower provision release for securities financing activities discontinued in 2009, and was partly offset by the revaluation of equensWorldline (EUR 69 million).

Personnel expenses decreased by EUR 82 million to EUR 794 million (2017: EUR 876 million), partly as a result of lower restructuring provisions in 2018 (EUR 58 million versus EUR 112 million in 2017). If adjusted for these restructuring provisions, personnel expenses decreased on the back of the lower average number of FTE in 2018, partly offset by salary increases and the one-off payment of EUR 1,000 per employee that was provided for in the Collective Labour Agreement.

Other expenses amounted to EUR 635 million negative (2017: EUR 689 million negative). This was due to lower costs being allocated to commercial business lines and was partly offset by lower expenses as the figure for 2017 included a EUR 17 million impairment charge related to the ATM network.

Other indicators

	31 December 2018	31 December 2017
Securities financing – assets (in billions)	7.1	13.0
Loans and advances customers (in billions)	5.5	6.6
Securities financing – liabilities (in billions)	6.9	10.8
Due to customers (in billions)	3.5	2.9
Risk-weighted assets (in billions)	5.6	6.5
FTE	6,328	6,206

Responsibility statement

Pursuant to section 5:25c sub 2 part c of the Dutch Financial Supervision Act, the members of the Executive Board state that to the best of their knowledge:

- the Annual Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of ABN AMRO Group N.V. and the companies included in the consolidation;
- the Annual Report gives a true and fair view of the state of affairs on the balance sheet date and the course of business during the 2018 financial year of ABN AMRO Group N.V. and of its affiliated companies, of which data is included in its Annual Financial Statements;
- the Annual Report describes the material risks with which ABN AMRO Group N.V. is faced.

Amsterdam, 12 March 2019

Executive Board

Kees van Dijkhuizen, Chief Executive Officer and Chairman
Clifford Abrahams, Chief Financial Officer and Vice-Chairman
Tanja Cuppen, Chief Risk Officer
Christian Bornfeld, Chief Innovation & Technology Officer

Risk, funding & capital

This section discloses comprehensive information on risk management, capital adequacy and funding. Some disclosures in this section contain audited information and are an integral part of the Annual Financial Statements.

Introduction to Risk, funding & capital

This section provides an introduction to the Risk, funding & capital report. As this section of the Annual Report contains information according to EU IFRS as well as CRD IV/CRR, it provides more information on differences in scope and consolidation.

Contents

Risk, funding & capital management

This chapter sets out the Group's approach to risk, funding and capital management by describing strategy, policies, governance and measurement approaches.

Risk, funding & capital review

Portfolio composition and movements are described in the Risk, funding & capital review section. This section also describes developments in the Group's main types of risk and regulatory capital.

Additional risk, funding & capital disclosures

This chapter provides additional disclosures required under current regulations.

Regulatory requirements Pillar 3 EDTF 1

The Risk, funding & capital section presents the disclosures required under the Dutch Financial Supervision Act (*Wet op financieel toezicht – Wft*), the EU Capital Requirements Regulation (CRR), Title 9 Book 2 of the Dutch Civil Code, and EU IFRS. ABN AMRO also embraces the Enhanced Disclosure Task Force (EDTF) principles and recommendations.

Pillar 3 disclosures EDTF 1

The objective of Pillar 3 disclosures is to inform ABN AMRO's current and potential investors on how the organisation manages risk and capital adequacy. Pillar 3 disclosures are part of the Basel framework, which is based on the three-pillar concept. Pillar 1 details the minimum capital requirements, Pillar 2 relates to the internal capital adequacy measurement and the supervisory review, and Pillar 3 relates to disclosures on capital and risk to encourage market discipline.

The Pillar 3 disclosures are prepared in accordance with the Capital Requirements Regulation (CRR) and the EBA guidelines. ABN AMRO has incorporated the qualitative Pillar 3 disclosures into this Annual Report, along with accompanying Investor Relations/Financial disclosures. The quantitative Pillar 3 disclosures are published in a separate document on the website of ABN AMRO Group N.V.

EU IFRS EDTF 1

Some disclosures in the Risk, funding & capital section are an integral part of the Annual Financial Statements and contain audited information. The audited parts concern risk disclosures of financial instruments (IFRS 7) and capital disclosures (IAS 1). Audited information in these sections is labelled as 'audited' in the respective headings.

Enhanced Disclosure Task Force (EDTF) EDTF 1

ABN AMRO has implemented most of the 32 recommendations made by the Enhanced Disclosure Task Force. These disclosures are labelled 'EDTF' in the respective headings.

Risk exposure measurement and scope differences Pillar 3

Risk measures vary according to the purpose for which exposure is calculated: EU IFRS or the determination of regulatory or economic capital (CRD IV/CRR). EU IFRS is mainly used to measure the bank's financial results and position. Regulatory and economic capital are more suitable for certain risk measurement purposes because EU IFRS classifies the financial position by class of product, whereas the objective of regulatory reporting is to take a risk-sensitive view on the bank's portfolio and to ensure that sufficient capital buffers for unexpected losses and sufficient liquidity buffers are maintained. In addition, the financial position according to EU IFRS provides a liquidity view instead of a credit view.

EU IFRS reporting scope EDTF 1

The consolidation scope of ABN AMRO is determined in accordance with IFRS 10 Consolidated Financial Statements and IFRS 11 Joint arrangements. More information can be found in the Annual Financial Statements.

Regulatory reporting scope Pillar 3

The scope of consolidation for the purpose of calculating regulatory and economic capital (based on the CRD IV and CRR) is generally the same as the consolidation scope under EU IFRS and includes subsidiaries which are directly or indirectly controlled by ABN AMRO and active in the banking and financial sectors. Subsidiaries consolidated under EU IFRS but active in sectors other than banking and finance are excluded from the regulatory scope of consolidation.

Risk, funding & capital management

This section provides an overview of the Group's approach to risk, funding and capital management, including its strategies, measurement approaches and risk governance framework. Portfolio developments are described in the Risk, funding & capital review section.

Risk approach

ABN AMRO is committed to being a well-capitalised bank with sufficient liquidity that focuses on delivering sustainable value to its stakeholders. We are committed to maintaining a sound balance between risk and reward as well as a bank-wide moderate risk profile as part of our long-term strategy. We thoroughly evaluate the long-term risk and return implications of our operations on an ongoing basis.

Risk profile Pillar 3 EDTF 2 EDTF 7

ABN AMRO's risk profile is managed by way of an integrated risk management framework, which identifies all types of risk and cross-risk as well as overarching risks in order to provide a single, integrated view on the risk profile of the bank and its business lines. By taking an integrated view of our risk profile, we strive to carefully balance actions in order to manage the risk profile within the moderate risk profile.

The following sections describe the risk taxonomy, risk appetite, risk culture, risk governance and risk measurement, all of which are key elements of our moderate risk profile. For more information on the balance sheet composition, please refer to the Risk, funding & capital review section.

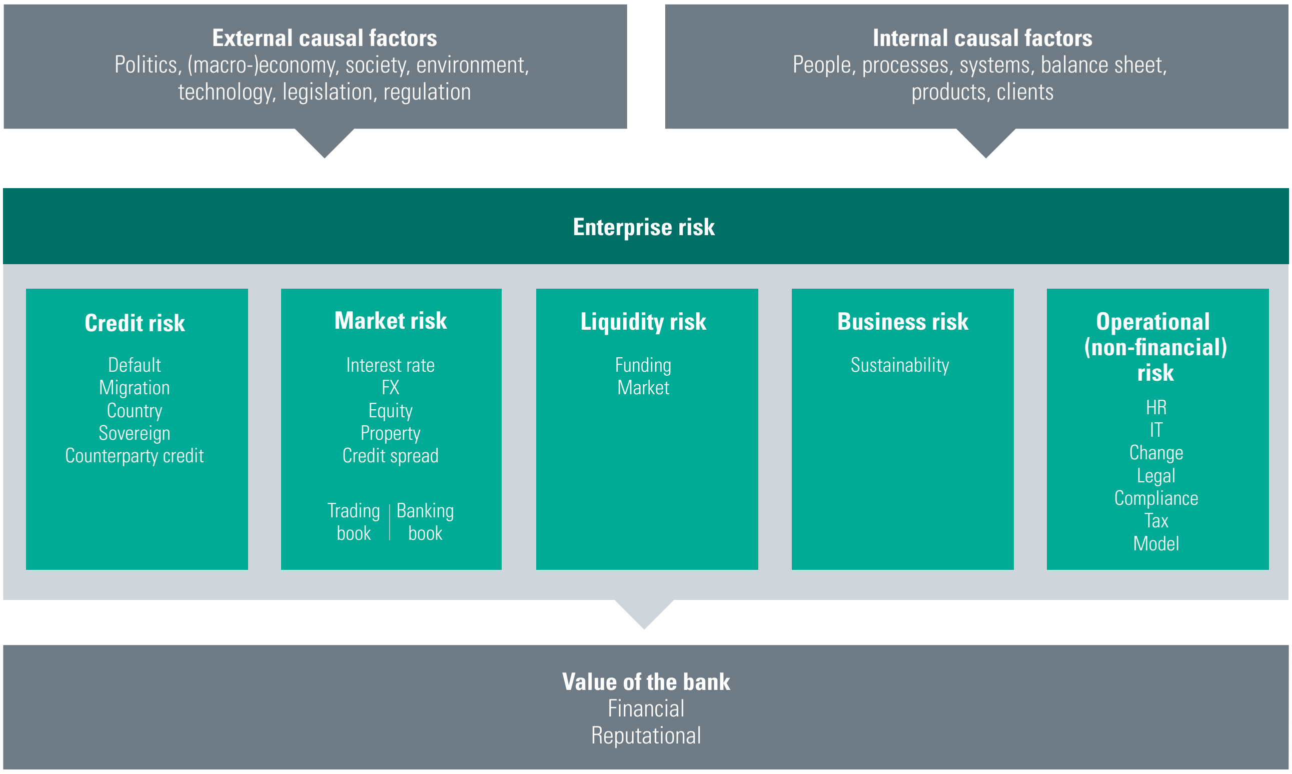
Risk taxonomy Audited EDTF 7

Our risk taxonomy classifies risks into risk types to which the bank is, or could be, exposed. It is reviewed and updated on an annual basis to ensure that all material risks are identified, defined and taken into account in the risk governance framework. It creates a common risk vocabulary, provides a checklist of types of risks for use in risk assessments, and helps ensure that all material risks are managed and that roles and responsibilities are identified.

The main risk types are credit, market, liquidity, business and operational (non-financial) risk. These main risk types comprise various sub-risk types. Risk appetite statements are set for both the main and sub-risk types. Reputational risk and financial loss are considered factors that impact the value of the bank.

ABN AMRO's risk taxonomy is summarised in the following figure:

Risk taxonomy

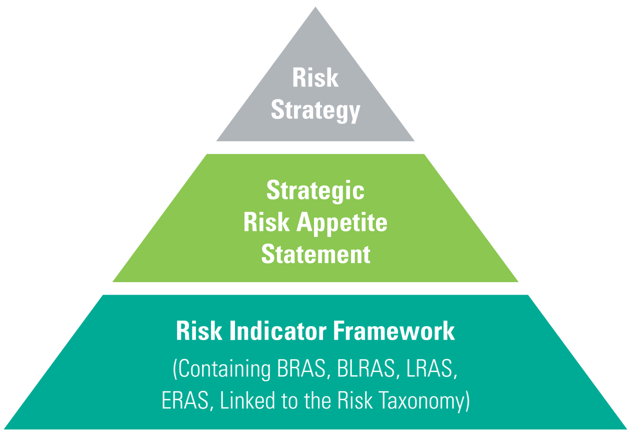


Risk appetite
Audited | Pillar 3 | EDTF 2 | EDTF 7

The risk appetite determines the level and nature of risk that the bank is willing to take in order to pursue its strategy.

The bank-wide risk appetite is an integral part of our corporate strategy. Specific business-line risk appetites further determine the bank-wide risk appetite. In addition, risk appetites exist at a country and material entity level. These risk appetites allow us to manage risk at every appropriate level within the bank, as shown in the figure to the right.

Risk appetite framework

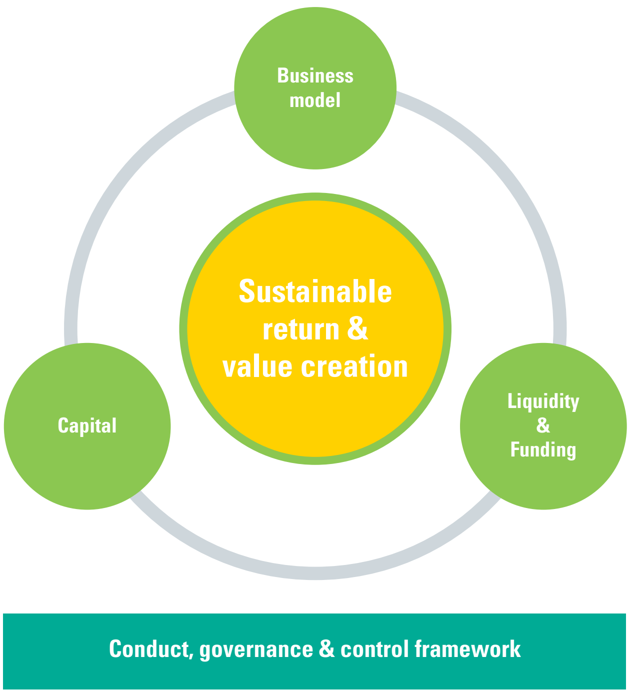


The risk appetite follows the structure presented above. The strategic Risk Appetite Statement (strategic RAS) expresses ABN AMRO's risk strategy of pursuing a moderate risk profile and cascades into the risk indicator framework at various levels of the organisation: bank-wide (BRAS), business line (BLRAS), local (LRAS) and entity level (ERAS). The strategic RAS is approved by the Executive Board and Supervisory Board.

Senior management monitors the bank's activities, based on the risk appetite. The status of adherence to the risk appetite, and its outlook, are discussed on a monthly basis in the Executive Board and on a quarterly basis by the Supervisory Board, based on the Enterprise Risk Management report. The cascaded risk appetites (BLRAS, LRAS, ERAS) are monitored based on their respective reports, and discussed and approved at their respective levels.

The elements of the strategic RAS ensure a coherent balance between return and value creation, our business model, capital and liquidity & funding, taking into account the conduct, governance and control framework shown in the figure below. For each element, key qualitative and/or quantitative statements are set.

Strategic Risk Appetite Statement



The statements in the strategic RAS are cascaded into an underlying risk indicator framework at bank, business lines, entity and country levels. 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, referred to as key risk indicators (KRI). 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 our risk profile back within the limit. To allow for timely action, early warnings are in place to prevent breaches.

Examples of KRIs in our risk appetite include:
- Regulatory and internal capital ratios
- Risk-adjusted return measures
- Concentration limits for single counterparties, industry sectors and countries
- Economic capital and risk-weighted asset limits for various risk types
- Liquidity ratios (LtD, LCR, NSFR)
- Market risk parameters (duration, NII-at-Risk)
- Operational risk parameters (outstanding issues)
- Reputational parameters (NPS, employee engagement score)

When setting the statement for each risk type, the following aspects are considered in view of the corporate strategy, market standards (such as peer analyses), the economic environment, regulations, the views of our stakeholders and the actual risk profile, as well as internal insights and risk management tools. In addition to incorporating these views, balancing these aspects provides us with the means to substantiate risk statements for each risk type.

Risk culture Pillar 3 EDTF 6

The bank has a continuous focus on risk awareness as an integral part of its bank-wide risk culture. Pursuing a moderate risk profile is embedded in the risk culture by means of communication and training and is monitored through performance management.

Employees are expected to be aware of the drivers of our risk profile and to feel accountable for the risks they take. Part of the awareness programme is the Integrated Risk Management course, which emphasises the importance of taking a holistic view of risks. To continually reinforce bank-wide awareness of non-financial risks, a permanent education tool and training app are used, while more specific training is also available for each business line and 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 are fundamental to everything we do and describe how we act as a bank, how we make decisions, and how we deal with various dilemmas. The code of conduct is published on our website.

We place a strong emphasis on sound risk control in our compensation policies. ABN AMRO's remuneration policy is in line with our risk profile. More details are provided in the Remuneration paragraph in the Leadership & governance chapter.

Risk governance Audited Pillar 3 EDTF 5

The Risk Governance Charter defines ABN AMRO's Risk governance and decision framework (delegated authorities and mandates) for both financial and non-financial risk. The Risk Governance Charter is in place to support an efficient and effective Risk Control Management throughout, and at all levels of, the bank. The Risk Governance charter supports the Bank in being compliant with the Basel Committee of Banking Supervisors (BCBS) guidance 'Corporate Governance Principles for Banks' and the 'EBA guidelines on Internal Governance'.

The Risk Management organisation operates under the direct responsibility of the Chief Risk Officer, who is a member of the Executive Board. The Executive Board has overall responsibility for the risks that ABN AMRO takes.

Three lines of defence

The three lines of defence principle provides a clear division of activities and responsibilities in risk management at different levels in the bank and at different stages in the lifecycle of risk exposures. The three lines of defence principle is summarised in the following figure:

Three lines of defence Audited Pillar 3 EDTF 5

1 1st Line of Defence Business	2 2nd Line of Defence Risk control functions	3 3rd Line of Defence Group Audit
Risk ownership	**Risk control**	**Risk assurance**
Responsible for ▶ Risk taking and owning the risk ▶ Transaction execution ▶ Acting in accordance with policies ▶ Effectiveness of risk control	Responsible for ▶ Setting frameworks, rules and advice ▶ Approval of risk intake ▶ Monitoring, reporting, and risk control ▶ Ensuring 1st line takes risk ownership	Responsible for ▶ Evaluating the design and effectiveness of governance, risk management and control processes, agreeing with management on solutions and monitoring follow-up

Executive risk committees

In the risk decision-making framework, the Executive Board is supported by three executive risk committees: the Group Risk Committee, Group Central Credit Committee and Group Asset & Liability Committee, each of which is jointly chaired by a member of the Executive Board. The two other executive committees are the Group Regulatory Committee and the Group Disclosure Committee.

The Executive Board is ultimately responsible for a balanced assessment of the bank's commercial interests and the risks to be taken within the boundaries of the risk appetite. In addition to the risk committees, the Executive Board itself makes decisions that are of material significance for the risk profile, capital allocation and liquidity of ABN AMRO. The terms and conditions of the committees are specified in the Risk Governance Charter.

Group Risk Committee

The Group Risk Committee (GRC) is mandated by the Executive Board to monitor, assess and manage the bank's risk profile in relation to the risk appetite. The GRC is, for example, responsible for establishing a product approval process to ensure we only accept risks that we understand and that serve the interests of clients, and for ensuring the adequate functioning of this process. The GRC has delegated specific approval powers to subsidiary risk committees, but remains responsible on behalf of the Executive Board.

Group Central Credit Committee

The Group Central Credit Committee (CCC) is mandated by the Executive Board to decide on the acceptance of counterparty risk in respect of individual persons, legal entities and public administrative bodies relating to credit proposals. In certain cases, for example above a specific threshold, the CCC's decisions require final approval by the Executive Board.

Group Asset & Liability Committee

The Group Asset & Liability Committee (ALCO) is mandated by the Executive Board to decide on the capital adequacy, the liquidity risk profile, the market risk in the banking book and the funds transfer pricing of the organisation and its subsidiaries, within the policies and limits approved by the GRC.

More information about Governance in general and the Group Regulatory Committee and the Group Disclosure Committee is provided in the Leadership & governance chapter.

Risk measurement Pillar 3 EDTF 2 EDTF 5

We develop and use internal models to quantify the risk for most risk types in the risk taxonomy. The models for credit, operational, market, liquidity and business risk are the 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 will occur and the loss the bank may suffer as a consequence of that event. This information serves as the basis for ABN AMRO's internal measures of risk (economic capital) and as key input for calculating the minimum regulatory capital requirements according to the Basel framework (regulatory capital).

New models require formal internal and external approval before being implemented and used. Internal approval for the use (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 regulator.

The modelling departments develop models in close cooperation with the relevant business and risk experts. In principle, we review models annually. This means that we back-test the models against historical data and, where relevant, benchmark calibration of the models with external studies. When model performance degrades, or when degradation is suspected, risk management can impose capital add-ons to the models. These add-ons are calculated by a comprehensive framework covering both inherent weaknesses in the models and weaknesses in the model processes such as delays in reviews.

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

Capital

Regulatory capital (CRD IV/CRR) Audited Pillar 3

Under the Basel framework as implemented in European legislation (CRD IV and CRR), banks are required to hold capital to cover financial risks. Banks determine the level of risks for the three major risk types (credit, operational and market risk) in terms of aggregated risk weighted assets (RWA). The capital requirements are stated as a percentage of RWA. Under Pillar 1, banks are required to hold a regulatory fixed percentage of RWA in capital. Under Pillar 2, supervisors impose an additional – bank specific – percentage of RWA in addition to the Pillar 1 requirement. The so-called capital buffers are a requirement in addition to Pillar 1 and 2, also defined as percentages of RWA. The capital buffer requirements are a mixture of percentages prescribed by law and percentages set by various regulators.

Economic capital

In addition to regulatory required capital, for Pillar 2, we calculate economic capital (EC). Economic capital covers all risk types in our risk taxonomy for which capital is deemed to be the mitigating instrument to cover unexpected losses, and is used as the key metric for internal risk measurement and management. It is the amount of capital we reserve in order to achieve a sufficient level of protection against large unexpected losses that could result from extreme market conditions or events.

Internal models are used to calculate EC at a 99.95% confidence level and a one-year time horizon. This implies that the estimated capital figure for the coming year is sufficient to cover a level of loss that will be exceeded in only 0.05% of all possible cases.

EC is aggregated for all risk types to determine the total EC at bank level and to support capital allocation, ex-post performance measurement and risk-appetite setting such as industry concentration risk limits. EC is also used at a transactional level in loan-pricing tools. These tools act as a decision-making mechanism for assessing the profitability of a new or existing transaction in terms of the risk-adjusted return on risk-adjusted capital (RARORAC).

EC Quality Assessment

The EC models described above form the core of the Internal Capital Adequacy Assessment Process (ICAAP). In order to monitor and secure the quality of the EC framework and its outcome in terms of capital adequacy, an EC Quality Assessment (ECQA) is performed yearly as part of the ICAAP. For each main risk type, the calculated EC figure is evaluated in the following areas:

- Risk coverage;
- Responsiveness to internal and external developments;
- Data quality;
- Compliance with EC policy;
- Validity of choices and assumptions.

If considered necessary, an additional capital buffer ('EC add-on') is taken to cover any identified shortfalls in the EC.

Stress testing and scenario analysis Audited Pillar 3 EDTF 8

ABN AMRO uses stress testing and scenario analysis as an important risk management instrument, looking at profitability, capital and liquidity risk from a bank-wide perspective on a regular basis. In addition, sub-portfolio and risk type-specific stress testing and scenario analysis are executed.

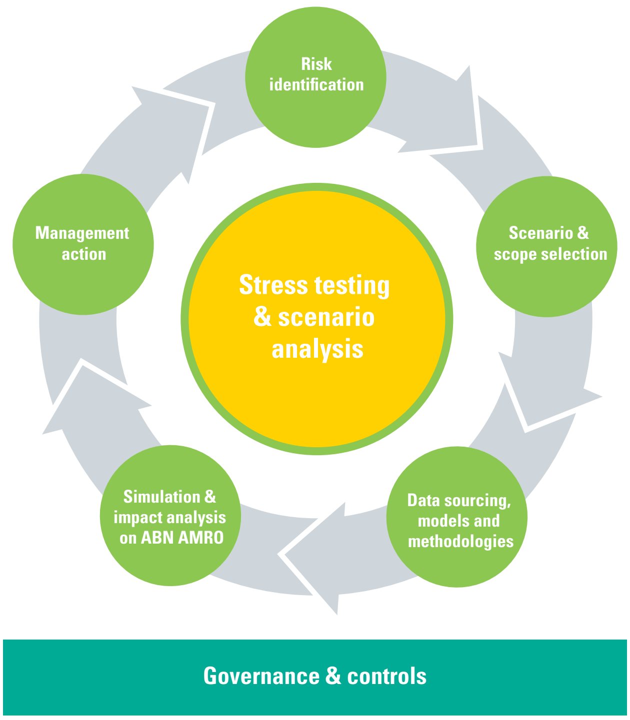
Stress testing purposes

ABN AMRO applies stress test and scenario analysis for several purposes, including:

- Risk-appetite setting and monitoring: the outcome of stress testing is used for setting and monitoring risk appetite limits and targets, including limits under stress. If the stress test outcome breaches a limit, mitigating actions will be considered to close the shortfall. The impact is taken into account in the capital and funding planning;
- Contingency planning: stress testing is used to assess and strengthen the contingency plans' triggers and measures. To this end, reverse stress testing is executed to gain advanced insight into plausible events that could put the continuity of ABN AMRO under pressure;
- Capital planning: stress testing is used to gain insight into the resilience of our capital under adverse changes in the economic environment and ABN AMRO specific circumstances. The results of the stress tests are incorporated into the capital plan;
- Supervisory stress testing based on prescribed scenarios and assumptions. This includes EBA's stress test programme, to assess the resilience of banks to adverse economic or financial developments.

The figure below shows the stress test and scenario analysis cycle.

Stress test and scenario analysis cycle



The stress test and scenario analysis cycle starts with the identification of material risks for ABN AMRO and individual business lines. Both systemic risks (e.g. macroeconomic risks) and ABN AMRO-specific risks (e.g. cyber attack or adverse outcomes in legal procedures) are considered. Also, sensitivity analysis is used to gain insight into key vulnerabilities. Based on the risk identification, scenarios are defined. Alongside most likely scenarios, we also define severe, but plausible scenarios. Scenarios can have a short-term horizon, e.g. an instant market shock, or a long-term horizon, e.g. a multi-year recession.

Scenario projections are based on quantitative models as well as expert opinion procedures. In general, results are presented excluding and including potential mitigating actions, taking into account contingency plans. Two types of management actions can be distinguished in the stress test and scenario analysis: i) direct actions based on the scenario exercise and ii) actions that would be taken if the scenario were to materialise.

Given the importance of stress testing in terms of sound risk management, the Executive Committee is involved throughout the process and its governance. The Executive Committee, together with the Scenario & Stress Test Committee (a sub-committee of the Group Risk Committee), discusses and decides on the scenario selection, the results and the implications.

Credit risk management EDTF 26

Credit risk is the risk that the value and/or the earnings of the bank decline due to uncertainty in a counterparty's ability or willingness to repay a loan or meet the terms of a contractual obligation.

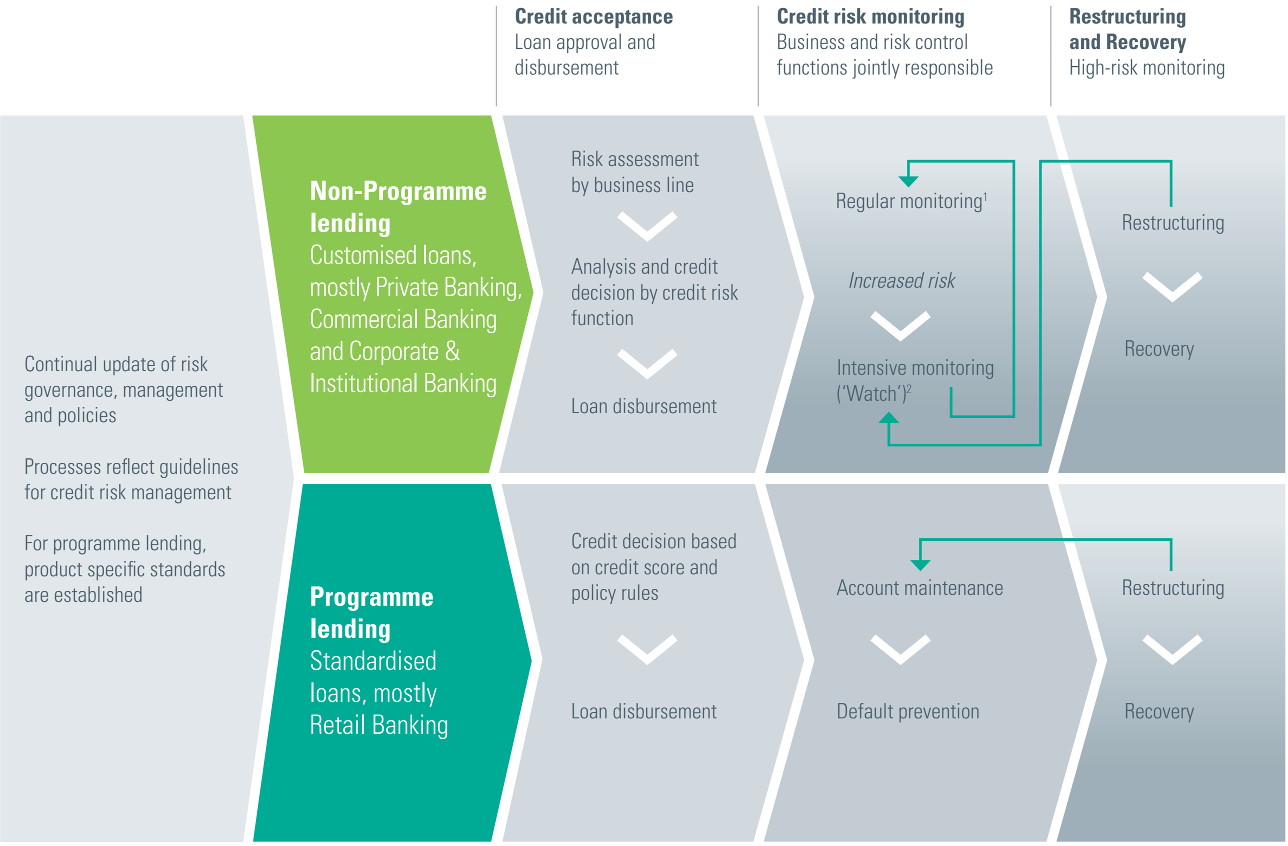
Credit risk management is the responsibility of the first and second lines of defence. The primary responsibility for intake, managing and monitoring credit risk lies with the business as the first line of defence. The second line of defence has a permanent and ongoing responsibility to define the boundaries and monitor whether the type and level of credit risk exposures are within the limits of the business lines' risk appetite. Credit risk management within the bank is governed by the bank-wide central credit risk policy and further detailed in underlying specific credit risk policies.

Credit risk management approach Audited Pillar 3

ABN AMRO employs two separate approaches to managing credit risk, which reflects the bank's way of doing business. For customised lending to counterparties (Non-Programme Lending), risks are assessed on an individual basis. Standardised products and processes are managed on a pooled basis (Programme Lending) to which uniform risk criteria are assigned. Effectively, any lending not defined as Programme Lending is defined as Non-Programme Lending.

The process of credit risk management is illustrated in the following figure:

Credit risk process differs by type of loan



1 Daily monitoring, annual or semi-annual credit review.
2 'Watch': status assigned to counterparties with an increased risk.

For more insight on our credit portfolio please refer to the Credit risk chapter in the Risk, funding & capital review section.

Planning
Within Programme Lending, the credit cycle starts with a product planning phase, during which the product is designed and/or reviewed, with the goal of optimising its key drivers of risk and return within the context of ABN AMRO's strategy, risk appetite, the client's best interest and sustainability.

Credit acceptance
Within Non-Programme Lending, the credit acceptance phase of a credit proposal starts with an assessment of the proposal by the relevant business line and by Risk Management. The qualitative and quantitative details of the credit risk associated with the loan must be assessed prior to approval. Information must be provided on matters such as the purpose, details and structure of the proposed credit facility, the borrower and other counterparties, the industry and geography, management and owners, and financial and non-financial analyses. The credit decision is based on independent assessments of both the commercial and the credit risk function.

For a credit approval decision within Programme Lending, client-specific aspects and internal/external data are taken into consideration to calculate a credit score (scorecard). The credit decision is based on the outcome of the scorecard and policy rules.

Credit risk monitoring
Consistent and regular monitoring helps to safeguard the bank's position in relation to all risks associated with the counterparty, credit type or portfolio. Monitoring starts when the credit facility has been provided and continues throughout the lifecycle of the credit facility and the relationship with the counterparty until the exposure is repaid and/or the limit is cancelled.

Should a situation arise in which an individual counterparty shows signs of credit risk deterioration, but is not in default, a 'watch' status is assigned. A 'watch' status indicates that a counterparty requires close monitoring and appropriate follow-up measures in order to prevent a default. Indicators for the 'watch' status are: changes in risk profile, liquidity problems, management issues, market outlook, potential breach of credit agreement, solvency issues and uncertain continuity.

Restructuring & Recovery
Credit facilities that are subject to a default event are mandatorily transferred to the Financial Restructuring & Recovery department (FR&R). Credit facilities with an identified significantly high risk can be transferred to the FR&R if specialised restructuring knowledge is required. If a 'going concern' approach is applicable and return to a performing status is considered likely, the credit facility is transferred to the Restructuring team, which devises a plan aimed either at rehabilitation or at enhancing the likelihood of full repayment. In all other cases, the credit facility is transferred to the Recovery team.

Programme Lending contracts are transferred to the Restructuring team when a default status is assigned because payments have been past due for more than 90 days or because another default trigger applies. If restructuring is ultimately not effective, the client is transferred to other internal departments or external parties (such as Intrum) for debt collection.

Once a client is considered to be able to meet its future payment obligations and the involvement of FR&R is no longer required, the client is transferred back to the business.

Credit risk measurement Audited Pillar 3 EDTF 2
We use internal models to measure the credit risk associated with exposures to individual clients and portfolios. To estimate the expected losses for all type of exposure classes, these models quantify the clients' Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The models vary from purely statistical to expert-based and employ quantitative as well as qualitative risk drivers. Using input values for the risk drivers, the models calculate PDs, EADs and LGDs. EAD is established on a monthly basis, using actual limits and outstanding exposure data. PD and LGD are determined at least annually.

The models' estimates are embedded in the credit approval and internal reporting processes in order to calculate economic capital and the minimum regulatory capital requirements under the Basel Advanced Internal Ratings Based (AIRB) approach. They also serve as input for the RARORAC (Risk Adjusted Return on Risk Adjusted Capital), the bank's key metric for risk-adjusted performance.

The growing use of data-analysis and modelling in all of the bank's processes requires a stronger model management framework. Historical data needs to be enhanced to support the primary business processes and the regulatory reporting processes. In addition to the growing demand for analysis and modelling, regulatory expectations have also increased, requiring higher standards and a broader control framework for our models.

Probability of Default

The probability of default (PD) indicates the likelihood that a counterparty will default within a one-year time horizon. For the non-programme lending portfolio, the PD, as a percentage, maps to and is expressed as an internal uniform counterparty rating (UCR), ranging from 1 to 8. For Programme Lending portfolios within Retail Banking and Commercial Banking, products with the same characteristics are pooled and a PD is assigned to each pool.

In line with regulatory guidance, we define a default to have occurred when:

- the counterparty is overdue by more than 90 days; or
- the bank considers the borrower to be unlikely to meet its contractual obligations;
- besides mandatory triggers, judgemental triggers also apply.

ABN AMRO uses rating systems, which are developed and used in accordance with the CRR. According to the three lines of defence model, the use of the rating systems is separated from the development and validation of these systems. The independent Credit Risk Control Unit oversees the proper use of the systems and reports on the coverage of the use of appropriate reporting models. The Validation department independently checks the accuracy of all credit rating systems. Our internal rating scale corresponds with the equivalent classifications of the rating agencies.

Internal rating scale mapped to external ratings Audited Pillar 3 EDTF 2

	UCR (internal rating)	Low PD%	High PD%	Standard & Poor's equivalent	Moody's equivalent	Fitch equivalent
Investment grade	UCR 1	0.00	0.03	AAA to A+	Aaa to Aa3	AAA to AA-
	UCR 2+	0.03	0.04	A+	A1	AA-
	UCR 2	0.04	0.07	A	A1	A+
	UCR 2-	0.07	0.13	A-	A3	A-
	UCR 3+	0.13	0.20	BBB+	Baa1	BBB+
	UCR 3	0.20	0.30	BBB	Baa2	BBB
	UCR 3-	0.30	0.46	BBB-	Baa3	BBB-
Sub-investment grade	UCR 4+	0.46	0.77	BB+	Ba1	BB+
	UCR 4	0.77	1.28	BB	Ba2	BB
	UCR 4-	1.28	2.22	BB-	B1	BB-
	UCR 5+	2.22	4.24	B+	B2	B
	UCR 5	4.24	8.49	B-	Caa1	B-
	UCR 5-	8.49	16.97	CCC/C	Caa2	CCC/C
	UCR 6+	16.97	100.00	CCC/C	Caa-C	CCC/C
Default	UCR 6-8			D	D	D

Exposure at Default

Exposure at Default (EaD) models estimate the expected exposure at the time a counterparty defaults. If all or part of a facility is undrawn (i.e. the outstanding amount is less than the approved limit) at the time of the EaD calculation, a portion of the undrawn amount is added to the exposure to reflect the observation that counterparties draw larger portions of their approved facilities when nearing default.

Loss Given Default

Loss Given Default (LGD) models estimate the amount of money the bank will lose if the counterparty defaults. It is expressed as a percentage of the outstanding amount at default. Typically an LGD will never be 100% as the bank uses mitigating techniques, such as securing collateral, to minimise losses in the event of default. The LGD is thus the portion of the exposure at default that is left after realisation of secured collateral. Other factors, such as the facility seniority, will also affect the LGD rate.

Capital for credit risk

Regulatory capital

Capital requirements for credit risk are determined by calculating all top-level exposure classes in accordance with the Advanced Internal Rating Based Approach (AIRB). Within these exposure classes, a number of smaller portfolios are temporarily or permanently calculated according to the Standardised Approach (SA). ABN AMRO has been granted approval to apply the AIRB, including a number of exemptions, by the relevant competent authority.

Economic capital

The EC model for credit risk uses a Monte Carlo simulation to determine a full portfolio loss distribution, taking into account specific portfolio characteristics and diversification effects. Loan facilities are valued on an economic value (mark-to-market) basis to ensure that loss estimates can be based not only on defaulting borrowers, but also on possible credit migrations and changes associated with the market values of loans.

Specific counterparty credit risk Pillar 3 EDTF 2 EDTF 29

Specific calculation methodologies are applied to determine counterparty credit exposure relating to over-the-counter (OTC) derivative instruments and securities financing.

OTC derivative instruments

OTC derivatives are financial instruments which are used to cover current and/or future financial risks or to achieve additional return on an investment. They consist of transactions concluded between two parties and of which the value is based on an underlying base value (e.g. interest rates, foreign exchange rates, commodities, equities).

Securities financing transactions

The balance sheet item Securities financing refers to securities lending, a market activity whereby securities are temporarily transferred from a lender to a borrower, subject to the commitment to re-deliver the securities, usually in the short term. The borrower collateralises the transaction with cash or other securities of equal or greater value than the borrowed securities in order to protect the lender against counterparty credit risk. As an intermediary between clients and the market, we act both as lender and borrower.

Regulatory and economic exposure calculation for specific counterparty credit risk

The regulatory calculation methodology applied for calculation of the counterparty credit risk exposure value (EAD) of OTC derivative instruments is the mark-to-market method.

The economic counterparty credit risk exposure calculation of OTC derivative instruments is based on the mark-to-market (MtM, i.e. current exposure) plus an add-on for potential future exposure. The add-on is calculated to cover 95% of the potential positive MtM movement in favour of the bank for the entire deal tenor. The add-on is determined by several parameters, such as the type of derivative product (underlying), deal tenor, currency (pair) and the absence or presence of netting and collateral agreements.

For securities lending, the Financial Collateral Comprehensive Method (FCCM) is used in the regulatory calculations. For economic counterparty exposure calculations, the FCCM is applied with additional conservatism.

Wrong-way risk

This risk refers to transactions whose counterparty credit exposure arising from OTC or Securities Lending transactions is positively correlated to the counterparty's probability of default. In other words, the credit exposure increases when the credit quality of the counterparty deteriorates. In general, we do not engage in such wrong-way risk transactions. We are also prudent in considering transactions in which this correlation is less obvious, e.g. transactions where a general wrong-way risk component forms part of the deal, or where a counterparty and the underlying issuer are in a similar industry, or in the same country or geographical region.

Credit concentration risk Audited Pillar 3

Credit concentration risk is the risk of loss arising from large exposures, as related to the total risk exposure of the bank, to a single counterparty or to counterparties that are positively and highly correlated. Positively correlated counterparties are counterparties of which the credit quality will move in the same direction under similar circumstances. Limiting excessive concentrations is fundamental to our credit risk strategy, which is why we aim to keep the credit risk portfolio sufficiently granular and diversified.

To avoid excessive credit risk concentrations, Risk Management sets maximum levels for subgroups in the following categories:

- Single counterparty and groups of related counterparties (counterparty concentration);
- Countries (geographic concentration);
- Industry sectors (industry concentration).

Counterparty concentration

Counterparty concentration credit risk is the risk of loss arising from relatively large exposures to counterparties belonging to the same risk group. The One Obligor Exposure (OOE) is the exposure to a risk group, including all drawn and undrawn facilities granted plus all indirect exposure to the risk group, including guarantees and any other recourse claims. A risk group is an interrelated group of counterparties with a high degree of dependency on each other due to a control relationship. This control relationship may be due to direct or indirect majority interests being held by the same shareholder or group of shareholders. Counterparty credit concentration risk is measured by the OOE and the Economic Capital (EC) per counterparty. The bank limits its counterparty credit risk by setting OOE and EC limits. Additionally, all credit applications with an OOE and/or EC above a certain threshold are reviewed by the Executive Board.

Geographic concentration

ABN AMRO has branches and subsidiaries located outside the Netherlands, as well as clients who operate internationally. Consequently the bank is exposed to country risk, which is the risk of credit losses arising from country-specific events or circumstances. Management of country risk focuses on cross-border risk, which includes the risk that funds, goods or services cannot be transferred out of a country as a result of actions by local authorities or because of other events impeding the transfer. These risks are managed by setting country credit limits, based on individual country analyses by economic, compliance and country risk experts. Country limits are reviewed at least once a year. Each country also has an internal credit rating, which is reviewed and approved twice a year and is an important factor in managing country concentration risks.

Industry concentration

Industry concentration risk is the risk of loss arising from a relatively large credit exposure to counterparties active in a single industry. Industry concentration risk arises when deterioration in a specific industry has an effect on all credit exposures relating to that industry. ABN AMRO manages its industry concentrations by setting credit risk economic capital (EC) limits as a percentage of total credit risk EC per industry. In addition to the EC limits, EC concentration checkpoints are set to facilitate timely and sufficient management interventions to avoid breaching of the limits.

Credit risk mitigation Pillar 3 EDTF 30

Credit risk mitigation techniques are used by the bank to reduce the credit risk associated with the bank's credit exposures. Such techniques relate mainly to collateral management and guarantees, offsetting financial assets and liabilities, and enforcing master netting agreements or similar instruments.

Credit risk mitigation techniques themselves entail risks and as such they need to meet certain requirements to ensure they are used effectively and in line with the bank's risk appetite. ABN AMRO has therefore established mandatory bank-wide policies governing the use and management of credit risk mitigation techniques, which are in line with regulatory requirements as well as the needs of the bank and its clients. These bank-wide policies set out the overarching rules that must be observed by business specific procedures and processes related to credit risk mitigation.

Collateral management and guarantees

Collateral represents assets with material value that have been received by (or pledged to) the bank to secure obligations under a credit facility or other exposure. To be effective, such security needs to give the bank the right to appropriate and liquidate collateral on time and without impediments so that losses on the exposure at default are minimised.

In addition to its ability to minimise exposure risk, eligible collateral can also reduce the regulatory and economic capital the bank is required to hold as a buffer for unexpected losses. The Capital Requirements Regulation prescribes the criteria that collateral must meet to become eligible for capital reduction. These criteria, which provide for legal effectiveness and enforceability, valuation and monitoring of collateral, aim at the effective and timely realisation of collateral.

We also use guarantees to mitigate exposure risks. These include guarantees from, for example, banks, governments and export credit agencies. The credit quality of guarantors is assessed at origination and monitored to ensure the guarantee is valued correctly for risk mitigation purposes.

Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported on the EU IFRS balance sheet if there is a legally enforceable right to set off the recognised amounts and there is either an intention to settle on a net basis or an intention to realise the asset and settle the liability simultaneously. The bank applies netting to debtor and creditor balances, such as current accounts, where offsetting is justified by formal agreement with the client, provided they meet the applicable criteria.

Enforceable master netting agreements or similar instruments

Enforceable master netting arrangements take into account all agreements with conditions that make offsetting exercisable in the event of default. In addition, agreements are enforceable if the bank has a legally enforceable right to offset and does not have any ability and/or intention to realise the asset and settle the liability simultaneously. These arrangements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements.

Forborne, past due and credit loss allowances

Audited Pillar 3 EDTF 27

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

Forbearance Audited

Forbearance is the process of making concessions to clients who are or will soon be experiencing financial difficulty, with the intention of bringing them back within their payment capacity. A forborne asset is any contract which has been entered into with a counterparty who is in or about to face financial difficulty, and which has been refinanced or modified on terms and conditions that we would not have accepted (concession) if the counterparty had been financially healthy.

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

A forborne contract will cease to qualify as forborne only when all the following conditions are met:
The contract is considered performing;

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

If the forborne contract is or has become non-performing at the time of the forbearance measure, a mandatory cure period of at least one year applies to the contract before it is returned to a performing status. The cure period starts when the contract becomes non-performing or, if the contract was already non-performing, from the moment the last forbearance measure was taken. More information about non-performing can be found at the end of this section.

Past due credit exposures Audited Pillar 3

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. ABN AMRO starts counting days past due from the first day that a counterparty is past due on any financial obligation.

Accounting policy on measurement of allowances for credit losses Audited Pillar 3 EDTF 27

Since 1 January 2018, ABN AMRO has recognised loss allowances based on the expected credit loss model (ECL) of IFRS 9, which is designed to be forward-looking. The IFRS 9 impairment requirements are applicable to financial assets measured at amortised cost or fair value through other comprehensive income (FVOCI), loan commitments and financial guarantee contracts. These financial instruments 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)	**Credit risk deteriorated** (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 cost (gross carrying amount less loss allowance)

Stage triggers

We use quantitative and qualitative stage triggers to determine whether a financial instrument should be classified as stage 1 or stage 2.

Quantitative stage trigger

The key quantitative metric determining when a financial instrument is transferred from stage 1 to stage 2 is the deterioration of the lifetime probability of default (LPD) from the date of origination to the reporting date, based on internal data. The LPD represents the likelihood that a counterparty will default during the lifetime of the financial instrument and depends on credit risk drivers such as:

- product characteristics (e.g. repayment and interest terms, term of the product)
- financial condition of the borrower
- number of days past due
- the geographical region
- future developments in the economy.

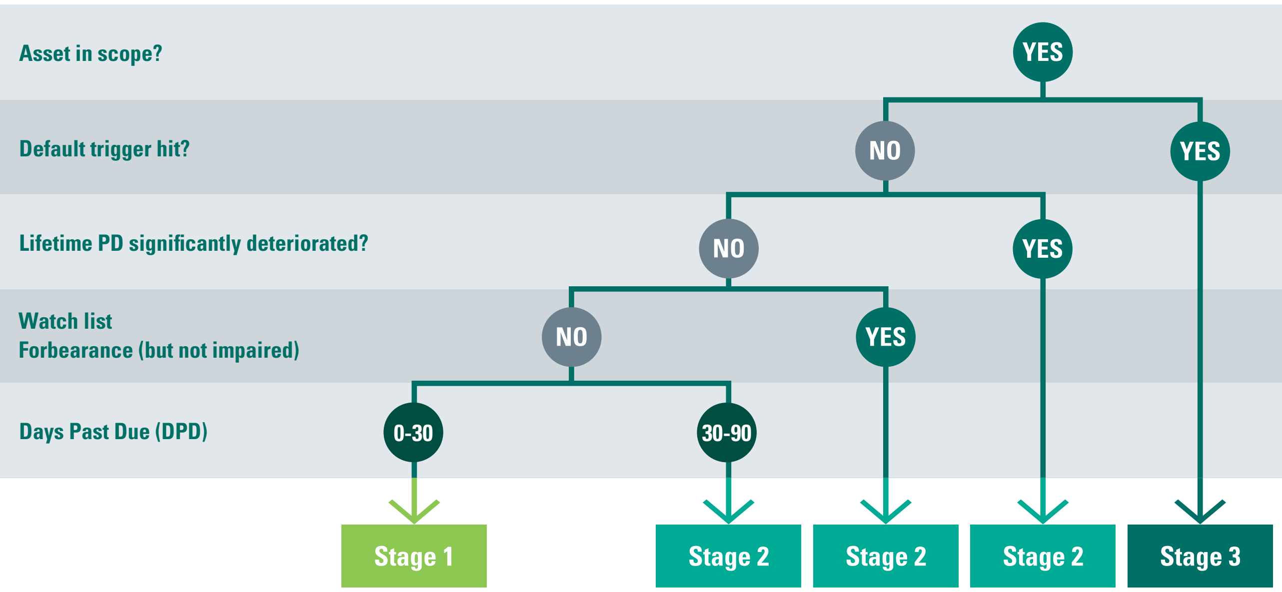
If the LPD deterioration of a counterparty is above a modelled portfolio threshold, the counterparty is transferred from stage 1 to stage 2. Due to limitations in the availability of historical data, ABN AMRO currently uses a 12-month PD proxy for LPD, as we consider this appropriately representative for the LPD.

Qualitative stage triggers

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

- Forborne status of a borrower;
- Watch status of a borrower. ABN AMRO assigns the watch status to individual counterparties with
- an increased credit risk. This process allows for intensive monitoring, early detection of deterioration in the credit portfolio and appropriate follow-up measures; or
- More than 30 days past due.

A transfer to stage 3 will always be the result of the default of a financial instrument. A default is considered to have occurred when one of the default triggers (e.g. unlikely to pay, distressed debt restructuring, bankruptcy or fraud) is met. In addition, 90 days past due is used as a backstop for default. Materiality thresholds are applied for counterparties transferring to stage 3 (EUR 500 for programme lending and EUR 5,000 for non-programme lending). Below these thresholds, amounts are reported as >90 days past due. Our definitions of default and impaired are aligned.



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

Calculation method

The amount of expected credit loss allowances is based on the probability-weighted present value of all expected cash shortfalls over the remaining life of the financial instrument for both on- and off-balance sheet exposures. ABN AMRO makes a distinction between two types of calculation methods for credit loss allowances:

- Individual LECL for credit-impaired (stage 3) financial instruments with exposures above EUR 3 million; and
- Collective 12-month ECL (stage 1) and LECL for (stage 2 and 3) financial instruments that have similar credit risk characteristics (e.g. residential mortgages, consumer loans, SME loans) are clustered in portfolios and collectively assessed for impairment losses. A collective impairment calculation approach based on individual parameters is also applied for exposures below EUR 3 million. ABN AMRO has introduced new models to quantify the Probability of Loss (PL), Loss Given Loss (LGL) and Exposure at Loss (EAL) for calculating the collective 12-month ECL and LECL for these financial instruments. Whereas the credit loss allowance for these assets is collectively determined, the stage is determined for each individual financial instrument separately.

Lifetime expected credit loss

ABN AMRO defines the lifetime of credit as the maximum contractual period over which the bank is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice. For some contracts, such as overdraft facilities or credit card, no end date is specified or amounts can be contractually withdrawn by the lender at short notice. In these cases, ABN AMRO uses behavioural maturity models that rely on historical client behaviour, given that the exposure to credit losses can extend beyond the contractual period.

Forward-looking information

Three different scenarios of future economic developments are incorporated into the IFRS 9 expected credit loss calculation and risk stage determination in a probability weighted manner (at 31 December 2018: baseline 60%, up 15%, down 25%). These scenarios are developed by ABN AMRO Group Economics at least every quarter and reviewed at each reporting date. The 28 macroeconomic variables (including GDP, unemployment rate, housing price index, oil price and Euribor 3M) are forecasted by ABN AMRO Group Economics and used for the expected credit loss calculation and selected for each specific portfolio separately. The variables we use are based on statistical relevance and expert judgement. 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, while subsequent periods gradually align to the long-term average.

Non-performing versus default and impaired

For reporting purposes, and to calculate the correct impairment allowances, ABN AMRO distinguishes between performing and non-performing exposures. The criteria for non-performing are broader than for default.

- An exposure is qualified as non-performing if it is either:
  - in default;
  - a performing forborne exposure in a probation period that was classified as non-performing at the time of the latest forbearance measure or as a consequence of entering the forbearance status and that receives an additional forbearance measure;
  - a performing forborne exposure in a probation period that was classified as non-performing at the time of the latest forbearance measure or as a consequence of entering the forbearance status and that becomes more than 30 days past due;
  - a forborne exposure that was classified as in default and where the default triggers are no longer applicable, but that is still in the non-performing cure period of at least 12 months.
- An exposure is categorised as non-performing for the entire amount, not taking into account any available collateral, and including the following revocable and irrevocable off-balance items:
  - loan commitments;
  - financial guarantees at risk of being called, including the underlying guaranteed exposure that meets the criteria of non-performing;
  - any other potential financial commitments.

Write-off

When a loan is deemed no longer collectible, it is written off against the related loan loss allowance, specifically if:

- the likelihood of debt repayment falls below a certain point (e.g. in the event of bankruptcy or a cash flow shortfall); or
- the financial asset reaches a certain stage of delinquency (e.g. if agreed terms are no longer complied with or the borrower has left ABN AMRO).

Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment charges on loans and advances in the income statement.

Most of the programme lending facilities are automatically written-off after 1,080 days in default.

A partial write-off can be recorded in the case of individual files (non-programme lending) and if a material coverage deficit arises.

Market risk management

ABN AMRO is exposed to market risk in its banking book and trading book.

Market risk in the banking book Audited Pillar 3 EDTF 2

Market risk in the banking book is the risk that the value or the income of the bank will decline because of unfavourable market movements. The following market risks are inherent in the banking book:

- Interest rate risk: the risk of losses in the economic value of equity or the bank's net interest income (NII) due to unfavourable yield curve developments;
- Credit spread risk: the risk of losses due to adverse movements in the credit spread of liquid assets. The principal source is from bonds held for liquidity purposes;
- Funding spread risk: the risk of losses due to adverse movements in the term structure of rates at which ABN AMRO can borrow money – expressed as a spread to a benchmark such as Euribor;
- Equity risk: the risk of losses due to adverse movements in equity prices, dividends and volatilities. Equity positions can be taken in strategic partnerships and joint ventures, positions in private equity and positions where debt held by the bank has been converted into equity as part of a restructuring process;
- Property risk: this risk arising from adverse movements in property prices;
- Foreign exchange risk: this risk arising from adverse movements in FX spot and forward rates and/or FX volatility. It arises for operational reasons where it is inefficient to hedge exposures as they arise.

Market risk in the banking book consists predominantly of interest rate risk, followed by credit spread risk and funding spread risk.

Interest rate risk in the banking book

In order to model and measure interest rate risk, assumptions are made about client behaviour, most importantly with respect to the maturity of savings and the prepayment of mortgages. The nature of these assumptions can substantially alter the anticipated interest cash flow pattern. Interest rate risk is continuously managed in line with the risk appetite, as the profile of assets and liabilities on the balance sheet can change if client behaviour changes.

The main sources of interest rate risk are:

- The maturity mismatch between assets and liabilities. ABN AMRO provides mortgages and commercial loans with long-term fixed interest terms. These assets are funded by savings and wholesale funding. These liabilities have a shorter average interest maturity than the assets, for example current accounts;
- Actual client behaviour, which determines the maturity of some of our client products. As we use models to predict this behaviour, we are exposed to model risk: losses the bank could incur as a consequence of decisions resulting from errors in the development, implementation or use of such models.

Key assumptions for modelling client behaviour EDTF 17

From an interest rate risk perspective, the following aspects of client behaviour are the most important:

- Client behaviour with respect to early redemption of residential mortgages. This has a significant impact on average interest maturity of the mortgage portfolio. Clients have the option of fully or partially prepaying mortgages before maturity. These prepayments are triggered by client behaviour such as relocation, redemption and curtailment. An important driver of prepayments is the rate incentive, i.e. the difference between the client's existing mortgage interest rate and prevailing mortgage rates. The prevailing mortgage rates are forecasted using a Monte Carlo simulation. In addition to interest incentive, drivers such as loan age, seasonality and house price developments are taken into account;
- Client acceptance of the volume offered and the deviation between the offered rate and the actual coupon on an offered residential mortgage;
- Client behaviour with respect to non-maturing deposits which are callable on demand. These savings and current accounts are modelled using a replicating portfolio model to forecast future client rates. These future client rates may depend on current or lagged yield curves and funding costs. A maximum maturity of 10 years is assumed for non-maturing deposits. The resulting duration depends on product type and client behaviour. The average duration for retail portfolios is 2.6 years, whereas the average duration for non-retail portfolios is 2.4 years. The average duration for the aggregate portfolio of modelled non-maturing deposits is 2.5 years, well below the regulatory 5-year cap.

The metrics used for banking book risks are dependent upon the assumptions made in the behavioural models. Models must therefore be based on extensive research, including historical data on observed client behaviour. Models must also be validated by the independent Model Validation Department and approved by duly authorised risk committees. Models are assessed to determine whether they behave appropriately and are statistically sound; if required, they are adjusted.

Risk measurement for interest rate risk EDTF 8 EDTF 24 EDTF 25

For management purposes, the interest rate risk position is reported to the Asset & Liability Committee (ALCO) on a monthly basis. ALCO reporting includes both earnings and value metrics, including Net Interest Income (NII) at Risk, duration of equity, Economic Value of Equity (EVE) at Risk and economic capital for market risk in the banking book. These are complemented with stress testing and scenario analysis, which are used to ensure a comprehensive approach to risk management and to identify potential weakness. Stress testing and scenario analysis go beyond determining the impact of alternative developments of interest rates. Assumptions with respect to modelling and client behaviour are also tested.

NII-at-Risk is the difference in NII between a base scenario and an alternative scenario. It is defined as the worst outcome of the following scenarios: gradual increase or decrease in interest rates by 200bps, measured over a one-year period, and instantaneous increase or decrease of 100bps. NII-at-Risk includes all expected cash flows, including commercial margins and other spread components, from all interest-rate-sensitive assets, liabilities and off-balance sheet items in the banking book. When calculating the NII-at-Risk, a constant balance sheet is assumed where maturing positions are reinvested. A floor of -100bps on market rates as well as a floor of 0bps on retail deposits is applied.

Duration of equity measures value changes resulting from minor parallel shifts of the yield curve. The computation of duration is based on a comparison between a base curve and the change in the economic value of a portfolio due to an interest rate increase/decrease. We also measure the value sensitivity to changes in individual maturities on the yield curve.

EVE-at-Risk is the loss in economic value of equity as a result of various yield curve shocks. These shocks are bow up, bow down, steepening, flattening and tilt short end up and down. The impact is calculated for cash flows from all interest-rate-sensitive assets, liabilities and off-balance sheet items in the banking book. An assumption of a run-off balance sheet is made, where banking book positions amortise and are not replaced by any new business. The projected cash flows include commercial margins and other spread components and are discounted at the risk-free rate.

Economic capital for market risk in the banking book is calculated using a VaR model which determines the economic capital needed to absorb losses due to adverse movements in interest rates, credit spreads and foreign exchange rates. The model also accounts for the potential impact of client behaviour, such as prepayments on mortgages and changes in deposits and savings balances.

Credit spread risk in the banking book

Credit spread risk for the liquidity portfolio is measured and limited as the impact on economic value of a 1bp change in spreads to a swap rate. This is done across the term structure of exposure, as well as for a parallel shift across the curve.

Funding spread risk

Funding spread movements can reflect changes in, for example, the perceived credit quality of ABN AMRO, changes in the competitive environment or changes in liquidity premiums. They may be entity-specific or systemic in nature. If funding spreads widen, it costs more to fund assets on the balance sheet. Unless this increased spread is passed on to clients by increasing client rates, projected net interest income will decrease.

Foreign exchange risk

Foreign exchange risk arises from several sources. The main sources are assets and liabilities on the balance sheet and off-balance sheet commitments and contingent liabilities denominated in foreign currencies. ABN AMRO measures and manages foreign exchange risk for which the key metric is the Open Currency Position. In addition, translation risks on the bank's capital ratios, which may be affected by exchange rate movements, are also specifically monitored. ABN AMRO aims not to be exposed to open currency exposures in its banking book.

Market risk management for the banking book

ABN AMRO has in place a detailed risk management framework to identify, measure and control market risk in the banking book. This framework provides assurance that the banking book activities remain consistent with the bank's moderate risk profile. The goal of interest rate risk management is to protect current and future NII from adverse yield curve movements. The day-to-day management is delegated from the Asset & Liability Committee to Asset and Liability Management, while Treasury is responsible for the execution.

The bank applies limits to the above-mentioned interest rate risk measures in line with the approved risk appetite requirement. The risk appetite is based on the maximum loss the bank is willing to accept, both in terms of net interest income for one- and two-year periods and economic value of equity.

ABN AMRO uses a combination of portfolio (macro) hedges and specific asset or liability (micro) hedges to swap fixed interest rates for floating interest rate positions. Micro hedges are used to swap fixed funding transactions and fixed investments in the liquidity buffer for floating interest rate positions. In addition, macro hedging is applied in order to be in line with the bank's strategy to contribute to a stable NII while protecting the economic value of equity.

Market risk in the trading book EDTF 2

As part of its business strategy, ABN AMRO facilitates client orders, acts as a market maker in key markets and provides liquidity to clients, including institutional investors and private clients. Market risk in the trading book is the risk of losses in market value due to adverse market movements. The following market risks are inherent in the trading book:

- Interest rate risk: arises from adverse changes in interest rate risk curves and/or interest rate volatilities;
- Credit spread risk: arises from adverse changes in the term structure of credit spreads and/or from changing credit quality of debt securities or CDS reference entities, with impact on default probabilities;
- Equity risk: arises from adverse changes in equity prices, dividends and volatilities;
- Commodity risk: arises from adverse changes in commodity prices;
- Foreign exchange risk: arises from adverse changes in FX spot and forward rates and/or FX volatility.

Market risk management for the trading book

Audited Pillar 3

ABN AMRO has in place a detailed risk management framework to identify, measure and control market risk in the trading book. This framework provides assurance that the bank's trading activities are consistent with its client-focused business strategy and moderate risk profile. In accordance with the strategy, the Trading Business Risk Committee annually approves trading mandates, which define the nature and amount of the permitted transactions and risks, and the associated constraints. The Trading Business Risk Committee is a subsidiary committee of the Group Risk Committee.

Market risk measurement for the trading book

Audited Pillar 3 EDTF 8 EDTF 17 EDTF 24 EDTF 25

ABN AMRO measures and manages market risk in the trading book on a daily basis. The key metrics used are economic capital, regulatory capital, Value-at-Risk (VaR), Stressed VaR (SVaR) and Incremental Risk Charge (IRC), together with a wide array of stress and scenario tests, sensitivity measures, concentration limits and notional limits. These metrics are measured and monitored, with appropriate limits set at both bank and business-line levels.

Metrics and models are managed, reviewed, assessed and, if required, adjusted in a similar way as in the banking book. Other important tools to ensure the adequacy of the models, alongside the formal validation and review of models, are the daily explanation of risk reporting figures, periodic portfolio reviews and regular back-testing.

Value-at-Risk

ABN AMRO uses the historical simulation Value-at-Risk (VaR) methodology as one of its primary risk measures. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum one-day loss that could occur due to changes in risk factors if positions remain unchanged for a period of one day. The VaR also incorporates market data movements for specific movements in the underlying issuer of securities. The impact of historical market movements on today's portfolio is estimated on the basis of equally weighted market movements observed in the previous 300 days, using a full revaluation method for the majority of risk factors. The bank uses the VaR with a one-day horizon for internal risk measurement, control and back-testing, and the VaR with a ten-day horizon to determine regulatory capital. The latter is derived by scaling the one-day VaR by the square root of ten.

The daily VaR is back-tested against the actual mark-to-market changes calculated for each subsequent trading day. The number of outliers is used to assess the reliability of the VaR model. The model's back-testing performance is satisfactory.

Stressed VaR

The purpose of the SVaR is to replicate a VaR calculation that would be generated on the bank's current portfolio with inputs calibrated to historical data for a continuous 12-month period of significant financial stress relevant to the bank's portfolio. To calculate the SVaR, ABN AMRO uses the same model as used for the VaR (historical simulation). The current historical data period includes the peak of the credit crisis of 2008 and is reviewed at least annually.

Incremental Risk Charge

By calculating the Incremental Risk Charge (IRC), ABN AMRO calculates an estimate of the default and migration risks for credit products in the trading book over a one-year capital horizon, with a 99.9% confidence level. Potential profits and losses over the one-year time horizon are created by simulating scenarios showing how the issuer's credit ratings may change (including possible defaults), taking correlations between different issuers into account, and repricing the positions. The simulated scenarios correspond to an instantaneous shock over the one-year period; in this way, ABN AMRO uses a one-year liquidity horizon for all its positions under the scope of the IRC model. Rating transitions and defaults are dependent upon individual issuer rating transition probabilities and correlations between issuer migrations. For the individual transition matrices, data from external vendors are used. The correlation matrices are the same as the matrices used to determine the Credit Risk Economic Capital.

Introduction
Strategy and performance
Risk, funding & capital
Leadership & governance
Annual Financial Statements
Other

Stress testing and scenario analysis
Stress testing and scenario analysis are designed to focus specifically on the impact of tail events which are outside the VaR confidence interval. We perform daily stress tests for large movements in risk factors. Scenario analyses are also conducted frequently to evaluate the impacts of extreme market events that cover multiple risk factors, and the results of these tests are monitored. These scenarios can be based either on historical or hypothetical events, or on a combination of the two.

For the trading book, we take into account adjustments for counterparty risk on our clients (Credit Valuation Adjustment), ABN AMRO funding costs (Funding Valuation Adjustment) and ABN AMRO credit risk (Debt Valuation Adjustment).

Capital for market risk in the trading book
Regulatory capital
The bank has implemented the Internal Models Approach (IMA) to calculate market risk capital for its trading book. ABN AMRO has excluded the following activities from its IMA capital and calculates these by means of the standardised approach:
- Trading activities in Brazil;
- Residential Mortgage-Backed Securities Trading;
- Private Banking International activities.

Economic capital
Calculation of economic capital for market risk in the trading book is based on a daily Value-at-Risk (VaR) market risk measure and historical scenarios simulating stress events such as ‘Black Monday’ and the financial markets crisis.

Operational risk management EDTF 31

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition is in line with the definition by the Basel Committee on Banking Supervision. Operational risk is often also referred to internally as non-financial risk, covering risks such as HR risk, IT risk, compliance risk, legal risk, change risk, tax risk and model risk.

ABN AMRO has a converged approach to operational risk and aims to provide the business with a clear and fair view on the operational risks that the bank faces and the way these should be managed. For this purpose, ABN AMRO has in place a framework that enables operational risks to be managed within the moderate risk profile. Operational risk management sets the framework for the bank in line with the requirements for the Advanced Measurement Approach (AMA). It evolves and is kept up-to-date as experience gained is incorporated.

Framework for operational risk management Pillar 3

Management Control Statement

Strategic risk assessment

Operational risk management overview
- Operational risk appetite
- Reporting
- Operational risk capital

Operational risk assessments
- Business-as-usual (including scenarios)
- Changes

Monitoring
- Operational risk events
- Effectiveness of controls
- Key Risk Indicators

Operational risk responses
- Mitigation
- Avoidance
- Transfer
- Risk acceptance

Operational risk management approach Pillar 3

Employees are expected and encouraged to be alert to and aware of operational risks in their day-to-day work. Operational risk management is strongly embedded in daily business processes. First-line managers are responsible for managing operational risks and are supported by a professional operational risk management organisation. Operational risk management works in close cooperation with other second-line parties, including Compliance, Legal, Crime & Integrity, Information Security and Business Continuity Management, which also use the operational risk framework. This reflects the bank's view that managing operational risk requires a concerted effort on the part of all these departments.

Operational risk is incorporated into risk reports at various levels within the bank, up to the Executive Board and Supervisory Board.

Framework for operational risk management
Pillar 3 EDTF 2

Assessments and monitoring activities are at the heart of the operational risk management framework. Business managers use assessments to identify and assess risks, including scenarios for rare events. Assessments are executed for business-as-usual activities and for new initiatives. If a risk exceeds the risk appetite, the business manager takes appropriate action. At least once a year, business managers monitor the effectiveness of the controls in their area of responsibility. Controls are strengthened, if necessary. Key Risk Indicators are monitored to signal adverse risk developments. Despite all the preventive measures in place, incidents and operational losses cannot always be avoided. The bank therefore systematically collects information and analyses such events in order to take appropriate action. Action taken may consist of mitigating risks by strengthening controls or avoiding risks by closing down or not starting operations. Management can also decide to consciously accept a certain risk or transfer a risk to insurance companies. A global insurance programme is in place, and this is reviewed annually by the Group Risk Committee.

Once a year, senior management reviews the strategic business objectives and all measures taken from a risk perspective. At the end of each year, and based on these strategic risk assessments, senior management signs a Management Control Statement, which is included at the end of this section.

Specific operational risk areas Pillar 3

The bank has in place a dedicated organisation for operational risk areas that require specific knowledge, such as information security and business continuity management.

Information security

Information is one of the bank's most valuable assets. ABN AMRO's clients rely on the proper functioning of the bank's information systems. These systems run in complex information infrastructures, connecting the bank's networks to public networks. Banking processes and their supporting information systems are consequently inherently vulnerable, with the result that the security of client data and services can be threatened.

Examples of such threats include computer-assisted fraud, unauthorised disclosure of confidential information, virus infections, computer hacking and denial of service attacks (DDoS).

In recognition of the importance of protecting the bank's information and its associated assets, such as systems and infrastructure, at all times, ABN AMRO has established a structured information security approach to ensure the confidentiality, integrity and availability of information. This approach defines the organisational framework, management and staff responsibilities, and the information security directives that apply to ABN AMRO, its vendors and third parties with whom the bank exchanges information.

Business continuity management

Business continuity management ensures organisational resilience at all levels of the ABN AMRO organisation and the ability to respond effectively to threats, thus safeguarding stakeholders' interests and the organisation's reputation, brand and value-creating activities. Business continuity focuses on:

- Analysing threats and the business impact of calamities and crises;
- Determining the strategies and solutions to be applied in the event of a crisis – such as business recovery, crisis management and IT disaster recovery planning – so as to enable continuity of business operations;
- Documenting, periodically assessing and testing of these strategies and solutions.

Operational risk measurement Pillar 3

In line with the Advanced Measurement Approach (AMA), the bank has in place a model to define the required level of own funds for operational risk (operational risk capital). This model predicts potential operational risk losses (annually aggregated) by combining a forward-looking and a backward-looking view on operational risk events.

Risk and control self-assessments and scenario analyses provide a forward-looking view: experts build scenarios to understand future risks and estimate the severity of potential losses. The resulting estimates are used as data input for the model. In these scenarios, experts take into consideration the quality of the bank's control environment, its processes, systems and people as well as external circumstances and changes that may have an influence. The current relevance of the estimations (and hence of the capital) is safeguarded by reconsidering the scenarios regularly, but also when major changes in the risk profile occur. Next to these expert-based estimations, the model also uses 'backward looking' historical loss data from ABN AMRO as well as from the banking industry. Historical loss data is included as it is assumed to have predictive power for the future.

Capital for operational risk

The level of AMA capital is derived from the results of the model calculations. The bank applies a 99.95% confidence level to the annually aggregated losses to calculate the operational risk economic capital, whereas a 99.9% confidence level is applied to calculate regulatory operational risk capital. The adequacy of the capital levels is monitored on a quarterly basis and if issues occur – for example regarding the reliability of data – add-ons can be applied.

Funding & liquidity risk management

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 is the risk of not being able to accommodate both expected and unexpected current and future cash outflows and collateral needs because insufficient cash is available. Eventually, this can affect the bank's daily operations or its financial condition;
- Market liquidity risk is the risk that the bank cannot sell an asset in a timely manner at a reasonable market price due to insufficient market depth (insufficient supply and demand) or market disruption. Market liquidity risk includes the sensitivity in liquidity value of a portfolio due to changes in the applicable haircuts and market value. It also concerns uncertainty about the time required to realise the liquidity value of the assets.

Strategy

EDTF 4 | EDTF 18 | EDTF 21

Liquidity

We have a liquidity risk management framework in place that helps us maintain a moderate risk profile and safeguards ABN AMRO's reputation from a liquidity perspective. This framework enables the bank to meet the regulatory requirements and its payment obligations at a reasonable cost, even under severely adverse conditions. We have formulated a set of liquidity risk metrics and limits to manage the bank's liquidity position. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding and holding a solid liquidity buffer in our main currencies, we maintain a prudent liquidity profile.

Funding

ABN AMRO's main source of funding consists of deposits from Retail Banking, Private Banking, Commercial Banking and CIB clients. The remainder of our funding is raised largely through various long-term wholesale funding instruments. ABN AMRO's strategy for wholesale funding is derived from the bank's moderate risk profile. This strategy aims to optimise and diversify the bank's funding sources in order to maintain market access and the targeted funding position. We aim to have a balance sheet with a diverse, stable and cost-efficient funding base.

The funding strategy takes into account the following guidelines:

- Maintain market access by diversifying funding sources in different funding markets (Europe, the US and the Asia Pacific region);
- Optimise funding costs within the targets set for volumes and maturities;
- Maintain strong relationships with the investor base through active marketing;
- Optimise the balance between private placements and public benchmark deals;
- Build, maintain and manage credit curves in different funding programmes and currencies;
- Continually monitor attractive funding opportunities for ABN AMRO and investment opportunities for investors;
- Optimise the planning and execution of funding in different market windows and currencies.

Risk management approach

Audited | Pillar 3 | EDTF 2 | EDTF 18

The natural maturity mismatch between loans and funding requires liquidity risk management. We consider maturity transformation to be an integral part of the bank's business model, which is why we closely monitor our liquidity position and the resulting risks. We diversify our funding sources to maintain market access, and we diversify funding tenors to avoid a concentration of outflows. We also hold a portfolio of highly liquid assets that can be converted into cash in the event of unforeseen market disruptions, thus allowing us to meet payment and collateral obligations at all times.

Funding and liquidity risk is managed centrally. We incorporate liquidity costs into the pricing of our day-to-day business activities.

In managing the risks, a clear distinction is made between going-concern and contingency risk management.

Going-concern management

Going-concern management entails management of the day-to-day liquidity position within specified limits. This allows us to meet payment obligations on a timely basis. The most important metrics we use are:

- Stress testing: We conduct monthly and ad hoc stress tests in which we evaluate the impact of cash in- and outflows under plausible stress scenarios. Both market-wide and bank-specific stress scenarios are defined and analysed. The goal of stress testing is twofold. Firstly, it helps us to review our risk framework, i.e. the liquidity buffer size, risk appetite and limits. Secondly, it allows us to identify ways to reduce outflows in times of crisis;
- Liquidity Coverage Ratio (LCR): The objective of the LCR is to assess the bank's short-term resilience by ensuring sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days;
- Survival period: The survival period reflects the period that the bank's liquidity position is expected to remain positive in an internal stress scenario in which wholesale funding markets deteriorate and retail and commercial clients withdraw a proportion of their deposits;

- Net Stable Funding Ratio (NSFR): The objective of the NSFR is to assess resilience over a longer time horizon by creating additional incentives for banks to fund their activities from stable sources of funding on an ongoing basis;
- Loan-to-Deposit ratio (LtD): The LtD ratio measures the relationship between the loan book (Loans and advances to customers) and deposits from clients (Due to customers). The ratio includes all client-driven loans and deposits, but excludes loans to and deposits from governments. The LtD ratio gives an indication of our dependence on wholesale funding for financing client loans. Due to the mandatory and collective Dutch pension savings schemes, mortgage loans outweigh client savings balances in the Netherlands, thus driving the LtD ratio above 100%.

Contingency risk management Pillar 3

Contingency risk management aims to ensure that, in the event of either a bank-specific or general market stress event, the bank is able to generate sufficient liquidity to withstand a short- or long-term liquidity crisis.

- Contingency Funding Plan: The Contingency Funding Plan (CFP) sets out the guidelines and responsibilities for addressing possible liquidity shortfalls in emergency situations. This only comes into effect if the liquidity position is threatened, or if strong indications exist that liquidity stress is imminent. The CFP is aligned with the Recovery Plan, as required by the regulators. It enables us to manage our liquidity without unnecessarily jeopardising business lines, while limiting excessive funding costs in severe market circumstances;
- Collateral posting in the event of a rating downgrade: If ABN AMRO's credit rating is downgraded, collateral requirements may increase. ABN AMRO monitors these potential additional collateral postings in its liquidity management framework;
- Liquidity buffer: ABN AMRO holds a liquidity buffer to accommodate cash outflows during stress. This buffer consists of unencumbered, high-quality liquid assets, including government bonds, retained securities (RMBS and Covered Bonds) and cash.

Capital management

Capital management strategy Pillar 3 EDTF 4 EDTF 12

The primary objective of the capital management strategy is to ensure that capital adequacy requirements are met at all times and that sufficient capital is available to support the bank's strategy. Capital is a necessary resource for doing business and defines the bank's commercial possibilities. The balance between available and required capital is managed centrally to optimise the use of available capital. The basis of the capital management strategy is the bank's risk appetite and its business plans. Other important factors taken into account when managing the capital position are expectations and requirements of external stakeholders (such as regulators, investors, shareholders, equity analysts, rating agencies and clients), the bank's position in the market, market developments, contingent capital needs and the feasibility of capital management actions. Although ABN AMRO manages its capital centrally, the group companies are sufficiently capitalised to comply with all local regulatory solvency requirements and to meet any local business needs. ABN AMRO's banking activities are carried out by legal entities that are part of the Group's corporate tax unit. Apart from prevailing statutory and regulatory legislation, there are no specific material impediments for prompt transfer of the bank's regulatory capital.

Dividend

ABN AMRO's dividend policy takes into account matters including current and pending regulatory capital requirements, our risk profile, growth in commercial activities and market factors. The dividend payout is set in the light of the bank's moderate risk profile and regulatory changes and to ensure that dividend payments can be maintained in the future.

Capital measurement and allocation

Capital adequacy is measured and monitored on an ongoing basis against target capital ratios, which are derived from the bank's overall risk appetite and strategy. Capital projections and stress test scenarios, both market-wide and bank-specific, are used to ensure that actual and future capital levels remain above the targets. Capital is allocated to businesses in a way that optimises the long-term value of the bank while serving the bank's strategic objectives. In the capital allocation process, both risk-based and non-risk-based return parameters are considered, taking into account economic and regulatory capital requirements. This process ensures that the bank meets its return targets while maintaining a moderate risk profile, in line with the bank's risk appetite.

Contingency capital management

Contingency plans are in place to address any capital issues arising. The Contingency Capital Plan provides a framework to detect capital adequacy stress by setting out various early warning indicators. The plan also sets out a range of actions that can be undertaken, based on the level of severity and urgency of the issues.

Recovery and resolution planning

The Bank Recovery & Resolution Directive requires a recovery plan and a resolution plan to be in place for ABN AMRO. ABN AMRO submitted a reviewed and updated version of its group recovery plan to the ECB in December 2018. The Single Resolution Board (SRB) has prepared a resolution plan for ABN AMRO. The SRB has concluded that the preferred resolution strategy for ABN AMRO is a Single-Point-of-Entry (SPE) strategy, with ABN AMRO Bank N.V. as the resolution entity. ABN AMRO expects to continue issuing external MREL-eligible instruments through ABN AMRO Bank N.V.

Business risk management

ABN AMRO manages business risk in order to preserve its business earnings, independent of external or other developments. Business risk management limits the effects of changes in actual and forecasted business earnings. Earnings are affected by various internal and external factors, such as changes in client preferences, competition, and economic and geopolitical developments and regulations. We continually monitor and respond to these factors.

The key criteria for classifying a risk as a business risk are:
- An event that leads to uncertainty in present or future business earnings and/or franchise value;
- Changes of drivers of future business earnings such as uncertainty in volumes, margins, fee and commission rates and/or business expenses.

The bank mitigates sensitivity to business risk drivers through management practices that address developments in these drivers in an effective and timely manner. Business risk is also mitigated by a capital buffer.

The bank's strategy and business risk are related. The strategy incorporates mitigation of uncertain events and business risk drivers. Annual review of the strategy ensures alignment with business risk developments. To ensure that the bank's strategy is pursued and the strategic goals are met in the long term, our business plans and budgets take these strategic goals into account.

Economic capital for business risk

Economic capital is used to mitigate the negative effects of unexpected business risk events. The economic capital for business risk reflects the maximum downward deviation of actual versus expected net operating profit in one year.

To determine the economic capital for business risk, a combination of historical and forward-looking scenarios is collected from experts in each business line. These scenarios determine the sensitivity of macroeconomic variables or industry performance indicators to the business lines' income. This sensitivity is used to determine the volatility of income for each business line, as well as any correlation between them. Based on the individual volatilities, we use simulation to calculate bank-wide volatility.

Sustainability risk management

ABN AMRO aims to make a positive contribution to safeguarding human rights, health and safety, and the environment through its financing and investment services. We recognise, however, that in our roles as lender and investor, the bank may be exposed to sustainability risks, through the direct activities of our clients and the companies in which we invest on behalf of our clients, and through the activities performed in the value chains of these companies. To manage these sustainability risks, we have defined a specific risk appetite in line with the bank's moderate risk profile.

Sustainability risk policy framework

ABN AMRO uses a sustainability risk policy framework which is governed according to the bank's 'three lines of defence' model. The policy framework covers activities ranging from corporate lending and payment and investment services to procurement, human resources and product development.

Our sustainability risk policy framework is constantly evolving: we develop new policies or adjust existing ones based on feedback and input from stakeholders. The bank's Exclusion List was updated in December 2018. It contains our 'red lines', criteria we use to decide when to engage with, or when to exclude, a client. In 2017, the bank decided to stop lending to tobacco manufacturers. In 2018, we decided to also exclude other companies in the tobacco value chain when revenues from these activities exceed 50% of the consolidated turnover. Other exclusions were aligned with the existing relevant international standards, such as CITES and UNGPs, or those formulated by UNESCO and IUCN. The separate sector policies have been merged into one sustainability risk policy with sector requirements. New chapters on Chemicals & Pharma and Transportation were added and the chapter on Metals & Minerals has undergone a comprehensive update. The human rights criteria are tailored to the salient issues in the sector.

Human rights

One of the focus areas of our sustainability risk policy framework is managing human rights risks in accordance with the UN Guiding Principles on Business and Human Rights. In line with these principles, we have integrated human rights assessment criteria into our lending, investment and corporate procurement activities. Our focus areas are discrimination, privacy, labour rights and land-related human rights.

In 2018, we contributed to working groups for the implementation of the Dutch Banking Sector Agreement on international responsible business conduct regarding human rights. This sector agreement includes commitments to achieve a material positive impact for people (potentially) facing adverse human rights impacts in connection with our products and services. We organised human rights training sessions for employees to better embed the understanding of human rights risks and the leverage we can use, and thus prevent or mitigate these risks. We prolonged our public-private cooperation with the Inspectorate SZW and the University of Amsterdam to proactively detect labour exploitation using knowledge-sharing, data analysis, open-source research and transaction analysis.

Client and investment management

Client acceptance is crucial to our approach to managing sustainability risks. We have in place instruments to identify potential breaches of our sustainability policies and we do not do business with companies not willing or able to run their business responsibly. Similar checks on exclusions and controversies apply to the investment universe provided to our clients via our investment services.

In corporate lending, the bank performs a sustainability assessment for transactions entailing an increased sustainability risk. This assessment is based on the ESE standards in our sustainability risk policy framework and focuses on our clients' compliance, commitment, capacity and track record in terms of managing its sustainability risk. This means that we may decide to accept transactions with a high sustainability risk profile, as long as our client is capable of managing these risks and operates within the limits of our sustainability sector policies and procedures.

In 2018, we continued to integrate this assessment into our credit application systems by further implementing our Global Sustainability Risk Indicator (GSRI). Corporate and Institutional Banking started using this assessment tool in the second quarter of 2018. We also introduced a new dashboard to provide clients with feedback on their sustainability performance and opportunities for improving their performance. Our ambition is to further develop the GSRI tool to enhance the way we rate our clients' sustainability performance and use the results for our monitoring and reporting, and to perform portfolio analysis.

Client engagement

In order not to just manage risk, but also to use our leverage to positively affect our relationships with our clients, business partners and companies that clients can invest in, we strive for an inclusive approach. Most companies meet our sustainability policy requirements. In certain instances, a company might not meet our requirements (yet), either prior to or during the relationship. In these cases we enter into a dialogue with the company in question.

The goal of such a dialogue or engagement is to improve the sustainability performance of our clients, so that they – at the very least – meet ABN AMRO's sustainability standards. Underperformers are not excluded immediately, but they do have to be willing and able to enter into a results-oriented process, as the success of engagement depends on this commitment. We set a maximum term within which improvements must take place. Typically, this is three years, but in certain cases an extension is possible – for instance when substantial improvements have been made and full compliance is within reach; the maximum term of engagement is always determined on a case-by-case basis. Disengagement, although a last resort, may be an outcome of the process.

Engagement is triggered by:
- for clients: actual or potential breaches of our ESG risk policy framework;
- for companies in our investment universe: breaches of the UN Global Compact. Investment universe engagement is done in collaboration with Robeco, unless the company is also our client.

Our engagement leverage for companies we finance differs from companies our clients invest in. If we finance a company, there is usually potential for direct engagement. If not, or if for instance we are part of a loan syndicate with other banks, engagement may be performed by a third party. The engagement procedure is overseen by a team from the relevant business line and the bank's sustainability advisors. Progress reports are drafted on a quarterly basis and the Executive Board is informed at least once a year.

We encourage clients to address negative ESG impacts. However, we can rarely be sure there is a causal relationship between engaging with our clients and the actions these clients subsequently take to improve their management of ESG issues. ABN AMRO is often one voice among a diverse group of stakeholders who pursue the same objective through different means. Where possible, given client confidentiality and other constraints, we try to cooperate with external stakeholders in order to maximise positive impact.

Carbon accounting

Our policies and targets apply to the transition to a low-carbon economy, and we also expect our focus on the circular economy and sustainable assets to have a positive impact. At the end of 2018, we started a project designed to make this effect more measurable.

We want to raise the energy performance of all buildings financed by ABN AMRO to energy label 'A' (on average) by 2030. Our progress on this target is shown in the Strategy & performance section. ABN AMRO wants to ensure compliance with Dutch regulations aimed at obtaining at least energy label 'C' on all Dutch office buildings by 2023. Our progress is reported according to the PCAF method for carbon accounting.

Together with other Dutch financial institutions, ABN AMRO participates in the Platform Carbon Accounting for Financials (PCAF). PCAF is part of the Dutch Sustainable Finance Platform, which is chaired by the Dutch central bank (DNB). PCAF's objective is to improve carbon accounting by increasing transparency and uniformity in carbon footprinting and target-setting in the financial sector. PCAF intends to contribute to the development of a harmonised framework for science-based targets and has developed a methodology for measuring the carbon footprint of investments and loans. The methodology enables financial institutions to align their portfolios better with climate scenarios.

Recommendations for climate-related financial disclosures

In September 2018 the Task Force on Climate-related Financial Disclosures of the Financial Stability Board (FSB) published its status report on the adoption of the TCFD disclosure framework. This report concluded that the risk-return profile of companies exposed to climate-related risks may change significantly as a result of the physical impacts of climate change, climate policy or new technologies.

In 2018, DNB performed an energy transition stress test for the financial system in the Netherlands. The results showed that in the event of a disruptive energy transition the losses for financial institutions would be sizeable yet manageable. To make them manageable, DNB advises financial institutions to include energy transition risks in their risk management policies. In addition, the European Commission unveiled its strategy for a financial system that supports the EU's climate and sustainable development agenda. The European Commission is developing guidelines with regard to matters such as taxonomy, EU labels for green financial products and metrics for measuring progress towards a low-carbon economy and will publish these guidelines in the coming years. The EU non-financial reporting directive is expected to be aligned with the TCFD requirements (as part of the 2019 revision).

ABN AMRO supports the TCFD's recommendations and believes their widespread adoption will lead to a more informed dialogue on climate-related risks and opportunities for our clients, investors and other stakeholders.

The carbon accounting activities described in this report (PCAF, carbon risk implementation), together with our Carbon Disclosure Project (CDP) reporting on scopes 1 and 2 of our greenhouse gas emissions, constitute the first steps ABN AMRO has taken towards implementing the TCFD recommendations.

Management Control Statement

Under Principle 1.4 (Risk management accountability) of the Dutch Corporate Governance Code of December 2016, ABN AMRO's Executive Board is requested to render account of the effectiveness of the bank's design and operation of its internal risk management and control systems.

ABN AMRO's internal risk management and control is a process effectuated by the Executive Board, management and other personnel. It is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliability of financial and non-financial information;
- Compliance with laws, regulations and internal policies;
- Safeguarding of assets, and identification and management of liabilities, and;
- Strategic and business objectives of ABN AMRO.

ABN AMRO's first and second lines of defence perform their roles in risk assessments, stress tests, evaluations of the operating effectiveness of controls, and reporting on risk management and control. The concluding results are reported in and discussed at senior management level through Enterprise Risk Management reports. Group Audit, as the third line of defence, evaluates both the design and effectiveness of ABN AMRO's governance, risk management and control processes. Audit reports are discussed with risk and process owners. The Chief Audit Executive (or his deputy) attended the Executive Board and/or Executive Committee meetings every quarter to discuss the Quarterly Audit Opinions. The evaluation of the adequacy of ABN AMRO's internal risk management and control systems was regularly discussed with the Audit Committee, the Risk & Capital Committee and the full Supervisory Board in 2018.

Based on the risk management processes, the Executive Board of ABN AMRO Group N.V. makes the following statements regarding internal risk management and control, taking into account ABN AMRO's strategy and moderate risk profile:

- The Executive Board's report in ABN AMRO's Annual Report 2018 provides sufficient insights into any failings in the effectiveness of the internal risk management and control systems;
- The systems mentioned above provide reasonable assurance that the financial reporting for 2018 does not contain any material inaccuracies;
- Based on the current state of affairs, preparation of the financial reporting for 2018 on a going-concern basis is justified (for more information, please refer to note 1 of the Annual Financial Statements);
- The Executive Board's report states those material risks and uncertainties that are relevant to expectations regarding ABN AMRO's continuity for the period of twelve months after preparation of this report.

Regarding internal risk management and control systems, the Executive Board has identified the following external factors as potentially having an impact on ABN AMRO's current business model:

- Limitations in the execution of the planned sustainable growth strategies due to adverse macroeconomic and monetary conditions (i.e. sustained low or negative interest rates) and geopolitical uncertainty (such as the impact of Brexit, trade tensions and sanctions).
- Various laws and regulations (revised or otherwise) may have an impact on ABN AMRO's strategic position and capital adequacy.

These external factors may impact specific businesses or business models, ABN AMRO's positioning vis-à-vis its competitors (including fintechs, big techs and institutional investors) or the level playing field in the financial sector, thus hindering ABN AMRO in achieving its strategic goals.

Not being compliant with laws and regulations may lead to reputational damage, fines and changes in ABN AMRO's income and cost basis or endanger long-term goals. Ensuring demonstrable compliance, both in business-as-usual activities and in line with changes in regulatory requirements, requires robust risk governance and a substantial share of the bank's resources.

Specific areas where the risk of non-compliance with regulations requires substantial efforts by the bank are:

- Customer Due Diligence/KnowYourClient, Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF)
  Given the increased regulatory attention and requirements for the prevention of anti-money laundering and the regulatory and self-identified shortcomings in AML-CTF and CDD/KYC processes that are currently subject to improvement programmes, further significant management attention for CDD/KYC and for improvements of the AML control framework will be required.

- Model risk Management
  Given concerns around the quality of historic data used for model development, the knowledge and awareness of model use within the user environment and the maturity of the model landscape and oversight, model risk is elevated. Management has initiated several programmes to address the issues in conjunction with requirements following from upcoming regulations and heightened regulatory expectations, e.g. in relation to Regulatory Technical Standards, new Definition of Default and feedback from Targeted Reviews of Internal Models.

In addition to the significant programmes that are in place, the above mentioned regulatory compliance risk is mitigated by sustaining and enhancing staff awareness with regard to regulatory programmes through ongoing training and presentations. Additional staff and budget have been made available to address regulatory change initiatives. Executive management closely monitors the progress of remediation programmes.

The Executive Board has identified and agreed upon the following areas of improvement, which are being actively managed by senior management:

- The bank has to meet requirements in the field of data aggregation and risk reporting which requires a substantial effort. These aspects of data management, combined with issues around data quality and data knowledge, may result in suboptimal decision making and business process execution, as well as elevated model risk and missed opportunities in the application of new technologies. Although progress has been made in many areas, the initiatives still require a multi-year approach in order to reach the desired level.
- The bank values its Duty of Care towards its clients and will continue to do so. It has programmes in place to address issues around products sold in the past, such as SME derivatives.
- The complexity, accumulation and interdependencies of the various transformation programmes, the fixing of the foundations of the bank's IT systems, and various regulatory and organisational changes, entail a risk that building blocks may not be in place within the agreed timeframes. This may result in extra costs and potentially in falling behind new entrants not subject to comprehensive regulation. Alignment of these changes and their interdependencies is a key attention point.
- The continued increase and professionalism of external crime threats may expose the bank and its clients to cyber fraud attacks, ATM attacks, loan frauds and IT disruptions. Defence mechanisms against cyber threats are continually being upgraded. ABN AMRO has intensified cooperation with crime-fighting authorities and is working with authorities and other banks in these areas of attention.
- As a result of the accelerated use of (public) cloud providers and the Revised Payment Services Directive (PSD2), growing amounts of privacy-sensitive or confidential data will be stored outside the bank. This may impact the bank's ability to monitor the risk of data leaks and compliancy with the General Data Protection Regulation (GDPR). ABN AMRO is continually strengthening its data leak prevention tools and controls, both internally and in liaison with external parties involved in processing and storing data elements.
- The ability to attract, train and retain qualified professionals and new talents remains a point of attention, as this will enable the achievement of the strategic goals. This risk is mitigated by several programmes that focus on strategic workforce management, culture & leadership, the use of self-steering methods and employer branding.

Due to inherent limitations, ABN AMRO's internal risk management and control systems do not provide complete assurance on the realisation of business objectives, and cannot at all times prevent inaccuracies, fraud and non-compliance with rules and regulations.

Risk, funding & capital review

The following section provides a comprehensive overview of the different risks across business segments and portfolios. Information on capital developments is also provided.

Risk profile

ABN AMRO continually works to maintain a moderate risk profile. We monitor risk against our risk appetite and actively manage the balance sheet composition to this end.

Risk profile assessment

Periodically, ABN AMRO assesses its risk profile in conjunction with the bank's risk appetite and strategic risk appetite (SRAS). The five elements of the SRAS ensure a coherent balance between sustainable return and value creation, our business model, capital, and liquidity & funding, taking into account a sound conduct, governance and control framework. This assessment is discussed in the Executive Board and Supervisory Board. Based on this assessment we conclude:

- **Business model, return and value creation**
  There is a focus on healthy return by maintaining long-term risk adjusted return on equity above 10%. Limitations in the execution of the planned sustainable growth strategies due to adverse macro-economic and monetary conditions (i.e. sustained low/negative interest rates) and geopolitical uncertainty (such as the impact of Brexit, trade tensions and sanctions) could impact global trade, thus increasing the risk for current business and affecting our margins/revenues.
- **Capital, Liquidity & Funding**
  Comfortable buffers are in place to meet capital and liquidity requirements from a regulatory and internal (e.g. economic capital) perspective. In addition, stress testing indicates sufficient buffers are in place for times of stress.
- **Conduct, Governance and Control Framework**
  Capital buffers are in place to cover non-financial risks. In managing these risks, we face challenges regarding our ability to fully comply with all regulatory requirements in 2019. Specific areas where the risk of non-compliance with regulations requires a substantial effort from the bank are:
  - Customer Due Diligence/KnowYourClient, Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF);
  - Model management.

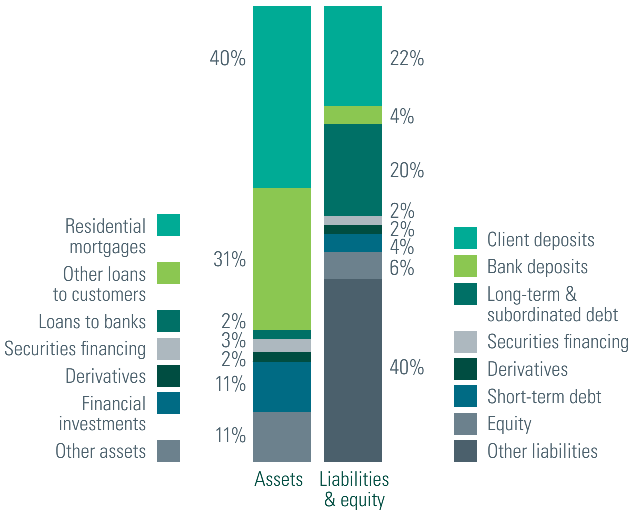
Regulatory compliance risk is mitigated by ensuring staff stays aware of regulatory programmes through ongoing training and presentations. Furthermore, additional staff and budget have been made available for regulatory change initiatives.

In addition, the bank has to meet requirements in the field of data aggregation and risk reporting which requires a substantial effort. These aspects of data management, combined with issues regarding data quality and data knowledge, may result in suboptimal decision making and business process execution, as well as elevated model risk and missed opportunities in the application of new technologies. Although progress has been made in many areas, the initiatives still require a multi-year approach in order to reach the desired level. Given the balance of the risks and mitigating actions that we have in place, our current risk profile is considered moderate.

Balance sheet composition

ABN AMRO is mainly active in the Dutch market and in international operations where we have specific expertise and hold leading positions in selective activities.

Balance sheet composition at 31 December 2018



The balance sheet composition reflects the bank's moderate risk profile. Some characteristics that limit risk in the balance sheet are:

- Loan portfolio matched by deposits, long-term debt and equity;
- Strong focus on collateralised lending;
- Limited market risk and trading portfolios;
- Moderate risk delivering attractive results and high capital returns of at least 10%;
- Strong capital positions reflected in a CET1 ratio of at least 13.5%1 and a leverage ratio of at least 4%;
- Strategic focus on limiting LtD ratio by diversifying the funding structure and maintaining LtD at < 125%;
- Sufficient liquidity buffers to survive 6 months of severe stress.

Key developments

Key figures

(in millions)	31 December 2018	31 December 2017
Total loans and advances, gross excluding fair value adjustments	**277,307**	**284,337**
- of which Banks	8,133	10,671
- of which Residential mortgages	148,791	150,562
- of which Consumer loans	12,263	12,426
- of which Corporate loans[1]	92,533	94,220
- of which Other loans and advances – customers[1, 2]	15,587	16,459
On-balance sheet maximum exposure to credit risk	377,046	385,546
Total Exposure at Default (EAD)	**403,565**	**393,596**
- of which Retail Banking	169,971	173,365
- of which Commercial Banking	52,551	50,101
- of which Private Banking	19,626	19,963
- of which Corporate & Institutional Banking	80,325	77,769
- of which Group Functions	81,092	72,399
Credit quality indicators[3]		
Forbearance ratio	2.2%	2.7%
Past due ratio	1.3%	1.4%
Stage 3 Impaired ratio[4]	2.2%	2.5%
Stage 3 Coverage ratio[4]	31.6%	33.0%
Cost of risk (in bps)[5]	24	-2
Regulatory capital		
Total RWA	105,391	106,157
- of which Credit risk[6]	84,701	84,141
- of which Operational risk	19,077	19,626
- of which Market risk	1,612	2,391
Total RWA/total EAD	26.1%	27.0%
Liquidity and funding indicators		
Loan-to-Deposit ratio	111%	112%
LCR	>100%	>100%
NSFR	>100%	>100%
Capital ratios		
Fully-loaded CET1 ratio	18.4%	17.7%
Fully-loaded leverage ratio[4]	4.2%	4.1%

1 Excluding loans and advances measured at fair value through P&L.
2 Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
3 Loans and advances customers measured at amortised cost only.
4 The 31 December 2017 amounts are based on IAS 39 figures and therefore do not have stage information. The impaired ratio per 31 December 2017 has been compared with the IFRS 9 stage 3 ratio.
5 Annualised impairment charges on loans and advances – customers for the period divided by the average loans and advances – customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.
6 RWA for credit value adjustment (CVA) is included in credit risk. CVA per 31 December 2018 is EUR 0.5 billion (31 December 2017 EUR 0.7 billion).

Key figures per business segment EDTF 7 EDTF 13

(in millions)	Retail Banking	Commercial Banking	Private Banking	Corporate & Institutional Banking	Group Functions	Total
						31 December 2018
Total assets	155,728	43,642	17,661	74,455	89,807	381,295
Total Exposure at Default	169,971	52,551	19,626	80,325	81,092	403,565
RWA						
Credit risk[1]	21,884	24,104	6,576	28,414	3,724	84,701
Operational risk	5,700	3,232	3,268	4,984	1,893	19,077
Market risk				1,612		1,612
Total RWA	**27,584**	**27,336**	**9,844**	**35,010**	**5,617**	**105,391**
Total RWA/Total Exposure at Default	16.2%	52.0%	50.2%	43.6%	6.9%	26.1%
Economic capital						
Credit risk	2,154	1,841	497	2,440	1,019	7,952
Operational risk	322	154	150	278	194	1,099
Market risk				47	2,629	2,676
Business risk	263	282	228	448	7	1,229
Other risk types[2]	171	46	153	48	1,583	2,001
Economic capital	**2,909**	**2,324**	**1,029**	**3,262**	**5,432**	**14,956**
						2018
Average RWA	26,916	25,128	9,341	37,658	6,348	105,391
Cost of risk (in bps)[3]	-1	60	3	70		24

1 RWA for credit value adjustment (CVA) is included in credit risk. CVA per 31 December 2018 is EUR 0.5 billion (31 December 2017 EUR 0.7 billion).
2 Other risk types include own funding spread risk, equity risk and property risk.
3 Annualised impairment charges on loans and advances – customers for the period divided by the average loans and advances – customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

(in millions)	Retail Banking	Commercial Banking	Private Banking	Corporate & Institutional Banking	Group Functions	Total
						31 December 2017
Total assets	158,123	41,940	21,162	80,470	91,476	393,171
On-balance sheet maximum exposure to credit risk	158,751	40,387	17,366	79,086	89,956	385,546
Total Exposure at Default	173,365	50,101	19,963	77,769	72,399	393,596
RWA						
Credit risk[1]	22,258	21,471	6,273	30,560	3,579	84,141
Operational risk	5,336	3,433	3,160	4,787	2,910	19,626
Market risk				2,391		2,391
Total RWA	**27,594**	**24,904**	**9,433**	**37,737**	**6,489**	**106,157**
Total RWA/Total Exposure at Default	15.9%	49.7%	47.3%	48.5%	9.0%	27.0%
Economic capital						
Credit risk	2,011	1,881	473	2,562	966	7,893
Operational risk	342	232	210	304	194	1,282
Market risk					2,847	2,847
Business risk	312	282	262	453	7	1,317
Other risk types[2]	180	37	143	104	1,436	1,900
Economic capital	**2,845**	**2,433**	**1,088**	**3,423**	**5,450**	**15,239**
						2017
Average Risk exposure amount	29,187	23,116	9,094	36,493	7,149	105,039
Cost of risk (in bps)[3]	-6	-44	-5	38		-2

1 RWA for credit value adjustment (CVA) is included in credit risk. CVA per 31 December 2018 is EUR 0.5 billion (31 December 2017 EUR 0.7 billion).
2 Other risk types include own funding spread risk, equity risk and property risk.
3 Annualised impairment charges on loans and advances – customers for the period divided by the average loans and advances – customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

Portfolio review

Total loans and advances decreased to EUR 277.3 billion (31 December 2017: EUR 284.3 billion). The decrease was visible in all sub-portfolios. Residential mortgage portfolio decreased to EUR 148.9 billion (31 December 2017: EUR 150.6 billion) mainly as a result of redemptions outweighing new mortgage production. Corporate loans decreased as a result of declining professional lending activities, mainly related to the Clearing business.

Exposure at Default

EAD increased to EUR 403.6 billion (31 December 2017: EUR 393.6 billion). The increase was primarily the result of higher volumes with central banks within Group Functions and business growth within both CIB and Commercial Banking. This was partly off-set by lower business volumes within Retail Banking.

Regulatory capital

Total RWA decreased to EUR 105.4 billion (31 December 2017: EUR 106.2 billion), driven by market risk and operational risk, which was partly offset by credit risk. The decrease in market risk was attributable to updated market risk models combined with a reduction of positions. Credit risk showed a smaller increase as higher RWA due to TRIM and model reviews was partly off-set by business movements and asset quality developments (e.g. lower loan balances post impairments, improved credit ratings).

Economic Capital

Economic capital (EC) decreased to EUR 15.0 billion (31 December 2017: 15.2 billion), driven by lower market risk in the banking book EC (EUR 0.2 billion) and a decrease in operational risk EC (EUR 0.2 billion), which was offset by an increase in own funds liquidity risk EC (EUR 0.2 billion). Credit risk EC remained fairly stable at EUR 8.0 billion (31 December 2017: EUR 7.9 billion).

The decrease in market risk in the banking book EC and the increase in own funds liquidity risk EC was driven by asset liability management. The decrease in operational risk EC resulted from model updates. The small increase in credit risk EC related to Retail Banking.

Recent developments

The outcome of the Brexit negotiations is still uncertain while the deadline is approaching. Our base case scenario is still that there will not be a no-deal Brexit. As a European bank, headquartered in Amsterdam, we have the resources, infrastructure and contingency plans in place to ensure the continuity of our services to clients in Europe and beyond, whatever the outcome of the EU/UK negotiations. ABN AMRO's direct exposure to the UK is limited.

We have conducted a review of our clients with exposure to the UK and have concluded that the direct exposure of our clients is limited as well. ABN AMRO remains committed to minimising any disruption Brexit may cause for its clients, its activities and its staff. The impact of any macro-economic consequences in the event of a no-deal Brexit are uncertain. It is therefore difficult to assess the indirect impact of Brexit on our clients and value chains.

Credit quality indicators

The credit quality indicators were impacted by the write-off (EUR 0.4 billion) of a large part of the fully provisioned Madoff file and by additional impairments for specific clients in specific sectors. The write-off relating to Madoff was recorded as all possible means of recovery had been exhausted. Besides these developments, the credit quality indicators performed well, in line with the performance of the Dutch economy and housing market.

The forbearance ratio decreased as more clients completed their probation period (i.e. were no longer forborne), write-offs were recorded and to a lesser extent repayments were made. The impaired and coverage ratio decreased further as a result of clients returning to the performing portfolio and write-offs. In addition, the past due ratio decreased compared with year-end 2017.

Cost of risk

The cost of risk increased to 24bps for 2018 (2017: -2bps), mainly driven by the CB and CIB portfolios. The increase in the CB portfolio related to industrial goods and services, healthcare and the shipping industry. The CIB portfolio showed higher impairments, primarily related to the energy-offshore, diamonds and shipping industries, which were mainly the result of additional impairments for existing impaired clients. In 2017, impairment charges benefited from significant model releases for SME lending and IBNI releases. For more details on impairments, please refer to the loan impairment charges and allowances paragraph.

Liquidity and funding

The LtD ratio decreased to 111% at 31 December 2018 (31 December 2017: 112%), mainly due to a EUR 1.8 billion decline in the residential mortgage book and a EUR 1.7 million decline in corporate loans.

Reporting scope risk

The below table gives an overview of the figures reported in the Consolidated balance sheet (net), while the figures reported in the Risk management section are gross and exclude fair value adjustments.

(in millions)	31 December 2018 Gross carrying amount	Loan impairment allowance	Carrying amount	31 December 2017 Gross carrying amount	Loan impairment allowance	Carrying amount
Loans and advances banks	**8,133**	**9**	**8,124**	**10,671**	**7**	**10,665**
Residential mortgages	150,892	108	150,784	152,825	134	152,691
Less: Fair value adjustment from hedge accounting on residential mortgages	2,101		2,101	2,264		2,264
Residential mortgages, excluding fair value adjustments	**148,791**	**108**	**148,683**	**150,562**	**134**	**150,428**
Consumer loans	**12,263**	**318**	**11,945**	**12,426**	**304**	**12,122**
Corporate loans	93,603	1,759	91,845	95,645	1,971	93,674
Less: Fair value adjustment from hedge accounting on corporate loans	1,071		1,071	1,425		1,425
Corporate loans, excluding fair value adjustments	**92,533**	**1,759**	**90,774**	**94,220**	**1,971**	**92,250**
Corporate loans at fair value through P&L	**783**		**783**			
Other loans and advances customers[1]	15,600	75	15,525	16,470	51	16,419
Less: Fair value adjustment from hedge accounting on other loans and advances customers	13		13	11		11
Other loans and advances customers, excluding fair value adjustments[1]	**15,587**	**75**	**15,512**	**16,459**	**51**	**16,407**
Other loans at fair value through P&L	**5**		**5**			
Total loans and advances customers, excluding fair value adjustments	**269,961**	**2,260**	**267,701**	**273,666**	**2,460**	**271,206**
Fair value adjustments on Loans and advances customers	3,185		3,185	3,700		3,700
Total loans and advances customers	**273,146**	**2,260**	**270,886**	**277,366**	**2,460**	**274,906**
Total loans and advances, excluding fair value adjustments	**278,094**	**2,269**	**275,825**	**284,337**	**2,467**	**281,871**
Total fair value adjustments on Loans and advances	3,185		3,185	3,700		3,700
Total loans and advances	**281,279**	**2,269**	**279,010**	**288,037**	**2,467**	**285,571**
Other		6	102,284			107,600
Total assets		**2,275**	**381,295**			**393,171**

[1] Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.

Credit risk EDTF 26

Credit risk exposure

Credit risk overview Audited

(in millions)	31 December 2018		31 December 2017	
Cash and balances at central banks		**34,371**		**29,783**
Financial assets held for trading	495		1,600	
Less: equity securities	19		111	
Financial assets held for trading		**476**		**1,488**
Derivatives		**6,191**		**9,825**
Financial investments	42,184		40,964	
Less: equity instruments			438	
Less: private equities and venture capital	419		609	
Less: Equity securities	579		63	
Financial investments		**41,187**		**39,854**
Securities financing[1]		**12,375**		**15,686**
Loans and advances banks		**8,124**		**10,665**
Loans and advances customers		**270,886**		**274,906**
Other assets[1]	3,904		3,790	
Less: Other	467		450	
Other assets		**3,436**		**3,340**
On-balance sheet maximum exposure to credit risk		**377,046**		**385,546**
Off-balance sheet				
Committed credit facilities[2]	61,166		55,295	
Guarantees and other commitments	15,241		16,165	
Revocable credit facilities	49,001		50,322	
Off-balance sheet credit facilities and guarantees		**125,409**		**121,782**
Maximum exposure to credit risk		**502,455**		**507,328**
Adjustments on assets[3]		-1,466		9
Valuation adjustments[4]		16,756		6,127
Offsetting and netting		-19,510		-26,470
Off-balance sheet credit facilities and guarantees		-125,409		-121,782
Off-balance sheet exposure fraction expected to be drawn prior to default (Credit Conversion Factors)		30,739		28,384
Total Exposure at Default		**403,565**		**393,596**
Credit risk RWA/Total Exposure at Default		21.0%		21.4%

1 ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.
2 Comparative figures have been restated. Please refer to note 1 of the Annual Financial Statements.
3 Main adjustments on assets relate to equity instruments, selected financial assets held for trading and fair value adjustments from hedge accounting.
4 Adjustments on valuation include loan impairment allowances.

The table above shows the maximum exposure to credit risk and reconciliation with the total exposure at default.

Overall credit risk EAD and RWA

Audited | EDTF 14 | EDTF 15 | EDTF 29

(in millions)	Original Exposure at Default	Netting/ Exposure at Default mitigation[3]	Exposure at Default	- of which: Derivatives	Securities financing transactions	RWA	RWA/ Exposure at Default
							31 December 2018
Credit risk IRB							
Central governments and central banks	68,928	-2,898	71,827	376	128	694	1.0%
Institutions[1]	15,911	1,700	14,211	1,384	2,653	2,000	14.1%
Corporates	210,887	88,746	122,141	2,237	1,086	43,691	35.8%
Retail	183,143	8,110	175,033			19,464	11.1%
- of which secured by immovable property	163,174	1,028	162,146			15,097	9.3%
- of which qualifying revolving exposures	11,198	6,066	5,132			1,898	37.0%
- of which other retail	8,771	1,016	7,755			2,470	31.9%
Credit valuation adjustment						497	
Securitisation positions	415		415			31	7.4%
Subtotal	**479,284**	**95,657**	**383,627**	**3,996**	**3,867**	**66,377**	**17.3%**
Equities not held for trading	943		943			3,943	418.4%
Other[2]	1,035		1,035			9,344	902.7%
Total IRB	**481,262**	**95,657**	**385,605**	**3,996**	**3,867**	**79,664**	**20.7%**
Credit risk SA							
Central governments and central banks	5,549	-28	5,577	36			0.0%
Institutions[1]	6,146	20	6,126	2,183	1,946	167	2.7%
Corporates	4,502	1,689	2,813			2,719	96.7%
Retail	4,818	3,409	1,409			1,055	74.9%
Covered bonds							
Secured by mortgages on immovable property	770	129	641			229	35.7%
Exposures in default	126	82	44			58	129.6%
Subtotal	**21,912**	**5,302**	**16,610**	**2,220**	**1,946**	**4,227**	**25.4%**
Other[2]	1,351		1,351			810	60.0%
Total SA	**23,263**	**5,302**	**17,961**	**2,220**	**1,946**	**5,037**	**28.0%**
Total	**504,525**	**100,959**	**403,565**	**6,216**	**5,813**	**84,701**	**21.0%**

1 Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.
2 Other includes default fund contribution (DFC) under the IRB approach and non-credit obligation assets under the IRB and Standardised Approach.
3 Consists mainly of netting, secured funding trades, guarantees, credit conversion factors and impairments under the Standardised Approach.

Overall credit risk EAD and RWA Audited EDTF 14 EDTF 15 EDTF 29

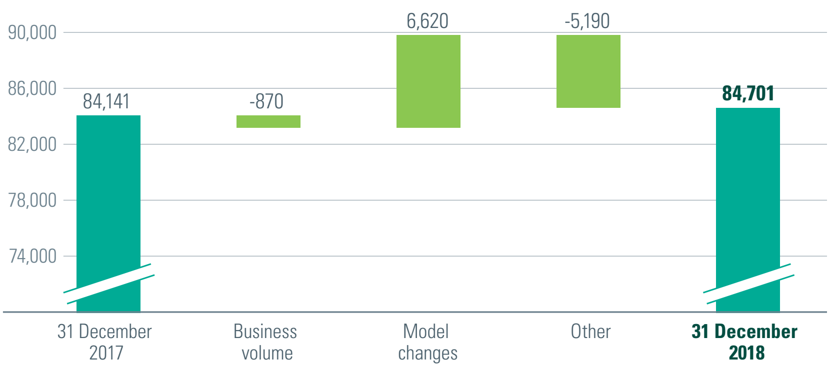
31 December 2017

(in millions)	Original Exposure at Default	Netting/ Exposure at Default mitigation[3]	Exposure at Default	- of which: Derivatives	Securities financing transactions	RWA	RWA/ Exposure at Default
Credit risk IRB							
Central governments and central banks	60,358	-4,698	65,057	267	108	1,166	1.8%
Institutions[1]	18,546	3,604	14,942	2,219	1,647	2,642	17.7%
Corporates	205,697	89,752	115,944	2,667	1,065	47,012	40.5%
Retail	186,472	8,467	178,005			21,909	12.3%
- of which secured by immovable property	165,590	1,204	164,386			16,979	10.3%
- of which qualifying revolving exposures	11,653	6,078	5,576			2,188	39.2%
- of which other retail	9,229	1,185	8,043			2,742	34.1%
Credit valuation adjustment						742	
Securitisation positions	4		4				
Subtotal	**471,078**	**97,125**	**373,953**	**5,153**	**2,819**	**73,471**	**19.6%**
Equities not held for trading	1,006		1,006			4,534	450.6%
Other[2]	1,194		1,194			1,695	141.9%
Total IRB	**473,278**	**97,125**	**376,153**	**5,153**	**2,819**	**79,700**	**21.2%**
Credit risk SA							
Central governments and central banks	4,927	-31	4,958	23	17		0.0%
Institutions[1]	6,960	66	6,894	1,596	3,017	189	2.7%
Corporates	4,412	1,947	2,465	5		2,377	96.5%
Retail	5,349	4,201	1,147			857	74.7%
Covered bonds							
Secured by mortgages on immovable property	776	56	720			257	35.7%
Exposures in default	579	539	40			50	126.3%
Subtotal	**23,003**	**6,779**	**16,224**	**1,624**	**3,034**	**3,731**	**23.0%**
Other[2]	1,219		1,219			710	58.3%
Total SA	**24,222**	**6,779**	**17,443**	**1,624**	**3,034**	**4,441**	**25.5%**
Total	**497,500**	**103,904**	**393,596**	**6,777**	**5,853**	**84,141**	**21.4%**

[1] Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.
[2] Other includes default fund contribution (DFC) under the IRB approach and non-credit obligation assets under the IRB and Standardised Approach.
[3] Consists mainly of netting, secured funding trades, guarantees, credit conversion factors and impairments under the Standardised Approach.

RWA flow statement credit risk EDTF 16

(in millions)



Total Credit RWA increased to EUR 84.7 billion (31 December 2017: EUR 84.1 billion). The RWA increase is mainly explained by model changes driven by TRIM and model reviews. This increase was primarily off-set by the category Other, which includes higher collateral values in Retail Banking and asset quality developments (e.g. lower loan balances after impairments, improved credit ratings) primarily in CIB. Lower business volumes in primarily CIB and Retail Banking also offset the increase in RWA.

Credit quality by exposure class Audited

(in millions, Exposure at Default)	Investment grade	Sub-investment grade	Impaired	Total
				31 December 2018
Central governments and central banks	71,652	175		71,827
Institutions[1]	13,232	979		14,211
Corporates	51,415	66,146	4,580	122,141
Retail	150,581	23,211	1,241	175,033
- of which secured by immovable property	143,708	17,549	889	162,146
- of which qualifying revolving exposures	2,631	2,347	154	5,132
- of which other retail	4,242	3,314	198	7,755
Securitisation positions	415			415
Total IRB[2]	**287,295**	**90,511**	**5,821**	**383,627**
Total SA[3]				16,610
Total				**400,237**

	Investment grade	Sub-investment grade	Impaired	Total
				31 December 2017
Central governments and central banks	64,747	309		65,057
Institutions[1]	13,903	1,037	2	14,942
Corporates	45,054	65,932	4,959	115,944
Retail	154,666	21,838	1,501	178,005
- of which secured by immovable property	147,156	16,154	1,077	164,386
- of which qualifying revolving exposures	2,751	2,644	180	5,576
- of which other retail	4,758	3,041	244	8,043
Securitisation positions	4			4
Total IRB[2]	**278,374**	**89,117**	**6,461**	**373,953**
Total SA[3]				16,224
Total				**390,177**

1 Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.
2 Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.
3 Exposure at Default does not include EAD calculated for other non-credit obligations.

The credit quality of our portfolio improved marginally, mainly due to an increase in investment grade exposure and a decline in impaired exposure. The increase in investment grade exposure was mainly attributable to governments and central banks, primarily as a result of higher volumes with central banks within Group Functions. In addition, corporates contributed to the higher investment grade portfolio. The decline in impaired exposure was mainly attributable to write-offs, repayments and to a lesser extent clients returning to the performing portfolio.

Credit quality by internal rating scale mapped to stages

Audited

The following table presents the gross carrying amount of loans and the contractual amount of undrawn loan commitments, classified by internal rating and risk stage. In order to classify a client as stage 2, several qualitative triggers are needed, which are not necessarily dependent on internal ratings. Reference is made to the credit risk management section for more information on internal ratings and stage determination.

(in millions)	PD scale	UCR range	Stage 1	Stage 2	Stage 3	Total
						31 December 2018
Mortgages						
	0.0000 - < 0.0346	1	9,827			9,827
	0.0346 - < 0.1265	2	61,968	8		61,976
	0.1265 - < 0.4648	3	56,876	61		56,938
	0.4648 - < 2.2249	4	13,358	353		13,711
	2.2249 - < 19.9706	5	3,165	2,069		5,234
	19.9706 - < 100	6+	143	199		342
	100	6-8			763	763
Total Mortgages			**145,337**	**2,691**	**763**	**148,791**
Consumer loans						
	0.0000 - < 0.0346	1	1,477	1		1,478
	0.0346 - < 0.1265	2	1,705	13		1,718
	0.1265 - < 0.4648	3	2,885	112		2,997
	0.4648 - < 2.2249	4	3,654	257		3,910
	2.2249 - < 19.9706	5	898	505		1,402
	19.9706 - < 100	6+	150	126		276
	100	6-8			481	481
Total Consumer loans			**10,768**	**1,014**	**481**	**12,263**
Corporate loans						
	0.0000 - < 0.0346	1	7,317	1		7,317
	0.0346 - < 0.1265	2	8,490	31		8,521
	0.1265 - < 0.4648	3	18,949	750		19,699
	0.4648 - < 2.2249	4	35,687	2,654		38,341
	2.2249 - < 19.9706	5	5,432	4,300		9,733
	19.9706 - < 100	6+	3,687	899		4,586
	100	6-8			4,335	4,335
Total Corporate loans			**79,562**	**8,636**	**4,335**	**92,533**
Other loans[1]						
	0.0000 - < 0.0346	1	13,947			13,947
	0.0346 - < 0.1265	2	7,468	14		7,482
	0.1265 - < 0.4648	3	5,789	20		5,810
	0.4648 - < 2.2249	4	5,659	273		5,931
	2.2249 - < 19.9706	5	1,507	458		1,966
	19.9706 - < 100	6+	619	32		651
	100	6-8			308	308
Total Other loans			**34,990**	**797**	**308**	**36,095**
Loan commitments and financial guarantee contracts						
	0.0000 - < 0.0346	1	8,015	4		8,019
	0.0346 - < 0.1265	2	15,420	48		15,467
	0.1265 - < 0.4648	3	19,497	299		19,796
	0.4648 - < 2.2249	4	17,926	1,362		19,289
	2.2249 - < 19.9706	5	1,968	1,078		3,045
	19.9706 - < 100	6+	4,490	189		4,679
	100	6-8			180	180
Total Loan commitments and financial guarantee contracts			**67,315**	**2,979**	**180**	**70,474**
Total						
	0.0000 - < 0.0346	1	40,583	6		40,589
	0.0346 - < 0.1265	2	95,051	113		95,164
	0.1265 - < 0.4648	3	103,997	1,243		105,240
	0.4648 - < 2.2249	4	76,284	4,899		81,183
	2.2249 - < 19.9706	5	12,970	8,410		21,380
	19.9706 - < 100	6+	9,088	1,445		10,534
	100	6-8			6,066	6,066
Total			**337,973**	**16,117**	**6,066**	**360,155**

[1] Includes Banks, Securities financing, Government and official institutions, Financial lease receivables and Factoring.

The largest part of our portfolio is classified in the lower range of stage 1, and to a lesser extent in the mid-range of internal ratings. UCR 6+ is the default rating for clients that are, for example, being revised until a new rating is available. This applies to the majority of the data presented in UCR 6+.

Stage 2 accounts for around 5% of the total portfolio and spread in the mid-range of internal ratings. Further details on credit impaired exposures, stage 3, are given in the coverage and impaired paragraph.

Credit risk concentration Audited

Geographic concentration

Geographic concentration by EAD Audited

The consolidated exposures in the table below have been classified by the geographical regions where clients are domiciled. The bank monitors and manages country risk based on the country at risk. The country at risk may be different from the country of domicile, for example if the bank finances a project in a country other than the country in which the borrower is domiciled. The bank actively manages and monitors the development of its country risk exposures.

						31 December 2018
(in millions, Exposure at Default)	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Central governments and central banks	40,352	22,083	6,948	1,572	872	71,827
Institutions[1]	3,857	7,169	1,413	1,238	534	14,211
Corporates	65,141	30,075	9,623	7,194	10,108	122,141
Retail	174,228	609	53	82	62	175,033
- of which secured by immovable property	161,579	400	47	72	48	162,146
- of which qualifying revolving exposures	5,073	50	2	2	5	5,132
- of which other retail	7,575	159	3	9	8	7,755
Securitisation positions	415					415
Total IRB[2]	**283,992**	**59,936**	**18,036**	**10,087**	**11,576**	**383,627**
Total SA[3]	2,860	11,269	1,470	510	501	16,610
Total	**286,852**	**71,205**	**19,506**	**10,597**	**12,077**	**400,237**
Percentage of total	71.7%	17.8%	4.9%	2.6%	3.0%	100.0%

						31 December 2017
	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Central governments and central banks	36,540	22,405	2,728	2,456	928	65,057
Institutions[1]	3,603	6,459	2,053	2,238	589	14,942
Corporates	64,146	26,953	6,866	7,376	10,604	115,944
Retail	177,163	634	45	101	62	178,005
- of which secured by immovable property	163,813	400	40	89	44	164,386
- of which qualifying revolving exposures	5,512	54	2	2	6	5,576
- of which other retail	7,838	180	3	10	11	8,043
Securitisation positions	4					4
Total IRB[2]	**281,456**	**56,451**	**11,692**	**12,172**	**12,182**	**373,953**
Total SA[3]	2,537	11,467	1,561	354	306	16,224
Total	**283,992**	**67,917**	**13,253**	**12,526**	**12,488**	**390,177**
Percentage of total	72.8%	17.4%	3.4%	3.2%	3.2%	100.0%

1 Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.
2 Total Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.
3 Exposure at Default does not include EAD calculated for other non-credit obligations.

The bank's portfolio is largely concentrated in the Netherlands (71.7%). The exposure at default in the Netherlands increased to EUR 286.9 billion (31 December 2017: EUR 284.0 billion), mainly as a result of an increase in central governments and growth in deposits with central banks. The increase in exposure at default in the corporates exposure class reflects business developments at Commercial Banking in Europe and at CIB in Europe and US.

Industry concentration

ABN AMRO applies industry concentration limits in line with the Industry Classification Benchmark (ICB). In the exposure table, non-material industry clusters are aggregated under Other. Industry concentration limits are established in the bank's risk appetite, where the thresholds for concentrations are based on relative risk, the importance of the industry to the Dutch economy and expert opinion.

Industry concentration is presented both in terms of the original obligor and in terms of the resultant obligor. The original obligor is the counterparty with whom ABN AMRO has the original contractual relationship, often referred to as the borrower. The resultant obligor is the counterparty bearing the ultimate credit risk, often referred to as the guarantor. The industry classification of the original obligor may differ from that of the resultant obligor, for example in the real estate, healthcare and public administration sectors. While government-guaranteed exposures are included in the applicable industry in the original obligor view, these exposures are included in public administration in the resultant obligor view, as they concern government-related exposures.

Industry concentration by EAD Audited

	31 December 2018			
(in millions, Exposure at Default)	Exposure at Default (original obligor)	Percentage of total	Exposure at Default (resultant obligor)	Percentage of total
Industry sector				
Banks	14,629	3.7%	14,290	3.6%
Financial services[1]	20,660	5.2%	20,730	5.2%
Industrial goods and services	26,514	6.6%	26,114	6.5%
Real estate	15,900	4.0%	14,272	3.6%
Oil and gas	15,711	3.9%	14,759	3.7%
Food and beverage	18,436	4.6%	18,221	4.6%
Retail	6,682	1.7%	6,657	1.7%
Basic resources	5,179	1.3%	5,087	1.3%
Healthcare	4,863	1.2%	4,814	1.2%
Construction and materials	4,545	1.1%	4,418	1.1%
Other[2]	20,224	5.1%	22,302	5.6%
Subtotal Industry Classification Benchmark	**153,344**	**38.3%**	**151,665**	**37.9%**
Private individuals (non-Industry Classification Benchmark)	175,785	43.9%	175,786	43.9%
Public administration (non-Industry Classification Benchmark)	71,107	17.8%	72,786	18.2%
Subtotal non-Industry Classification Benchmark	**246,893**	**61.7%**	**248,572**	**62.1%**
Exposure at Default[3]	**400,237**	**100.0%**	**400,237**	**100.0%**

1 Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.
2 Other includes travel and leisure, utilities, personal and household goods, media, technology, automobile and parts, chemicals, telecommunication and insurance, in addition to unclassified.
3 Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

	31 December 2017			
(in millions, Exposure at Default)	Exposure at Default (original obligor)	Percentage of total	Exposure at Default (resultant obligor)	Percentage of total
Industry sector				
Banks	19,577	5.0%	18,123	4.6%
Financial services[1]	17,454	4.5%	16,073	4.1%
Industrial goods and services	24,978	6.4%	24,826	6.4%
Real estate	14,989	3.8%	13,215	3.4%
Oil and gas	15,264	3.9%	15,166	3.9%
Food and beverage	17,283	4.4%	17,191	4.4%
Retail	6,568	1.7%	6,533	1.7%
Basic resources	4,792	1.2%	4,789	1.2%
Healthcare	4,879	1.3%	4,800	1.2%
Construction and materials	4,413	1.1%	4,363	1.1%
Other[2]	18,798	4.8%	20,597	5.3%
Subtotal Industry Classification Benchmark	**148,996**	**38.2%**	**145,676**	**37.3%**
Private individuals (non-Industry Classification Benchmark)	178,903	45.9%	178,903	45.9%
Public administration (non-Industry Classification Benchmark)	62,277	16.0%	65,597	16.8%
Subtotal non-Industry Classification Benchmark	**241,181**	**61.8%**	**244,501**	**62.7%**
Exposure at Default[3]	**390,177**	**100.0%**	**390,177**	**100.0%**

1 Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.
2 Other includes travel and leisure, utilities, personal and household goods, media, technology, automobile and parts, chemicals, telecommunication and insurance, in addition to unclassified.
3 Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

Credit risk exposures in EAD primarily related to private individuals (non-ICB), mainly for residential mortgage loans and, to a lesser extent, consumer loans. Private individuals decreased modestly to EUR 175.8 billion at 31 December 2018 (31 December 2017: EUR 178.9 billion) in the resultant obligor view. The increase in EAD is mainly explained by an increase in public administration (non-ICB) due to higher volumes with central banks within Group Functions. Positions in banks decreased while positions in financial services increased.

Credit risk mitigation Audited EDTF 30

Offsetting, netting, collateral and guarantees

Audited EDTF 30

Collateral reporting is based on the net collateral value (NCV). The NCV is a conservative value and represents the amount the bank expects to recover from the collateral pledged to the bank should the client default. Where necessary, certain discounts are applied.

The NCV is approached by an average recovery rate observed for the specific type of collateral and, where applicable, by applying haircuts, for example in the event of currency mismatches. Surplus collateral is the amount of over-collateralisation, calculated on an individual basis. A surplus for guarantees is not included, as the debtor can only be liable for the maximum debt.

Financial assets: offsetting, netting, collateral and guarantees Audited EDTF 30

										31 December 2018
	Offset in the statement of financial position			Not offset in the statement of financial position						Net exposure[5]
(in millions)	Carrying amount before balance-sheet netting	Balance sheet netting with gross liabilities	Carrying amount[2]	Master netting agreement[3]	Financial instruments collateral	Property & equipment	Other collateral and guarantees	Total risk mitigation	Surplus collateral[4]	
Financial assets held for trading (excluding derivatives)	**495**		**495**							**495**
Derivatives	**6,191**		**6,191**	**4,107**	**63**			**4,170**		**2,021**
Financial investments	**42,184**		**42,184**							**42,184**
Securities financing	**17,613**	**5,238**	**12,375**	**583**	**19,654**			**20,237**	**8,161**	**299**
Interest-bearing deposits	4,025	536	3,489	4			44	48		3,441
Loans and advances	2,870		2,870	1,784	849	100		2,734	753	889
Other	1,765		1,765				50	50		1,715
Total loans and advances banks	**8,661**	**536**	**8,124**	**1,788**	**849**	**100**	**95**	**2,832**	**753**	**6,045**
Loans and advances customers										
Residential mortgages	148,683		148,683		2,334	225,119	1,320	228,774	83,142	3,052
Consumer loans	11,948	3	11,945		4,038	5,008	34	9,081	3,893	6,757
Corporate loans	93,825	3,051	90,774	1,951	29,792	52,997	13,081	97,821	29,936	22,889
Other loans and advances customers[1]	15,513	1	15,512	717	4,762	3,913	115	9,507	1,307	7,312
Fair value adjustment from hedge accounting	3,185		3,185							3,185
Total loans and advances customers	**273,153**	**3,055**	**270,099**	**2,668**	**40,926**	**287,037**	**14,551**	**345,182**	**118,278**	**43,195**
Loans at fair value through P&L	787		787				530	530	98	355
Total loans and advances customers	**273,941**	**3,055**	**270,886**	**2,668**	**40,926**	**287,037**	**15,081**	**345,712**	**118,377**	**43,550**
Other assets	**2,450**		**2,450**	**14**	**2**		**104**	**120**	**2**	**2,332**
Total on-balance sheet subject to netting and pledged agreements	**351,535**	**8,830**	**342,706**	**9,160**	**61,495**	**287,137**	**15,280**	**373,072**	**127,293**	**96,927**
Assets not subject to netting and pledged agreements	38,589		38,589							38,589
Total assets	**390,124**	**8,830**	**381,295**	**9,160**	**61,495**	**287,137**	**15,280**	**373,072**	**127,293**	**135,516**
Total off-balance sheet	125,409		125,409		7,294	9,803	8,547	25,644	7,621	107,385
Total on- and off-balance sheet	**515,533**	**8,830**	**506,703**	**9,160**	**68,789**	**296,940**	**23,827**	**398,716**	**134,914**	**242,901**

1 Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
2 Carrying amount includes Loan impairment allowances where applicable.
3 Collateral in the column Master netting agreement is mainly markets related and consists of Master netting agreements which also includes cash collateral as part of these agreements. Cash collateral not part of Master netting agreements has been reported under Financial instruments.
4 Surplus collateral is the amount of over-collateralisation, calculated on an individual basis.
5 Net exposure represents the portfolio corrected for the surplus amount and gives a view on the potential shortfall in collateral on the total portfolio.

Financial assets: offsetting, netting, collateral and guarantees Audited EDTF 30

	31 December 2017									
	Offset in the statement of financial position			Not offset in the statement of financial position						Net exposure[6]
(in millions)	Carrying amount before balance-sheet netting	Balance sheet netting with gross liabilities	Carrying amount[3]	Master netting agreement[4]	Financial instruments collateral	Property & equipment	Other collateral and guarantees	Total risk mitigation	Surplus collateral[5]	
Financial assets held for trading	**1,488**		**1,488**							**1,488**
Derivatives	**9,825**		**9,825**	**6,796**	**208**		**91**	**7,095**		**2,730**
Securities financing[1]	**17,356**	**1,670**	**15,686**	**775**	**18,156**			**18,931**	**3,407**	**162**
Interest-bearing deposits	5,357	443	4,914	5				5		4,909
Loans and advances	2,871		2,871	1,525	1,730			3,255	1,649	1,265
Other	2,886	6	2,880				140	140		2,740
Total loans and advances banks	**11,114**	**450**	**10,665**	**1,530**	**1,730**		**140**	**3,401**	**1,649**	**8,913**
Loans and advances customers										
Residential mortgages	150,428		150,428		2,182	192,300	4,257	198,739	57,750	9,438
Consumer loans	12,133	11	12,122		4,692	4,809	22	9,524	4,388	6,986
Corporate loans	97,949	5,699	92,250	2,811	25,439	50,111	14,422	92,783	25,852	25,318
Other loans and advances – customers[2]	16,457	50	16,407	678	4,078	3,581	1,764	10,102	1,153	7,459
Fair value adjustment from hedge accounting	3,700		3,700							3,700
Total Loans and advances customers	**280,666**	**5,760**	**274,906**	**3,490**	**36,391**	**250,801**	**20,465**	**311,147**	**89,142**	**52,901**
Other assets[1]	**3,340**		**3,340**		**959**		**112**	**1,071**		**2,269**
Total on-balance sheet subject to netting and pledged agreements	**323,789**	**7,879**	**315,910**	**12,591**	**57,445**	**250,801**	**20,808**	**341,645**	**94,198**	**68,462**
Assets not subject to netting and pledged agreements	77,262		77,262							77,262
Total assets	**401,050**	**7,879**	**393,171**	**12,591**	**57,445**	**250,801**	**20,808**	**341,645**	**94,198**	**145,724**
Total off-balance sheet[2]	121,782		121,782		5,406	8,222	4,612	18,240	5,673	109,215
Total on- and off-balance sheet	**522,833**	**7,879**	**514,953**	**12,591**	**62,851**	**259,023**	**25,420**	**359,885**	**99,871**	**254,939**

1 ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.
2 Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
3 Carrying amount includes Loan impairment allowances where applicable.
4 Collateral in the column Master netting agreement is mainly markets related and consists of Master netting agreements which also includes cash collateral as part of these agreements. Cash collateral not part of Master netting agreements has been reported under Financial instruments.
5 Surplus collateral is the amount of over-collateralisation, calculated on an individual basis.
6 Net exposure represents the portfolio corrected for the surplus amount and gives a view on the potential shortfall in collateral on the total portfolio.

Total net exposure of loans and advances to customers decreased to EUR 43.2 billion at 31 December 2018 (31 December 2017: EUR 52.9 billion). This decrease was mainly attributable to residential mortgages (EUR 6.4 billion) as the collateral value of property and equipment improved due to a rise in housing prices as well as revised recovery rates.

The total risk mitigation for consumer loans decreased by EUR 0.4 billion, mainly due to decreased financial instruments in Private Banking. This resulted in a modest decrease of EUR 0.2 billion in net exposure.

Despite a modest decline of corporate loans, the total risk mitigation for corporate loans increased to EUR 97.8 billion (31 December 2017: EUR 92.8 billion). This increase was mainly observed in financial instruments collateral and largely attributable to CIB, and was partly offset by a rise in surplus collateral. The combined effect led to a decrease of net exposure in corporate loans.

The net exposure of other loans and advances to customers decreased to EUR 7.3 billion (31 December 2017: EUR 7.5 billion), mainly due to the clearing business.

Financial assets: offsetting, netting, collateral and guarantees for credit impaired assets Audited EDTF 30

											31 December 2018
	Offset in the statement of financial position			Not offset in the statement of financial position							Net exposure[5]
(in millions)	Carrying amount before balance-sheet netting	Balance sheet netting with gross liabilities	Carrying amount[2]	Master netting agree-ment[3]	Financial instru-ments collateral	Property & equip-ment	Other collat-eral and guar-an-tees	Total risk mitigation	Surplus collateral[4]		
Loans and advances banks											
Loans and advances customers											
Residential mortgages	686		686		7	875	9	891	211		6
Consumer loans	252		252		13	181		194	45		102
Corporate loans	2,831		2,831		202	2,498	244	2,944	534		422
Other loans and advances customers[1]	255		255		218	106		324	98		29
Total Loans and advances customers	**4,024**		**4,024**		**440**	**3,660**	**253**	**4,353**	**888**		**559**
Total loans and advances	**4,024**		**4,024**		**440**	**3,660**	**253**	**4,353**	**888**		**559**

1 Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
2 Carrying amount includes Loan impairment allowances where applicable.
3 Collateral in the column Master netting agreement is mainly markets related and consists of Master netting agreements which also includes cash collateral as part of these agreements. Cash collateral not part of Master netting agreements has been reported under Financial instruments.
4 Surplus collateral is the amount of over-collateralisation, calculated on an individual basis.
5 Net exposure represents the portfolio corrected for the surplus amount and gives a view on the potential shortfall in collateral on the total portfolio.

Collateral and guarantees for credit impaired assets (stage 3) represents credit risk mitigation based on the NCV for clients in default. The carrying amount includes expected credit loss allowances, which is based on the probability weighted present value of all expected cash shortfalls over the remaining life of the financial instrument for both on- and off-balance sheet exposures.

The Financial Restructuring & Recovery department identifies most likely scenarios for non-programme lending defaulted clients (going concern or gone concern) and, by its professional judgement, amounts and timing of expected future cash flows. This explains why a net exposure remains after collateral pledged to the bank has been taken into account.

During 2018, ABN AMRO obtained property and equipment by taking possession of collateral it held as security for loans and advances. The total amount of such assets held on 31 December 2018 amounted to EUR 5 million (2017: EUR 4 million). ABN AMRO does not intend to use these assets in its operations and pursues timely realisation of the collateral in an orderly matter.

Financial liabilities: offsetting, netting, collateral and guarantees Audited

								31 December 2018
	Offset in the statement of financial position			Not offset in the statement of financial position				Net exposure
(in millions)	Carrying amount before balance-sheet netting	Balance sheet netting with gross assets	Carrying amount	Master netting agreement[1]	Financial instruments collateral	Total risk mitigation	Surplus collateral	
Financial liabilities held for trading	**253**		**253**					**253**
Derivatives	**7,159**		**7,159**	**6,296**	**63**	**6,359**		**800**
Securities financing	**12,645**	**5,238**	**7,407**	**531**	**12,894**	**13,425**	**6,494**	**476**
Deposits	13,654	233	13,421	16		16		13,404
Other	16		16	479		479		-463
Due to banks	**13,670**	**233**	**13,437**	**495**		**495**		**12,941**
Deposits	238,666	3,353	235,313	1,170		1,170		234,143
Other borrowings	810		810	667		667		142
Due to customers	**239,476**	**3,353**	**236,123**	**1,838**		**1,838**		**234,286**
Other liabilities	**3,691**	**5**	**3,686**					**3,686**
Total liabilities subject to netting arrangements	**276,894**	**8,830**	**268,065**	**9,160**	**12,957**	**22,117**	**6,494**	**252,442**
Remaining liabilities not subject to netting	91,870		91,870					91,870
Total liabilities	**368,764**	**8,830**	**359,935**	**9,160**	**12,957**	**22,117**	**6,494**	**344,312**

1 Collateral in the column Master netting agreement is mainly markets related and consists of Master netting agreements which also includes cash collateral as part of these agreements. Cash collateral not part of Master netting agreements has been reported under Financial instruments.

Financial liabilities: offsetting, netting, collateral and guarantees Audited

								31 December 2017
	Offset in the statement of financial position			Not offset in the statement of financial position				Net exposure
(in millions)	Carrying amount before balance-sheet netting	Balance sheet netting with gross assets	Carrying amount	Master netting agreement[2]	Financial instruments collateral	Total risk mitigation	Surplus collateral	
Financial liabilities held for trading	1,082		1,082					1,082
Derivatives	8,367		8,367	6,807	208	7,015		1,352
Securities financing[1]	13,082	1,670	11,412	768	12,743	13,512	2,584	484
Deposits	16,618	179	16,439	2,702		2,702		13,737
Other	23		23					23
Due to banks	16,641	179	16,462	2,702		2,702		13,760
Deposits	242,730	6,031	236,699	2,313		2,313		234,386
Other borrowings								
Due to customers	242,730	6,031	236,699	2,313		2,313		234,387
Other liabilities[1]	5,006		5,006					5,006
Total liabilities subject to netting arrangements	286,907	7,879	279,028	12,591	12,951	25,542	2,584	256,070
Remaining liabilities not subject to netting	92,813		92,813					92,813
Total liabilities	379,720	7,879	371,841	12,591	12,951	25,542	2,584	348,883

1 ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.
2 Collateral in the column Master netting agreement is mainly markets related and consists of Master netting agreements which also includes cash collateral as part of these agreements. Cash collateral not part of Master netting agreements has been reported under Financial instruments.

Management of forborne, past due and credit impaired loans Audited EDTF 28

Forborne exposures Audited

The following table provides an overview of forborne assets, broken down into performing and non-performing assets, and classified by the type of forbearance measure. Clients in (or potentially in) financial difficulty whose contracts have been amended in ways that are considered concessions on the part of the bank are accounted for as forborne assets.

In 2018, the scope of non-performing assets was extended by non-defaulted forborne positions, resulting in approximately EUR 150 million in assets shifting from performing to non-performing. During the third quarter of 2018, ABN AMRO changed the policy on forborne assets by aligning the list of forbearance measures with EBA guidelines. This change in policy resulted in exposure shifting from temporary to permanent because of the permanent nature of these forbearance measures.

Overview of forborne assets Audited

31 December 2018

		Performing assets				Non-performing assets					
(in millions)	Gross carrying amount[3]	Temporary modification	Permanent modification	Refinancing	Total performing forborne assets	Temporary modification	Permanent modification	Refinancing	Total non-performing forborne assets	Total forborne assets	Forbearance ratio
Loans and advances banks	**8,133**										**0.0%**
Loans and advances customers											
Residential mortgages	148,791	265	16	29	309	385	9	18	412	721	0.5%
Consumer loans	12,263	48	18	168	235	44	44	73	161	396	3.2%
Corporate loans	92,533	385	923	408	1,716	414	1,319	1,017	2,750	4,466	4.8%
Other loans and advances customers[1]	15,587	52	18	4	73	97	65	2	165	237	1.5%
Total loans and advances customers[2]	**269,174**	**750**	**975**	**608**	**2,333**	**940**	**1,436**	**1,111**	**3,488**	**5,820**	**2.2%**
Loans at fair value through P&L	787										
Total loans and advances	**278,094**	**750**	**975**	**608**	**2,333**	**940**	**1,436**	**1,111**	**3,488**	**5,820**	**2.1%**
Other assets	**2,077**										**0.0%**
Total on-balance	**280,171**	**750**	**975**	**608**	**2,333**	**940**	**1,436**	**1,111**	**3,488**	**5,821**	**2.1%**

[1] Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
[2] Excluding loans at fair value through P&L.
[3] Gross carrying amount excludes fair value adjustments from hedge accounting.

Overview of forborne assets Audited

31 December 2017

		Performing assets[4]				Non-performing assets[4]					
(in millions)	Gross carrying amount[3]	Temporary modification	Permanent modification	Refinancing	Total performing forborne assets	Temporary modification	Permanent modification	Refinancing	Total non-performing forborne assets	Total forborne assets	Forbearance ratio
Loans and advances banks	**10,671**										**0.0%**
Loans and advances customers											
Residential mortgages	150,562	636	12	80	728	388	19	27	434	1,162	0.8%
Consumer loans	12,426	74	18	140	232	52	17	60	129	360	2.9%
Corporate loans	94,220	1,029	872	673	2,574	861	1,020	1,200	3,082	5,656	6.0%
Other loans and advances customers[1]	16,459	87	54	2	144	44	25		69	212	1.3%
Total Loans and advances customers[2]	**273,666**	**1,827**	**955**	**895**	**3,677**	**1,345**	**1,082**	**1,287**	**3,713**	**7,390**	**2.7%**
Total loans and advances	**284,337**	**1,827**	**955**	**895**	**3,677**	**1,345**	**1,082**	**1,287**	**3,713**	**7,390**	**2.6%**
Other assets	**3,343**										**0.0%**
Total on-balance	**287,680**	**1,827**	**955**	**895**	**3,677**	**1,345**	**1,082**	**1,287**	**3,713**	**7,390**	**2.6%**

[1] Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
[2] Excluding loans at fair value through P&L.
[3] Gross carrying amount excludes fair value adjustments from hedge accounting.
[4] For purposes, the classification of (non-) performing forborne assets is based on the impaired status of the client.

At year-end 2018, the total amount of the forborne portfolio had decreased to EUR 5.8 billion (2017: EUR 7.4 billion). The decrease in forbearance is mainly explained by a decline in corporate loans and to a lesser extent by a decline in residential mortgages, resulting in a forbearance ratio of 2.1% (2017: 2.6%).

The total exposure to forborne corporate loans declined to EUR 4.5 billion (2017: EUR 5.7 billion), as a result of contracts passing the two-year probation period (cease to be forborne), write-offs and to a lesser extent repayments. Forborne residential mortgages declined primarily due to contracts which ceased to be forborne, repayments and lower inflow of new clients.

Stage 3 forborne instruments are transferred back to stage 2 consistently with other defaulted instruments. Moreover, forborne financial instruments are only transferred to stage 1 in exceptional cases after a two-year probation period. In 2018, these transfers amounted to around EUR 200 million.

Past due exposures Audited

When a counterparty is past due or exceeds its credit limit, all loans and advances (total gross carrying amount) in the related credit arrangement are considered past due. Materiality thresholds are applied for counterparties transferring to stage 3 (EUR 500 for programme lending and EUR 5,000 for non-programme lending). Below these thresholds, amounts are reported as >90 days past due.

Ageing of past due not classified as credit impaired Audited

	31 December 2018						
			Days past due				
(in millions)	Gross carrying amount[3]	Assets not classified as stage 3	≤ 30 days	> 30 days & ≤ 90 days	> 90 days[4]	Total past due but not stage 3	Past due ratio
Securities financing	**12,375**	**12,375**					
Loans and advances banks	**8,133**	**8,133**					**0.0%**
Loans and advances customers							
Residential mortgages	148,791	148,028	1,834	140	11	1,984	1.3%
Consumer loans	12,263	11,782	193	122	76	391	3.2%
Corporate loans[1]	92,533	88,198	499	202	73	774	0.8%
Other loans and advances customers[1]	15,587	15,279	294	100	31	426	2.7%
Total Loans and advances customers[2]	**269,174**	**263,287**	**2,821**	**565**	**190**	**3,576**	**1.3%**
Loans at fair value through P&L	787	787					
Total Loans and advances customers	**269,961**	**264,075**	**2,821**	**565**	**190**	**3,576**	
Other assets	**2,077**	**2,075**	**267**	**67**	**11**	**344**	**16.6%**
Total assets	**292,546**	**286,657**	**3,088**	**631**	**201**	**3,920**	**1.3%**

1 Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
2 Excluding loans at fair value through P&L.
3 Gross carrying amount excludes fair value adjustments from hedge accounting.
4 Materiality thresholds are applied for counterparties transferring to stage 3. Below these thresholds, amounts are reported on > 90 days past due.

Ageing of past due not classified as impaired Audited

	31 December 2017						
			Days past due				
(in millions)	Gross carrying amount	Assets not classified as impaired	≤ 30 days	> 30 days & ≤ 90 days	> 90 days[4]	Total past due but not impaired	Past due ratio
Securities financing[1]	**15,686**	**15,686**					
Loans and advances banks	**10,671**	**10,600**					
Loans and advances customers							
Residential mortgages[2]	150,562	149,543	2,225	180	6	2,412	1.6%
Consumer loans	12,426	11,919	222	142	74	437	3.5%
Corporate loans[2]	94,220	89,106	549	137	103	789	0.8%
Other loans and advances customers[3]	16,459	16,190	270	37	20	326	2.0%
Total Loans and advances customers	**273,666**	**266,757**	**3,266**	**495**	**203**	**3,964**	**1.4%**
Other assets[1]	**3,343**	**3,332**	**89**	**25**	**12**	**126**	**3.8%**
Total assets	**303,366**	**296,375**	**3,355**	**520**	**215**	**4,090**	**1.3%**

1 ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.
2 Gross carrying amount excludes fair value adjustments from hedge accounting.
3 Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
4 Materiality thresholds are applied for counterparties which are transferred to impaired. Below these thresholds, amounts are reported on > 90 days past due.

Past due exposure on loans and advances to customers declined to EUR 3.6 billion (2017: EUR 4.0) due to a decrease in short-term arrears (≤ 30 days), which was partly offset by an increase in mid-term arrears.

From a sub-portfolio view, residential mortgages benefited mostly from the decrease in short-term arrears. Corporate loans recorded an inflow related to a few relatively large CIB and Commercial Banking clients in the shipping and real estate industry. For other loans and advances to customers, there was an increases in all of the time buckets. This portfolio includes the bank's lease activities, where past due exposures can fluctuate strongly due to business characteristics. Overall, these developments resulted in past due ratio improving to 1.3% at year-end 2018.

Exposures per stage Audited
Coverage and stage ratio Audited

	31 December 2018			
(in millions)	Gross carrying amount[3]	Allowances for credit losses[4]	Coverage ratio	Stage ratio
Stage 1				
Loans and advances banks	**8,074**	**8**	**0.1%**	**99.3%**
Residential mortgages	145,337	18	0.0%	97.7%
Consumer loans	10,768	34	0.3%	87.8%
Corporate loans	79,562	141	0.2%	86.0%
Other Loans and advances customers[1]	14,541	13	0.1%	93.3%
Total Loans and advances customers	**250,209**	**206**	**0.1%**	**93.0%**
Stage 2				
Loans and advances banks	**59**	**1**	**1.8%**	**0.7%**
Residential mortgages	2,691	14	0.5%	1.8%
Consumer loans	1,014	55	5.4%	8.3%
Corporate loans	8,636	114	1.3%	9.3%
Other Loans and advances customers[1]	738	9	1.2%	4.7%
Total Loans and advances customers	**13,078**	**191**	**1.5%**	**4.9%**
Stage 3				
Loans and advances banks				**0.0%**
Residential mortgages	763	77	10.0%	0.5%
Consumer loans	481	229	47.7%	3.9%
Corporate loans	4,335	1,503	34.7%	4.7%
Other Loans and advances customers[1]	308	53	17.2%	2.0%
Total Loans and advances customers	**5,887**	**1,862**	**31.6%**	**2.2%**
Total of stages 1, 2 and 3				
Total Loans and advances banks	**8,133**	**9**	**0.1%**	
Residential mortgages	148,791	108	0.1%	
Consumer loans	12,263	318	2.6%	
Corporate loans	92,533	1,759	1.9%	
Other Loans and advances customers[1]	15,587	75	0.5%	
Total Loans and advances customers[2]	**269,174**	**2,260**	**0.8%**	
Loans at fair value through P&L	**787**			
Fair value adjustments from hedge accounting on Loans and advances customers	**3,185**		**0.0%**	
Total Loans and advances banks	8,133	9	0.1%	
Total Loans and advances customers	273,146	2,260	0.8%	
Total Loans and advances	**281,279**	**2,269**	**0.8%**	
Other balance sheet items	102,290	6	0.0%	
Total on-balance sheet	**383,569**	**2,275**	**0.6%**	
Irrevocable loan commitments and financial guarantee contracts	70,474	12	0.0%	
Other off-balance sheet items	5,946			
Total on- and off-balance sheet	**459,989**	**2,287**	**0.5%**	

1 Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
2 Excluding fair value adjustments from hedge accounting on Loans and advances customers and Loans at fair value through P&L.
3 Gross carrying amount excludes fair value adjustments from hedge accounting.
4 The allowances for credit losses excludes allowances for financial investments held at FVOCI (31 December 2018: EUR 1.6 million).

Coverage and impaired ratio Audited

(in millions)	Gross carrying amount	Impaired exposures	Allowances for Impairments for identified credit risk[4]	Coverage ratio	Impaired ratio
					31 December 2017
Securities financing[1]	**15,686**				
Loans and advances banks	**10,671**	**71**	**1**	**1.5%**	**0.7%**
Loans and advances customers					
Residential mortgages[2]	150,562	1,019	111	10.9%	0.7%
Consumer loans	12,426	507	285	56.2%	4.1%
Corporate loans[2]	94,220	5,114	1,844	36.1%	5.4%
Other loans and advances customers[3]	16,459	269	40	15.0%	1.6%
Total Loans and advances customers	**273,666**	**6,909**	**2,280**	**33.0%**	**2.5%**
Other assets[1]	**3,343**	**11**	**3**	**31.5%**	**0.3%**
Total on-balance sheet	**303,366**	**6,991**	**2,285**	**32.7%**	**2.3%**
Total off-balance sheet	121,787	121		0.0%	0.1%
Total	**425,153**	**7,112**	**2,285**	**32.1%**	**1.7%**

1 ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.
2 Gross carrying amount excludes fair value adjustments from hedge accounting.
3 Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
4 Amounts excluding Incurred But Not Identified (IBNI).

In the analysis below, the data from 31 December 2018 figures was compared with the data from 31 December 2017, although the basis of presentation was different as a result of the implementation of IFRS 9. Comparative figures as at 1 January 2018 are included in the IFRS 9 transitional disclosures under note 1, Accounting policies. The IAS 39 impaired ratio has been compared with the IFRS 9 stage 3 ratio, because the impaired assets under IAS 39 have been classified as stage 3 assets under IFRS 9. The IAS 39 coverage ratio was calculated by dividing the amount of allowances by the impaired exposure. Under IFRS 9, 93% of the loans and advances relates to stage 1 and 4.9% to stage 2.

The stage 3 impaired ratio improved and the coverage ratio decreased for loans and advances to customers at year-end 2018. The coverage ratio was impacted by a large write-off for the fully provisioned Madoff file, which was offset by additional provisions mainly for existing impaired clients in specific industries. If the Madoff file had not been written off, the stage 3 coverage ratio would have increased to 36.2% at year-end 2018.

Residential mortgages and consumer loans benefited from the strong Dutch economic environment, recording lower impaired exposures and lower allowances for credit losses, resulting in improved stage 3 ratios and lower coverage ratios for stage 3.

Impaired corporate loans declined as a result of write-offs and repayments. The decrease in credit loss allowances was partly offset by additional credit losses for specific, mainly existing, impaired files in the energy offshore, diamonds and shipping industries in CIB. Additional credit losses were recognised in Commercial Banking for the healthcare and shipping industries.

Loan impairment charges and allowances Audited EDTF 28

(in millions)	Banks	Residential mortgages	Consumer loans	Corporate loans	Other loans	Total Loans and advances	Off-balance
							2018
Balance at 1 January 2018	**9**	**182**	**362**	**2,055**	**2**	**2,610**	**25**
Transfer to stage 1		-15	-31	-59		-104	
Transfer to stage 2		2	17	59	1	79	
Transfer to stage 3		9	24	211		244	
Remeasurements[1]	4	23	18	469	6	521	-14
Originated or purchased	1	8	5	30		45	7
Matured or sold loans	-5	-20	-6	-36		-67	-4
Impairment charges (releases) on loans and advances		**7**	**27**	**676**	**7**	**717**	**-12**
Write-offs		-36	-103	-929		-1,068	
Unwind discount/unearned interest accrued		-25	2	7		-16	
Foreign exchange and other movements		-19	30	16	-1	26	-1
Balance at 31 December 2018	**9**	**108**	**318**	**1,825**	**9**	**2,269**	**12**
Impairment charges (releases) on loans and advances		7	27	676	7	717	-12
Recoveries and other charges (releases)		-18	-31	-16		-65	16
Total impairment charges for the period[2]		**-11**	**-4**	**660**	**7**	**652**	**4**

[1] Remeasurements represents the current year change of expected credit loss allowances mainly attributable to changes in volumes such as partial repayments and changes in the credit quality of existing loans remaining in their stage.

[2] The impairment charges for the period excludes charges (releases) for financial investments held at FVOCI (2018: EUR -0.3 million).

Loan impairment charges and allowances Audited EDTF 28

(in millions)	Banks	Residential mortgages	Consumer loans	Corporate loans[1]	Other loans	Total
						2017
Balance at 1 Januari 2017	**3**	**258**	**433**	**2,973**	**2**	**3,670**
Impairment charges for the period	4	42	93	598		737
Reversal of impairment allowances no longer required		-67	-106	-545	-1	-718
Recoveries of amounts previously written-off		-24	-41	-15		-81
Total impairment charges on loans and other advances	**4**	**-49**	**-54**	**38**	**-1**	**-62**
Amount recorded in interest income from unwinding of discounting		-39	-10	-66		-114
Currency translation differences				-101		-101
Amounts written-off (net)		-37	-68	-810		-915
Reserve for unearned interest accrued on impaired loans			6	-15		-9
Other adjustments		1	-3	1		-2
Balance at 31 December 2017	**7**	**134**	**304**	**2,020**	**2**	**2,467**

[1] Corporate loans includes Financial lease receivables and Factoring.

Loan impairment charges and allowances per stage

Audited EDTF 28

(in millions)	Stage 1	Stage 2	Stage 3	2018 Total
Impairment allowances on loans and advances				
Balance at 1 January	**214**	**213**	**2,184**	**2,610**
Transfer to stage 1	116	-164	-56	-104
Transfer to stage 2	-112	278	-88	79
Transfer to stage 3	-7	-54	305	244
Remeasurements[1]	7	-61	575	521
Originated or purchased	44			45
Matured or sold	-39	-26	-2	-67
Impairment charges (releases) on loans and advances	**9**	**-27**	**735**	**717**
Write offs			-1,068	-1,068
Unwind discount/unearned interest accrued			-16	-16
Foreign exchange and other movements	-9	6	28	26
Balance at 31 December	**214**	**192**	**1,862**	**2,269**
Impairment charges (releases) on loans and advances	9	-27	735	717
Recoveries and other charges (releases)			-65	-65
Total impairment charges for the period	**9**	**-27**	**669**	**652**

[1] Remeasurements represents the current year change of expected credit loss allowances mainly attributable to changes in volumes such as partial repayments and changes in the credit quality of existing loans remaining in their stage.

(in millions)	Stage 1	Stage 2	Stage 3	2018 Total
Impairment allowances Residential mortgages				
Balance at 1 January	**26**	**24**	**132**	**182**
Transfer to stage 1	21	-16	-20	-15
Transfer to stage 2	-3	24	-19	2
Transfer to stage 3	-4	-7	20	9
Remeasurements[1]	-26	4	45	23
Originated or purchased	8			8
Matured or sold	-2	-16	-2	-20
Impairment charges (releases) on loans and advances	**-7**	**-10**	**25**	**7**
Write offs			-36	-36
Unwind discount/unearned interest accrued			-25	-25
Foreign exchange and other movements	-1		-18	-19
Balance at 31 December	**18**	**14**	**77**	**108**
Impairment charges (releases) on loans and advances	-7	-10	25	7
Recoveries and other charges (releases)			-18	-18
Total impairment charges for the period	**-7**	**-10**	**6**	**-11**

[1] Remeasurements represents the current year change of expected credit loss allowances mainly attributable to changes in volumes such as partial repayments and changes in the credit quality of existing loans remaining in their stage.

(in millions)	Stage 1	Stage 2	Stage 3	2018 Total
Impairment allowances Consumer loans				
Balance at 1 January	**42**	**74**	**246**	**362**
Transfer to stage 1	22	-41	-12	-31
Transfer to stage 2	-20	56	-19	17
Transfer to stage 3	-1	-7	31	24
Remeasurements[1]	-7	-26	51	18
Originated or purchased	5			5
Matured or sold	-4	-2		-6
Impairment charges (releases) on loans and advances	**-5**	**-20**	**52**	**27**
Write offs			-103	-103
Unwind discount/unearned interest accrued			2	2
Foreign exchange and other movements	-3		32	30
Balance at 31 December	**34**	**55**	**229**	**318**
Impairment charges (releases) on loans and advances	-5	-20	52	27
Recoveries and other charges (releases)			-31	-31
Total impairment charges for the period	**-5**	**-20**	**20**	**-4**

[1] Remeasurements represents the current year change of expected credit loss allowances mainly attributable to changes in volumes such as partial repayments and changes in the credit quality of existing loans remaining in their stage.

(in millions)	Stage 1	Stage 2	Stage 3	2018 Total
Impairment allowances Corporate loans				
Balance at 1 January	**138**	**112**	**1,805**	**2,055**
Transfer to stage 1	73	-107	-24	-59
Transfer to stage 2	-87	195	-50	59
Transfer to stage 3	-2	-41	254	211
Remeasurements[1]	36	-41	474	469
Originated or purchased	30			30
Matured or sold	-29	-7		-36
Impairment charges (releases) on loans and advances	**21**		**654**	**676**
Write offs			-929	-929
Unwind discount/unearned interest accrued			7	7
Foreign exchange and other movements	-6	7	15	16
Balance at 31 December	**154**	**119**	**1,552**	**1,825**
Impairment charges (releases) on loans and advances	21		654	676
Recoveries and other charges (releases)			-16	-16
Total impairment charges for the period	**21**		**638**	**660**

[1] Remeasurements represents the current year change of expected credit loss allowances mainly attributable to changes in volumes such as partial repayments and changes in the credit quality of existing loans remaining in their stage.

(in millions)	Stage 1	Stage 2	Stage 3	2018 Total
Impairment allowances Off-balance				
Balance at 1 January	**9**	**1**	**15**	**25**
Transfer to stage 1		-1		
Transfer to stage 2	-1	1		
Transfer to stage 3				
Remeasurements[1]		1	-15	-14
Originated or purchased	7			7
Matured or sold	-4	-1		-4
Impairment charges (releases)	**3**		**-15**	**-12**
Foreign exchange and other movements	-2			-1
Balance at 31 December	**10**	**2**	**1**	**12**
Impairment charges (releases) on off-balance	3		-15	-12
Other charges (releases)[2]			16	16
Total impairment charges for the period	**3**		**1**	**4**

[1] Remeasurements represents the current year change of expected credit loss allowances mainly attributable to changes in volumes such as partial repayments and changes in the credit quality of existing loans remaining in their stage.
[2] These charges (releases) relate to the off-balance sheet items that do not fall within the scope of IFRS 9 and for which stage information is not applicable.

Individual and collective loan impairment allowances Audited

(in millions)	Banks	Residential mortgages	Consumer loans	Corporate loans	Other loans	Total Loans and advances	Off-balance
						31 December 2018	
Individual impairment							
Stage 3		13	83	1,292	4	1,392	1
Total individual impairment		**13**	**83**	**1,292**	**4**	**1,392**	**1**
Collective impairment							
Stage 1	8	18	34	154	1	214	10
Stage 2	1	14	55	119	4	192	2
Stage 3		64	146	260		470	
Total collective impairment	**9**	**95**	**235**	**533**	**4**	**877**	**12**
Total impairments	**9**	**108**	**318**	**1,825**	**9**	**2,269**	**12**
Carrying amount of loans, determined to be impaired, before deducting any assessed impairment allowance		763	481	4,335	308	5,887	

(in millions)	Banks	Residential mortgages	Consumer loans	Corporate loans[1]	Other loans	Total
						31 December 2017
Individual impairment	1	16	99	1,776		1,892
Collective impairment	5	118	206	244	2	575
Balance at 31 December 2017	**7**	**134**	**304**	**2,020**	**2**	**2,467**
Carrying amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	71	1,019	507	5,114	269	6,980

[1] Corporate loans includes Financial lease receivables and Factoring.

Loan impairment charges on- and off-balance sheet Audited

(in millions)	2018	2017
On-balance sheet	651	-62
Off-balance sheet	4	-1
Total impairment charges on loans and other advances	**655**	**-63**

Impairment charges amounted to EUR 655 million in 2018 (2017: EUR 63 million release). These charges related mainly to specific files in the stage 3 corporate loans portfolio, resulting in a cost of risk of 24bps (2017: cost of risk -2bps). The increase in impairments mainly related to CIB and Commercial Banking.

Commercial Banking recorded net additions of EUR 253 million in 2018, compared with a net release of EUR 179 million in 2017, mainly reflecting impairment charges in industrial goods & services, healthcare and shipping. The remainder was spread across various industry sectors. The release in 2017 was largely attributable to model refinement and update, compared with limited releases in 2018.

Impairments charges in CIB increased to EUR 427 million (2017: EUR 219 million). The increase was mainly the result of additional impairments for existing files in the energy (mainly off-shore), diamonds, shipping and commodities industries. Additionally, we executed a few secondary sales of our most vulnerable clients in 2018, which materially mitigated our downside risk in the offshore energy market.

Residential mortgages continued to benefit from the strong Dutch economy and housing market, resulting in a release of EUR 11 million (2017: EUR 49 million release). The release in 2017 was significantly impacted by a model refinement and IBNI releases.

Consumer loans recorded a limited release of EUR 4 million, compared with a release of EUR 54 million in 2017.

Overall, our cost of risk (COR) was 24bps for 2018, below the through-the-cycle COR of 25-30bps and in line with our expectations.

Forborne, past due and credit impaired loans split by geography and industry

Forborne, past due and credit impaired loans split by geography

(in millions)	Forborne exposure	Exposures past due, but not stage 3	Stage 3 exposures	Allowances for stage 3	Stage 3 charges for the period
					31 December 2018
The Netherlands	4,115	3,170	4,067	1,200	297
Rest of Europe	783	332	898	318	130
USA	266	2	210	100	45
Asia	148	3	123	88	79
Rest of the world	509	69	588	158	119
Total On-balance	**5,821**	**3,576**	**5,887**	**1,862**	**670**
Off-balance			180		-15
Total	**5,821**	**3,576**	**6,066**	**1,862**	**655**

	Forborne exposure	Exposures past due, but not impaired	Impaired exposures	Allowances for impairments[1]	Impairment charges for the period[1]
					31 December 2017
The Netherlands	5,306	3,625	4,315	1,274	-251
Rest of Europe	794	356	912	262	51
USA	347		276	105	91
Asia	203	1	117	50	40
Rest of the world	740	109	1,371	593	64
Total On-balance	**7,390**	**4,090**	**6,991**	**2,285**	**-4**
Off-balance			121		
Total	**7,390**	**4,090**	**7,112**	**2,285**	**-4**

[1] Amounts excluding Incurred But not Identified (IBNI).

The largest decline in the forborne exposure in 2018 was recorded in the Netherlands and related to decreases in Commercial Banking and Retail Banking, which benefited from the strong domestic economy. The decreases in Asia, USA and the rest of the world were primarily due to the outflow of some large individual files that ceased to be forborne in combination with and several write-offs.

The forborne exposures in the Netherlands decreased mainly as a result of improvements in residential mortgages, reflecting the strong performance of the Dutch economy and housing market. In addition, the rest of the world and the rest of Europe showed a decrease in forborne exposure.

Credit impaired exposures and allowances for credit losses dropped significantly in the rest of the world, mainly due to the write-off (EUR 0.4 billion) of the fully provisioned Madoff file. Rest of the world and USA were also impacted by write-offs and secondary market sales. Credit impaired exposures in the Netherlands decreased due to write-offs and repayments.

Forborne, past due and credit impaired loans split by industry

31 December 2018

(in millions)	Exposure at Default	Forborne exposures	Forborne ratio (EAD)	Exposures past due, but not stage 3	Past due ratio (EAD)	Stage 3 exposures	Stage 3 ratio (EAD)	Allowances for impairments for identified credit risk[4]	Stage 3 impairment charges for the period
Industry sector									
Banks	14,629		0.0%		0.0%		0.0%		
Financial services[1]	20,660	75	0.4%	103	0.5%	175	0.8%	113	-11
Industrial goods and services	26,514	1,661	6.3%	329	1.2%	1,519	5.7%	324	237
Real estate	15,900	288	1.8%	227	1.4%	261	1.6%	89	2
Oil and gas	15,711	569	3.6%		0.0%	703	4.5%	218	177
Food and beverage	18,436	839	4.6%	207	1.1%	634	3.4%	167	55
Retail	6,682	221	3.3%	94	1.4%	270	4.0%	124	19
Basic resources	5,179	152	2.9%	28	0.5%	156	3.0%	108	60
Healthcare	4,863	183	3.8%	34	0.7%	259	5.3%	97	40
Construction and materials	4,545	324	7.1%	39	0.9%	296	6.5%	125	14
Other[2]	20,224	411	2.0%	160	0.8%	388	1.9%	197	74
Subtotal Industry Classification Benchmark	**153,344**	**4,723**	**3.1%**	**1,221**	**0.8%**	**4,662**	**3.0%**	**1,563**	**666**
Private individuals (non-Industry Classification Benchmark)	175,785	1,098	0.6%	2,351	1.3%	1,222	0.7%	298	3
Public administration (non-Industry Classification Benchmark)	71,107		0.0%	3	0.0%	3	0.0%	1	
Subtotal non-Industry Classification Benchmark	**246,893**	**1,098**	**0.4%**	**2,354**	**1.0%**	**1,225**	**0.5%**	**299**	**3**
Total[3]	**400,237**	**5,820**	**1.5%**	**3,576**	**0.9%**	**5,887**	**1.5%**	**1,862**	**670**

1 Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.
2 Other includes personal and household goods, media, technology, automobiles and parts, chemicals, telecommunication and insurance, in addition to unclassified.
3 Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

Forborne, past due and impaired loans split by industry

31 December 2017

(in millions)	Exposure at Default	Forborne exposures	Forborne ratio (EAD)	Exposures past due, but not impaired	Past due ratio (EAD)	Impaired exposures	Impaired ratio (EAD)	Allowances for impairments for identified credit risk[4]	Impairment charges for the year[4]
Industry sector									
Banks	19,577		0.0%		0.0%	71	0.4%	-1	1
Financial services[1]	17,454	78	0.4%	70	0.4%	633	3.6%	-563	4
Industrial goods and services	24,978	1,768	7.1%	286	1.1%	1,569	6.3%	-287	-30
Real estate	14,989	466	3.1%	215	1.4%	251	1.7%	-99	-21
Oil and gas	15,264	952	6.2%	126	0.8%	1,031	6.8%	-229	98
Food and beverage	17,283	936	5.4%	122	0.7%	547	3.2%	-109	-22
Retail	6,568	354	5.4%	77	1.2%	277	4.2%	-130	-13
Basic resources	4,792	87	1.8%	30	0.6%	283	5.9%	-107	84
Healthcare	4,879	204	4.2%	31	0.6%	157	3.2%	-58	6
Construction and materials	4,413	439	10.0%	44	1.0%	329	7.4%	-143	-26
Other[2]	18,798	452	2.4%	265	1.4%	446	2.4%	-163	-31
Subtotal Industry Classification Benchmark	**148,996**	**5,737**	**3.9%**	**1,263**	**0.8%**	**5,593**	**3.8%**	**-1,890**	**51**
Private individuals (non-Industry Classification Benchmark)	178,903	1,653	0.9%	2,827	1.6%	1,519	0.8%	-395	-56
Public administration (non-Industry Classification Benchmark)	62,277		0.0%		0.0%		0.0%		1
Subtotal non-Industry Classification Benchmark	**241,181**	**1,653**	**0.7%**	**2,827**	**1.2%**	**1,519**	**0.6%**	**-395**	**-56**
Total[3]	**390,177**	**7,390**	**1.9%**	**4,090**	**1.0%**	**7,112**	**1.8%**	**-2,285**	**-4**

1 Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.
2 Other includes personal and household goods, media, technology, automobiles and parts, chemicals, telecommunication and insurance, in addition to unclassified.
3 Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.
4 Amounts excluding Incurred But Not Identified (IBNI).

Forborne assets mainly declined in private individuals and in the oil and gas industry. The decline in private individuals was driven by lower forborne exposures in residential mortgages, while the decline in oil and gas related to a combination of write-offs and contracts passing the probation period. Increases in forborne basic resources related to the diamonds sector.

At industry level, loans past due but not stage 3 declined largely for private individuals, reflecting the strong performance of the Dutch economy and housing market. In addition, the oil and gas industry showed a decrease, offset by increases in food and beverage.

Credit impaired (stage 3) exposures declined due to a combination of write offs, secondary market sales and repayments. This was mainly visible in financial services, due to a significant write-off related to Madoff, which was fully provisioned. In addition, oil and gas decreased due to the secondary market sales. Private individuals decreased in line with the performance of the Dutch economy and housing market.

Developments in specific portfolios

The following section provides a more detailed overview of developments in specific portfolios and products.

Residential mortgages

The Dutch housing market was buoyant and prices continued to rise. The housing price index published by Statistics Netherlands (CBS) for 2018 was 8.4% higher than in 2017.

The overall price level in December 2018 was 4.7% above the former record level set in August 2008, not corrected for inflation. As a result of the shortage in housing stock, the number of housing transactions was still under pressure, both in existing and new residential buildings in almost all provinces in the Netherlands. This was reflected in the total number of transactions in the Dutch housing market, which was 9.7% lower than in 2017, according to Statistics Netherlands.

The number of transactions also trended down as elevated price levels impacted the affordability of homes. There was also less demand from people who had postponed their home purchase plans during the crisis, as the majority of them had already moved. The shortage in housing stock was partly the result of home movers preferring to buy a new home before putting their current property up for sale.

Residential mortgage indicators

(in millions)	31 December 2018	31 December 2017
Gross carrying amount excluding fair value adjustment from hedge accounting	148,791	150,562
- of which Nationale Hypotheek Garantie (NHG)	36,257	38,049
Fair value adjustment from hedge accounting	2,101	2,264
Carrying amount	148,683	150,428
Exposure at Default[1]	162,787	165,107
RWA[1]	16,853	17,236
RWA/Exposure at Default	10.4%	10.4%
Forbearance ratio	0.5%	0.8%
Past due ratio	1.3%	1.6%
Stage 3 ratio	0.5%	0.7%
Stage 3 coverage ratio	10.0%	10.9%
Cost of risk (in bps)[2]	-1	-3
Average LtMV (indexed)	64%	70%
Average LtMV – excluding NHG loans (indexed)	62%	67%
Total risk mitigation	228,774	198,739
Total risk mitigation/carrying amount	153.9%	132.1%

1 The RWA and Exposure at Default amounts are based on the exposure class Secured by immovable property. This scope is slightly broader than the residential mortgage portfolio.
2 Annualised impairment charges on loans and advances customers for the period divided by the average loans and advances customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

The residential mortgage portfolio decreased by 1.2% to EUR 148.8 billion (31 December 2017: EUR 150.6 billion) as redemptions exceeded new production of mortgage loans. ABN AMRO's market share in new mortgage production ended lower at 16.8% (2017: 21.0%). The proportion of amortising mortgages continued to increase, totalling 29% at 31 December 2018 (31 December 2017: 24%). Total redemptions were 2.9% higher in 2018 than in 2017. Contractual redemptions gradually increased, in line with changes in the portfolio composition. In 2018, extra repayments amounted to EUR 2.3 billion and so remained fairly stable compared with 2017.

Mortgages covered by the National Mortgage Guarantee scheme (NHG) came down to 24%, modestly lower compared with 31 December 2017 (2017: 26%).

Regulatory capital

The RWA for the residential mortgage portfolio decreased to EUR 16.9 billion (2017: EUR 17.2 billion). Exposure at default (EAD) decreased to EUR 162.8 billion (2017: EUR 165.1 billion). The decline in RWA was the combined result of a decrease in EAD, improved credit quality, higher collateral values and lower amounts in arrears. The decrease in EAD was mainly due to lower business volumes.

Credit quality indicators

Credit quality indicators for residential mortgages improved, in line with the performance of the Dutch economy and housing market. The past due ratio decreased, mainly due to a limited inflow into past due exposures in short-term arrears. The coverage ratio decreased as a result of improved credit quality, higher collateral values and a decrease in impaired stage 3 exposures.

Residential mortgages to indexed market value

				31 December 2018
(in millions)	Gross carrying amount	Percentage of total	- of which guaranteed[2]	- of which unguaranteed
LtMV category[1]				
<50%	37,754	25.4%	3.0%	22.4%
50% - 80%	70,164	47.2%	13.1%	34.0%
80% - 90%	23,080	15.5%	4.9%	10.6%
90% - 100%	13,278	8.9%	2.7%	6.3%
>100%	3,497	2.4%	0.6%	1.7%
Unclassified	1,017	0.7%		
Total	**148,791**	**100%**		

				31 December 2017
		Percentage of total	- of which guaranteed[2]	- of which unguaranteed
<50%	31,365	20.8%	2.3%	18.5%
50% - 80%	58,691	39.0%	9.2%	29.8%
80% - 90%	26,384	17.5%	6.8%	10.7%
90% - 100%	20,821	13.8%	4.5%	9.3%
>100%	11,813	7.8%	2.4%	5.5%
Unclassified	1,487	1.0%		
Total	**150,562**	**100%**		

1 ABN AMRO calculates the Loan-to-Market Value using the indexation of the CBS (Statistics Netherlands).
2 NHG guarantees.

Rising housing prices and restrictions set for the maximum loan to market value (LtMV) of new mortgages have led to continued improvement of the average indexed LtMV, both guaranteed and unguaranteed. The long-term LtMV of the bank's portfolio is expected to decrease further as a combined result of rising housing prices, contractual and extra redemptions, and current tax regulations.

The gross carrying amount of mortgages with a LtMV in excess of 100% declined significantly, totalling EUR 3.5 billion at year-end 2018 (31 December 2017: EUR 11.8 billion). Note that LtMVs in excess of 100% do not necessarily indicate that these clients are in financial difficulties. However, ABN AMRO actively approaches clients with an interest-only mortgage in combination with a high LtMV level to discuss a change in their mortgage product. Mortgages with a LtMV>100% account for 2.4% of total mortgages and approximately 5% of the extra repayments related to this category.

Breakdown of residential mortgage portfolio by loan type

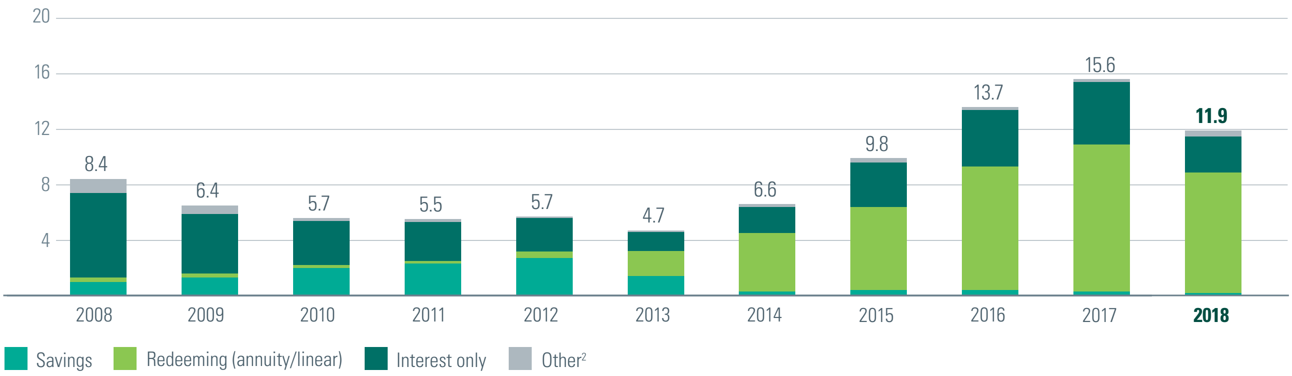
(in millions)	31 December 2018 Gross carrying amount	31 December 2018 Percentage of total	31 December 2017 Gross carrying amount	31 December 2017 Percentage of total
Interest only (partially)	46,671	31%	48,734	32%
Interest only (100%)	25,736	17%	27,231	18%
Redeeming mortgages (annuity/linear)	42,699	29%	36,057	24%
Savings	16,006	11%	18,160	12%
Life (investment)	11,749	8%	13,419	9%
Other[1]	5,930	4%	6,960	5%
Total	**148,791**	**100%**	**150,562**	**100%**

1 Other includes hybrid, other and unclassified mortgage types. The hybrid portfolio consists of a combination of savings and investment mortgages.

Fully interest-only mortgages continued to decrease to 17% of the total mortgage portfolio, and approximately a quarter of the extra repayments in 2018 related to this type of loan. We saw a decline in the fully interest-only mortgage portfolio with a LtMV > 100%. Redeeming mortgages was the only category that grew in volume during the year.

Breakdown of the residential mortgage portfolio by year of loan modification as from 2008[1]

(in billions)



1 Includes the new mortgage production and all mortgages with a modification date.
2 Other includes universal life, life investment, hybrid, other and unclassified mortgage types. The hybrid portfolio consists of a combination of savings and investment mortgages.

The effects of the changed Dutch tax regulations are clearly reflected in the loan modification breakdown by year. Mortgage loan type originations in 2018 (defined as new production and mortgages with a loan type modification) comprised 21.9% interest-only, 73.5% redeeming mortgages and 1.4% savings mortgages. Interest-only and savings mortgages can still be produced for clients who want to refinance loans originated before 2013. The majority of the interest-only inflow is part of a mixed mortgage.

Residential mortgages to indexed market value for 100% interest-only

	31 December 2018 Percentage of total	31 December 2017 Percentage of total
Loan-to-Market Value category[1]		
<50%	11%	9%
50% - 70%	5%	5%
70% - 100%	2%	3%
>100%	0%	0%
Total[2]	**17%**	**18%**

1 Loan-to-Market Value is calculated using the indexation of the CBS (Central Bureau of Statistics).
2 Percentages of the total mortgage portfolio.

The above table shows the breakdown of the LtMV for the 100% interest-only share of the mortgage portfolio. On 31 December 2018, 0.10% of the total mortgage portfolio had a LtMV in excess of 100%, compared with 0.25% at year-end 2017.

ABN AMRO proactively approaches clients with an interest-only and/or life (investment) mortgage to inform them about their product in the current and the future situation. If necessary, ABN AMRO discusses adjustments to the mortgage to make it better suited to what the client needs.

Commercial Real Estate (CRE)

The Dutch commercial real estate (investment) market continued to increase in 2018, driven by high demand from investors. After Germany, the United Kingdom and France, the Netherlands attracted most investors in commercial real estate. A total of EUR 20 billion was invested in 2018, an increase of 2.6% compared with 2017. Due to ongoing low interest rates, a significant part of the investment budget has shifted towards commercial real estate. As fewer investment opportunities are available, the increase in volume is slowing down. Demand for office space is still increasing and the availability of high-quality locations is diminishing. Although new construction is growing, a lack of building sites at locations with high demand is causing lease prices for offices to rise.

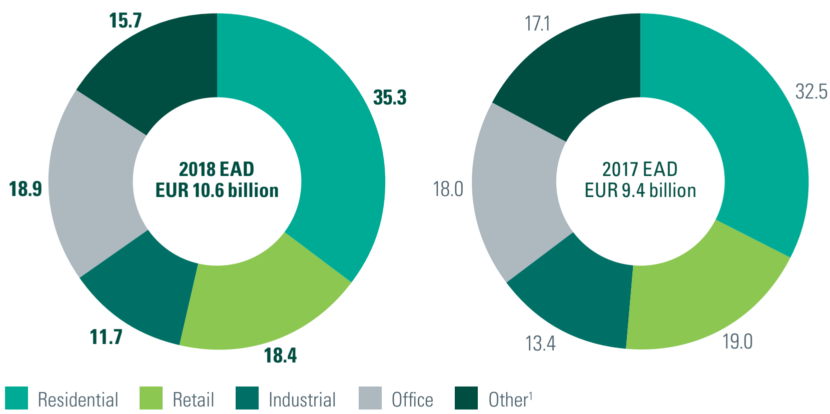
The industrial market continued to benefit from the high economic growth in the Netherlands and its central location in European logistics. Demand for locations was driven by rising e-commerce sales, increasing exports and fear of a logistical chaos due to Brexit.

In 2018, residential assets were the biggest investment in the Netherlands, the first time ever. The residential market is in high demand due to increasing housing prices, lack of new build and changing preferences of inhabitants. Urbanisation is causing rents to increase most in the largest cities in the Netherlands, but due to shortage in the housing market, rental fees in other parts of the Netherlands increased as well.

Commercial Real Estate portfolio

In 2018 the EAD increased 13% to EUR 10.6 billion compared with year-end 2017. The credit quality indicators in 2018 further improved due to the strong commercial real estate market. However, the coverage ratio in 2018 went up to 44% (31 December 2017: 35%) as impaired exposures showed a sharper decline than allowances for impairments. The CRE LtV continued to decline, totalling 49.7% (2017: 53.5%) mainly as a result of rising commercial real estate prices, which are largely based on Dutch properties. The loan portfolio consisted mainly of investment loans that were well diversified across different asset types.

Asset type
(in %)



[1] Other asset types includes mixed objects, hotels & horeca facilities and parking real estate.

Market risk

ABN AMRO is exposed to market risk in its trading book and banking book. The following table presents the market risk factors to which the assets and liabilities in the balance sheet are sensitive.

Total market risk exposure

Market risk exposure traded and non-traded risk EDTF 22

	31 December 2018			31 December 2017		
	Carrying amount	Market risk measure		Carrying amount	Market risk measure	
(in millions)		Traded risk	Non-traded risk		Traded risk	Non-traded risk
Assets subject to market risk						
Cash and balances at central banks	34,371		34,371	29,783		29,783
Financial assets held for trading	495	495		1,600	1,600	
Derivatives	6,191	4,839	1,351	9,825	8,165	1,659
Financial investments	42,184		42,184	40,964		40,964
Securities financing[1]	12,375		12,375	15,686		15,686
Loans and advances banks	8,124		8,124	10,665		10,665
Loans and advances customers	270,886		270,886	274,906		274,906
Other assets[1]	6,668		6,668	9,743		9,743
Total assets	**381,295**	**5,335**	**375,960**	**393,171**	**9,765**	**383,406**
Liabilities subject to market risk						
Financial liabilities held for trading	253	253		1,082	1,082	
Derivatives	7,159	5,003	2,156	8,367	5,912	2,455
Securities financing[1]	7,407		7,407	11,412		11,412
Due to banks	13,437		13,437	16,462		16,462
Due to customers	236,123		236,123	236,699		236,699
Issued debt	80,784		80,784	76,612		76,612
Subordinated liabilities	9,805		9,805	9,720		9,720
Other liabilities[1]	4,968		4,968	11,488		11,488
Total liabilities	**359,935**	**5,256**	**354,679**	**371,841**	**6,993**	**364,848**
Equity	21,360		21,360	21,330		21,330
Total liabilities and equity	**381,295**	**5,256**	**376,039**	**393,171**	**6,993**	**386,178**

[1] ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.

Activities in the trading book are sensitive to multiple risk factors. Most assets and liabilities in the banking book are sensitive to interest rate risk to a large extent. Some of the assets and liabilities are also sensitive to FX risk; however, ABN AMRO minimises this risk through hedging.

Market risk in the banking book

Market risk in the banking book is the risk that the bank's value or income declines because of unfavourable market movements. The market risk in the banking book consists predominantly of interest rate risk, which arises from holding loans with interest rate maturities that are different from the interest rate maturities of the deposits. The assets have a longer average maturity than the liabilities. This applies to contractual as well as behavioural maturities.

ABN AMRO uses a combination of portfolio (macro) hedges and specific asset or liability (micro) hedges to swap fixed interest rates for floating interest rate positions. The resulting interest rate positions, after application of interest rate hedges, are in line with the bank's strategy and risk appetite.

Interest rate risk metrics

ABN AMRO uses NII-at-Risk and duration as the main metrics for managing the interest rate risk.

NII-at-Risk
NII-at-Risk is the difference in net interest income (NII) between a base scenario and four alternative scenarios. It is defined as the worst outcome of the following scenarios: gradual increase or decrease in interest rates by 200bps and instantaneous increase or decrease of 100bps. All scenarios are measured over a time horizon of one year. NII-at-Risk covers all expected cash flows, including commercial margins and other spread components, from interest-rate-sensitive assets and liabilities and off-balance sheet items in the banking book. A floor of -100bps on market rates as well as a floor of 0bps on retail deposits is applied.

Duration
Duration of equity measures value changes resulting from minor parallel shifts of the yield curve. The computation of duration is based on a comparison between a base curve and the change in the economic value of a portfolio due to an interest rate increase/decrease. We also measure the value sensitivity to changes in individual maturities on the yield curve.

The following table shows the interest rate risk metrics at year-end 2018 and 2017.

	31 December 2018	31 December 2017
NII-at-risk (in %)	-1.3	-0.5
Duration of equity (in years)	1.4	2.2

The risk appetite for interest rate risk was lowered in the annual review of the risk appetite statement for 2018, while also anticipating a periodic methodology review and stricter regulatory testing (supervisory outlier test). In addition, the way non-maturing deposits are modelled has been updated to ensure accurate measurement and management of interest rate risk. Duration of equity decreased from 2.2 to 1.4 years. Although duration of equity increased due to business developments and the updated non-maturing deposits model, the effect was more than offset by active hedging of the portfolio.

The NII-at-Risk at year-end 2018 increased to -1.3% (approximately EUR -67 million), reflecting the impact on NII in the scenario of an instantaneous decrease in interest rates of 100bps. Prior to 2018, NII-at-Risk only included the scenarios of a gradual increase and decrease in interest rates of 200bps. The NII-at-Risk for 2017 (-0.5%) reflected a reduction of NII in the scenario of a gradual decrease in interest rates. For comparison, the impact of a gradual decrease in interest rates amounted to -0.4% at year-end 2018.

The highest NII occurs for the scenario where interest rates rise gradually by 200bps, in which NII would increase by 7.2% (approximately EUR 366 million).

Market risk in the trading book

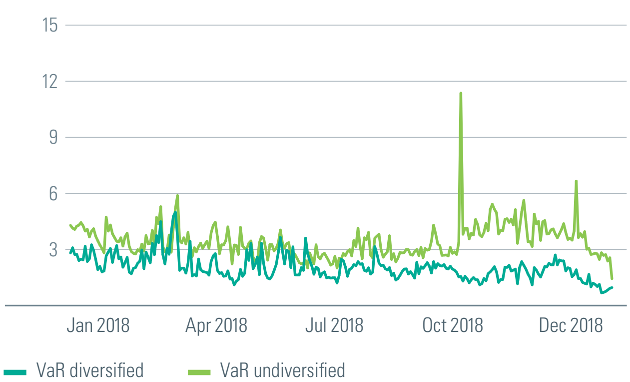
Market risk exposure EDTF 23

ABN AMRO applies a diversified portfolio VaR approach, which takes into account the fact that returns across risk factors may offset one another to a certain extent and consequently reduce risk. As long as these returns are not perfectly correlated to one another, VaR figures based on a diversified portfolio approach will be lower than if the figures are calculated using undiversified VaR. Undiversified VaR means that the VaR figures computed for the different risk factors are summed up without taking into account any offset across risk factors, and therefore negates the potential for risk reduction.

The following graph shows the total VaR ('VaR diversified') and aggregation of the stand-alone risk factors ('VaR undiversified').

VaR diversified and undiversified

VaR diversified and undiversified EDTF 23
(in millions)



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Internal aggregated diversified and undiversified VaR for all trading positions Audited EDTF 23

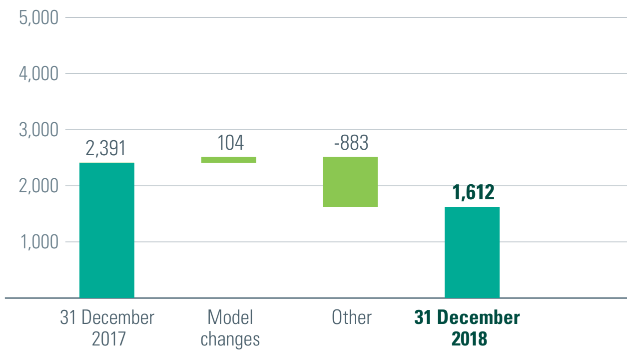
(in millions)	31 December 2018 Diversified	Undiversified	31 December 2017 Diversified	Undiversified
VaR at last trading day of period	0.9	1.4	2.7	3.7
Highest VaR	5.0	11.4	12.2	13.8
Lowest VaR	0.6	1.4	1.9	2.9
Average VaR	2.0	3.4	6.3	7.2

In 2018, the average diversified 1-day VaR at a 99% confidence level decreased by EUR 4.3 million to EUR 2.0 million compared with 2017. The highest diversified VaR in 2018 was EUR 5.0 million. The average undiversified VaR decreased from EUR 7.2 million to EUR 3.4 million in 2018. The overall decrease observed in 2018 was driven by an overall reduction of positions.

Regulatory capital market risk

RWA flow statement market risk EDTF 16

(in millions)



RWA for market risk decreased to EUR 1.6 billion (2017: EUR 2.4 billion) as a result of updated market risk models. In addition, RWA reduced due to a reduction of positions, shown in the category other.

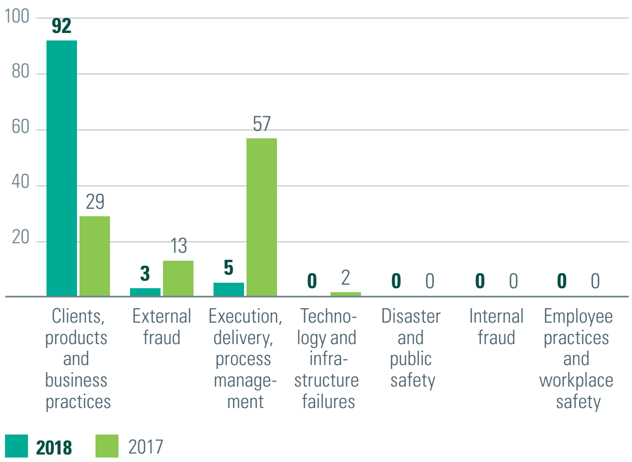
Operational risk

Operational risk by risk type

ABN AMRO has provisioned for litigation of historical claims against the bank. These claims are accounted for in the balance sheet under provisions (more information on provisions is included in note 29 to the Consolidated Annual Financial Statements). The figures below show the operational risk losses without provisions for litigation and include litigation payments charged to those provisions.

Operational losses by event category[1]

Distribution (% of net loss amount)



[1] Operational losses are presented excluding provisioned claims.

We made further payments for cases for which large provisions for litigation were made in previous years, such as SME derivatives-related issues. These payments are included in clients, products and business practices. External legal expenses relating to the handling of claims are also accounted for in this category. In the same category, a provision has been made for additional costs of accelerating CDD remediation programmes in Retail Banking (ICS) and Commercial Banking (See note 29 Provisions of the Consolidated Annual Financial Statements for further information). The majority of losses in the external fraud category were relatively small. Most of the small external fraud losses involved card-related fraud. Costs incurred for ATM attacks are also recorded as external fraud. The net loss for execution, delivery and process management consists of small processing errors.

Cybercrime

Cyberattacks are growing in severity and risk, organised by criminal groups and/or activists. We therefore continuously mitigate these risks to prevent security breaches from occurring. An increasing number of DDoS attacks were launched against the bank in the past year. These kinds of attacks do not reach our customer data, but occupy a bandwidth of resources with the aim of denying services to our clients. New technology for DDoS prevention was successfully implemented. With our transition to open banking (PSD2), customer data (e.g. transactions, balances) can be aggregated and transferred, stored and used in the infrastructure of a third party. This is associated with an increased risk profile for ABN AMRO's cyber security, as it increases the attack surface and therefore also the potential threats.

As we continued to strengthen our security controls in 2018, losses were low despite the persistent volume of attacks. However, operational losses resulting from external fraud through digital client channels were higher in 2018 than in 2017. Compared with 2012 (baseline: 100), the level of fraud losses in 2018 was 10 (2017: 8, 2016: 4, 2015: 7). The volume of phishing, malware and card theft attacks increased in 2018 compared with 2017. Besides a strong central CISO team, all bank employees need to know how to deal with information security risks. To this end, an awareness campaign to enhance knowledge on managing different kinds of attacks was launched at all levels within the Bank.

Business continuity

Business continuity management is part of the risk management framework and embedded in the organisation by first-line-of-defence roles within businesses and support functions, subsidiaries and countries and a second-line-of-defence function within the corporate BCM department. Business continuity mitigation controls, such as business continuity plans, crisis management, business relocation plans and IT disaster recovery plans are in place to prepare and deal with incidents and crises threatening the continuity of critical business processes. In the years to come, the improvement of business continuity will focus mainly on meeting the requirements of the ISO 22301 standard, implementation of scenario-based response, and automation of the crisis management support process.

During 2018, our crisis management organisation proved to be able to respond adequately on all occasions, restoring business processes according to requirements and minimising the total event loss amount. Evaluations and root cause analyses were executed to analyse and implement lessons learned.

Stability of digital services

Availability of the bank's internet banking services during prime time was 99.46% on average in 2018, compared to 99.68% in 2017. This figure was impacted by the DDoS attacks in Q1 2018. The last quarter of 2018, however, we measured availability of 99.86%.

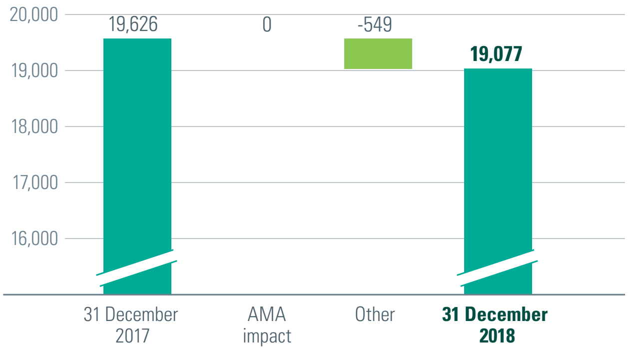
ATM attacks

ABN AMRO faced several ATM attacks in 2018. The Bank continuously undertakes serious measures to minimise these risks.

Regulatory capital Pillar 3

RWA flow statement operational risk[1] EDTF 16

(in millions)



[1] No RWA impact from CRD IV/CRR on operational risk.

Operational risk RWA decreased to EUR 19.1 billion in 2018 (2017: EUR 19.6 billion), mainly as a result of updated capital calculations. The figures still include several add-ons in RWA. These add-ons will remain part of RWA, pending the final decision of the ECB following their on-site investigation regarding the AMA model, which took place in 2018.

Liquidity risk

Liquidity risk management

The objective of ABN AMRO's liquidity management is to manage the bank's liquidity position and to comply at all times with internal, regulatory and other relevant liquidity requirements. Various indicators are used to measure the liquidity objectives.

Liquidity risk indicators

	31 December 2018	31 December 2017
Available liquidity buffer (in billions)	84.5	72.5
Survival period (moderate stress)	> 12 months	> 12 months
LCR	>100%	>100%
NSFR	>100%	>100%
Loan-to-Deposit ratio	111%	112%

The survival period reflects the period that the liquidity position is expected to remain positive in an internally developed (moderate) stress scenario. This scenario assumes wholesale funding markets deteriorate and retail, private and corporate clients withdraw part of their deposits. The survival period was consistently >12 months in 2018. The liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) both remained above 100% throughout 2018.

Liquidity buffer composition Audited EDTF 18

	31 December 2018			31 December 2017		
	Liquidity buffer	LCR eligible		Liquidity buffer	LCR eligible	
(in billions)		Level 1	Level 2		Level 1	Level 2
Cash & central bank deposits[1]	33.7	33.7		28.9	28.9	-0.0
Government bonds	35.9	36.0	0.7	31.0	30.2	1.4
Covered bonds	3.0	3.3		1.9	1.8	
Retained issuances	4.3			4.1		
Other	7.6	6.8	0.9	6.6	6.7	0.3
Total liquidity buffer	**84.5**	**79.8**	**1.6**	**72.5**	**67.7**	**1.7**
- of which in EUR	88.5%			91.6%		
- of which in other currencies	11.5%			8.4%		

[1] The mandatory cash reserve with the central bank has been deducted from the cash and central bank deposits in the liquidity buffer.

The liquidity buffer consists largely of cash and deposits at central banks, government bonds and retained issuances. Most of the securities in the liquidity buffer, with the exception of retained RMBS and retained covered bonds, qualify for the LCR. Furthermore, both the liquidity buffer and the LCR buffer face haircuts based on their market value. These haircuts are used to determine the liquidity value. Haircuts may differ between the two buffers as the internal assessment of the liquidity buffer may deviate from the LCR definition. The liquidity buffer increased by EUR 12.0 billion to EUR 84.5 billion at 31 December 2018 (31 December 2017: EUR 72.5 billion). This increase is linked to volatility of short-term business lines and active liquidity management. Government bonds increased by EUR 4.9 billion, mostly due to the further strengthening of the USD liquidity buffer.

Loan-to-Deposit ratio Audited EDTF 18

(in millions)		31 December 2018		31 December 2017
Loans and advances customers		**270,886**		274,906
Deductions				
Selected current accounts related to ABN AMRO Clearing Bank	5,586		7,371	
Fair value adjustment from hedge accounting	3,185		3,700	
Total deductions		-8,771		-11,071
Adjusted Loans and advances customers		**262,115**		**263,835**
Due to customers		**236,123**		236,699
Debt certificates issued through Groenbank BV				
Deductions				
Deposits from Dutch State Treasury Agency		-800		-800
Adjusted Due to customers		**235,323**		**235,899**
Loan-to-Deposit ratio (LtD)		**111%**		**112%**

Adjusted loans and advances to customers decreased to EUR 262.4 billion at 31 December 2018 (31 December 2017: EUR 263.8 billion). This was largely linked to a EUR 1.7 billion decline in the residential mortgage book. Adjusted due to customers decreased to EUR 235.3 billion at 31 December 2018 (31 December 2017: EUR 235.9 billion). The LtD ratio decreased to 111% at 31 December 2018 (31 December 2017: 112%).

Liquidity buffer currency diversification Audited EDTF 18

(in billions, liquidity value)	31 December 2018	31 December 2017
EUR	74.8	66.5
USD	8.3	3.8
JPY	0.5	1.4
GBP	0.2	0.3
Other	0.7	0.6
Total	**84.5**	**72.5**

The table above shows the breakdown per currency in the liquidity buffer. The currency composition reflects the composition of the balance sheet, which mainly consists of EUR and USD exposures. The USD liquidity buffer increased as a result of further refinement of the methodology used to manage liquidity risk in USD.

The monthly averages of the liquidity buffer are shown in the table below.

Liquidity buffer composition – monthly average Audited

(in billions, liquidity value)	2018	2017
Cash & Central Bank deposits[1]	29.1	28.9
Government bonds	32.4	31.6
Covered bonds	2.7	1.9
Retained issuances	2.8	5.9
Third party RMBS		0.6
Other	7.4	7.0
Total	**74.5**	**75.9**

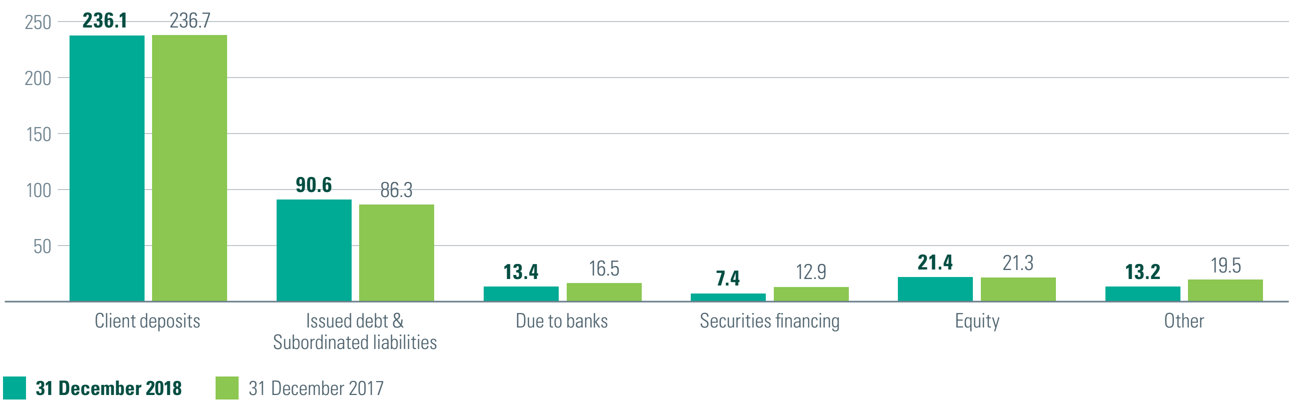
[1] The mandatory cash reserve with the central bank has been deducted from the cash and central bank deposits in the liquidity buffer.

Funding

Liability and equity breakdown Audited EDTF 21

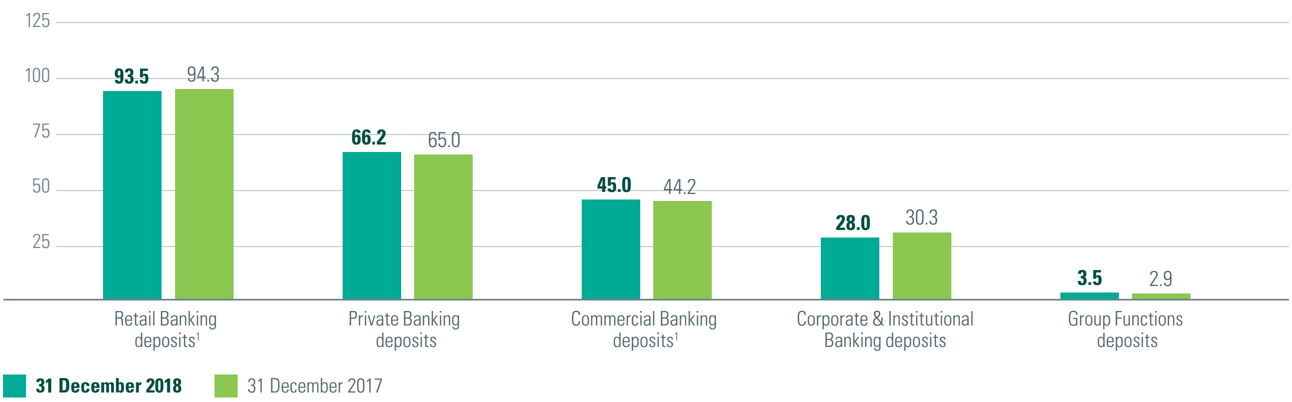
Client deposits are our main source of funding, complemented by a well-diversified book of wholesale funding. The graph below shows the liability and equity breakdown for the full balance sheet.

Liability and equity breakdown Audited EDTF 21
(in billions)



The graph below shows the breakdown of client deposits by segment.

Breakdown of client deposits Audited EDTF 21
(in billions)



[1] In 2018, SME Banking clients were transferred from Retail Banking to Commercial Banking. The figures as per year-end 2017 have been adjusted for this transfer.

Available funding instruments Audited EDTF 21

A key goal of the funding strategy is to diversify funding sources. Our funding programmes allow us to issue various instruments in different currencies and markets, enabling us to diversify our investor base. A description of capital and funding instruments issued by ABN AMRO is provided on our website, abnamro.com/ir. The table below shows a breakdown of total funding instruments.

Overview of funding types Audited EDTF 21

(in millions)	31 December 2018	31 December 2017
Euro Commercial Paper	2,026	2,408
London Certificates of Deposit	9,944	9,373
US Commercial Paper	3,830	4,115
Total Commercial Paper/Certificates of Deposit	**15,801**	**15,896**
Senior unsecured (medium-term notes)	31,848	28,751
- of which green bonds	1,771	1,003
Covered bonds	32,629	30,708
Securitisations	500	1,250
Saving certificates	6	6
Total issued debt	**80,784**	**76,612**
Subordinated liabilities	9,805	9,720
Total wholesale funding	**90,589**	**86,331**
Other long-term funding[1]	8,765	8,796
Total funding instruments[2]	**99,353**	**95,128**
- of which issued debt matures within one year	27,181	23,790

[1] Includes long-term repos (recorded in securities financing), TLTRO funding (recorded in due to banks) and funding with the Dutch State as counterparty (recorded in due to customers).
[2] Includes FX effects, fair value adjustments and interest movements.

Total wholesale funding (issued debt and subordinated liabilities) increased to EUR 90.6 billion at 31 December 2018 (31 December 2017: EUR 86.3 billion), mainly driven by an increase in covered bonds and senior unsecured funding. Maturing securitisations were replaced by covered bonds.

The following graph shows the development of the total funding instruments relative to the balance sheet totals at 31 December 2018 and 31 December 2017.

Funding vs balance sheet total Audited EDTF 21

(as % of total assets)

Long-term funding components Audited EDTF 21

The following graph shows an overview of long-term funding outstanding at 31 December 2018 and 31 December 2017. The information presented is based on notional values and therefore differs from the above information owing to discrepancies between notional value and issue price and fair value hedge accounting adjustments.

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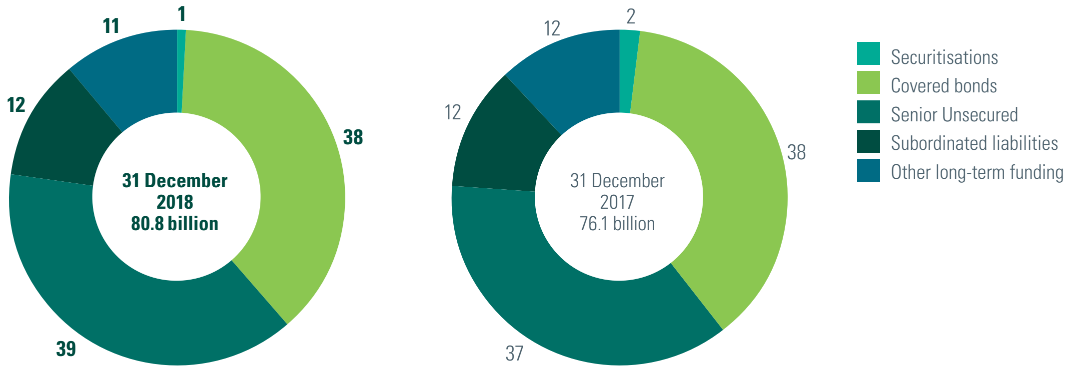
Long-term funding components Audited EDTF 21
(in %)

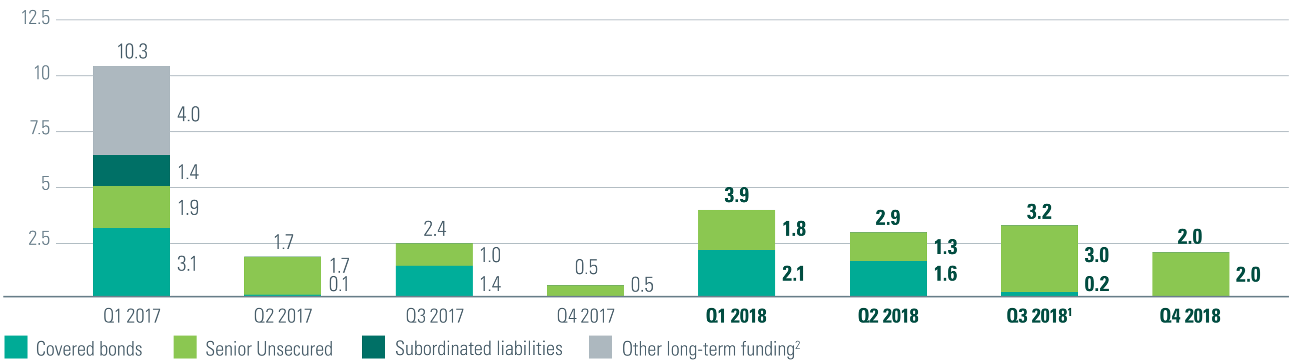


Funding issuance in 2018 Audited EDTF 21

Total long-term funding and raised in 2018 amounted to EUR 12.1 billion. This included EUR 3.9 billion of covered bonds and EUR 8.2 billion of senior unsecured funding.

Capital instruments are excluded in the long-term funding overview and included in the capital review section, which provides a complete overview of all outstanding capital instruments.

Long-term funding raised in 2017 and 2018 Audited EDTF 21
(notional amounts at issuance, in billions)

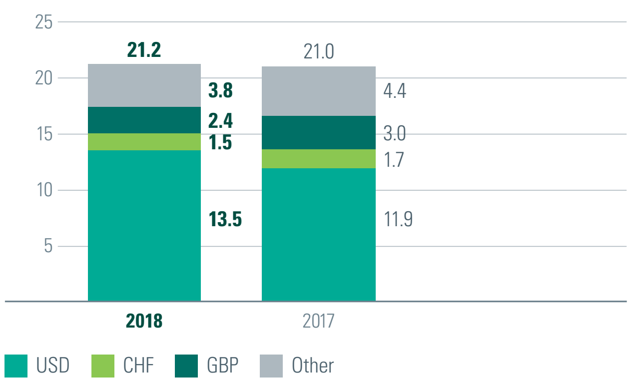


[1] The issuance of the EUR 1 billion of additional Tier 1 capital instrument is excluded from the graph above. An overview of the capital instruments is provided in the capital section.
[2] Other long term funding consists of the TLTRO II participation.

Long-term wholesale funding in non-euro currencies declined to 28.3% of total outstanding long-term wholesale funding, compared with 30% at 31 December 2017. In 2018, the bank raised 66.1% of its long-term funding and capital instruments in EUR and the remainder in USD and GBP.

Diversification of the outstanding long-term funding in non-euro currencies is shown in the following graph.

Non-euro currency diversification of total outstanding long-term funding Audited EDTF 21
(in billions)



Maturity calendar Audited EDTF 21

We enhance the maturity profile of our long-term funding predominantly by spreading redemptions of funding instruments over time. The average maturity of newly issued funding increased to 7.5 years, (up from 7.2 years in 2017). The average maturity of outstanding long-term funding increased to 5.2 years at year-end 2018 (up from 5.1 years at year-end 2017). This was mainly the result of the issuance of covered bonds with 15-20 year tenors. These long tenors reflect the composition of new mortgage origination, which has shifted to mortgages with longer fixed interest rate periods.

The maturity calendar assumes redemption on the earliest possible call date or the legal maturity date, which does not mean that the instruments will be called at the earliest possible call date. Early redemption of subordinated instruments is subject to approval by the regulator.
The Targeted Long-Term Refinancing Operations (TLTRO) II of EUR 8.0 billion is reported at the legal maturity of four years, although there is a voluntary repayment option after two years.

Maturity calender Audited EDTF 21

												31 December 2018
(notional amounts, in billions)	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	≥ 2029	Total
Senior unsecured	8.9	5.8	6.5	4.3	2.4	0.3	2.4	0.1	0.2	0.1	0.3	31.3
Covered bonds	1.8	2.5	2.4	2.7	1.9	1.8	0.5	1.6	0.6	0.7	14.0	30.7
Securitisations	0.5											0.5
Subordinated liabilities		1.6	1.5	1.5	2.4		1.3	0.9			0.3	9.5
Other long-term funding[1]		4.1	4.3					0.3	0.2			8.8
Total Long-term funding	**11.2**	**14.1**	**14.7**	**8.5**	**6.8**	**2.1**	**4.2**	**2.8**	**1.0**	**0.7**	**14.6**	**80.8**

Total Long-term funding

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	≥ 2028	Total
31 December 2017	7.8	11.1	13.4	9.3	8.3	5.4	2.1	3.4	2.8	1.0	11.4	76.1

[1] Other long-term funding includes TLTRO II and funding with the Dutch State as counterparty.

Capital

Capital structure

Regulatory capital structure

Audited EDTF 10

(in millions)	31 December 2018		31 December 2017	
Total equity (EU IFRS)		**21,360**		**21,330**
Cash flow hedge reserve		1,162		919
Dividend reserve		-752		-752
AT1 capital securities	-2,008		-2,007	
Profit attributable minus interest paid to holders of AT1 capital securities	20		21	
AT1 capital securities		-1,988		-1,987
Other regulatory adjustments		-436		-718
Common Equity Tier 1		**19,346**		**18,793**
AT1 capital securities		1,988		1,987
Other regulatory adjustments		-1,038		-1,162
Tier 1 capital		**20,296**		**19,618**
Subordinated liabilities Tier 2		7,521		7,674
Other regulatory adjustments		-4,431		-4,687
Total regulatory capital		**23,386**		**22,605**

Regulatory capital flow statement

Audited EDTF 11

(in millions)	2018	2017
Common Equity Tier 1 capital		
Balance at 1 January	**18,793**	**17,775**
Addition of net profit attributable to shareholders	2,286	2,774
Reserved dividend	-752	-752
Interim dividend paid	-611	-611
Other, including regulatory adjustments	-370	-392
Balance at 31 December	**19,346**	**18,793**
Additional Tier 1 capital		
Balance at 1 January	**825**	**829**
New issued Tier 1 eligible capital instruments		993
Other, including regulatory adjustments	125	-998
Balance at 31 December	**950**	**825**
Tier 1 capital	**20,296**	**19,618**
Tier 2 capital		
Balance at 1 January	**2,987**	**7,032**
New issued Tier 2 eligible capital instruments		1,398
Other, including regulatory adjustments	103	-5,443
Balance at 31 December	**3,090**	**2,987**
Total regulatory capital	**23,386**	**22,605**

RWA Audited

(in millions)	31 December 2018	31 December 2017
Credit risk	**84,701**	84,141
- of which standardised	5,037	4,441
- of which advanced	79,664	79,700
Operational risk	**19,077**	19,626
- of which standardised	708	1,246
- of which advanced	18,369	18,379
Market risk	**1,612**	2,391
- of which standardised	1	4
- of which advanced	1,611	2,387
Total RWA	**105,391**	**106,157**

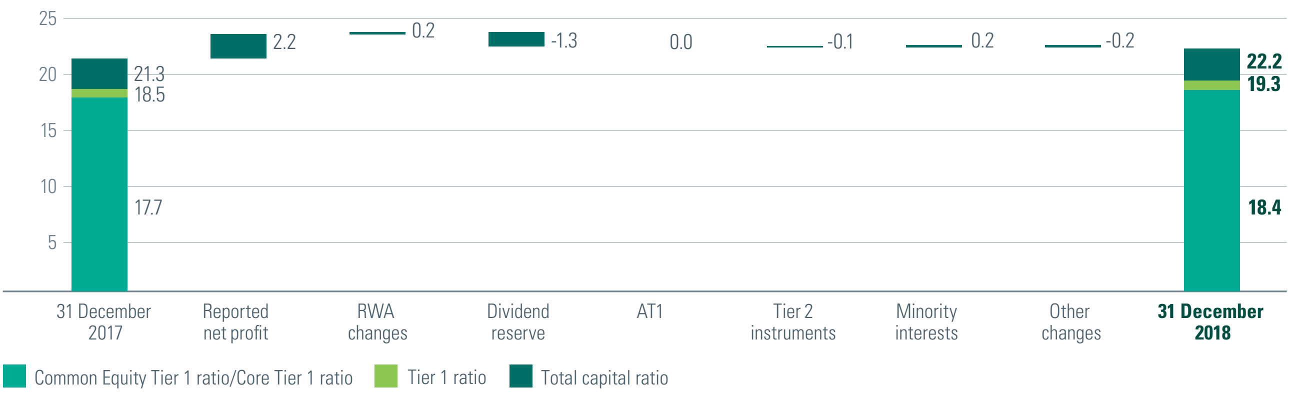
Main developments in capital position EDTF 11

At 31 December 2018, the Basel III phase-in Common Equity Tier 1 (CET1), Tier 1 and total capital ratios were 18.4%, 19.3% and 22.2% respectively. The capital position strengthened compared with 31 December 2017, driven by profit accumulation and a net RWA decrease. All capital ratios were well above the regulatory minimum requirements, and in line with the bank's risk appetite and strategic ambitions. At year-end 2018, the fully-loaded Basel IV CET1 ratio improved to around 13.5% (pre-mitigations). We are developing mitigating actions to maintain performance under Basel IV and to further reduce the Basel IV RWA impact. This is expected to mitigate approximately 1/5th of the Basel IV RWA inflation and will raise the estimated Basel IV CET1 ratio above 14% (post-mitigation). In addition to mitigating actions, we are also looking at pricing, new business models and reducing capital intensive activities. We aim to meet the fully-loaded Basel IV CET1 requirement early in the phase-in period, i.e. >13.5%.

The following chart shows the primary drivers of the Basel III capital ratios in 2018.

Developments impacting capital ratios in 2018 EDTF 11

(in %)



Our CET1 capital target range under Basel III was 17.5-18.5% for 2018 and has been reconfirmed for 2019. This consists of a prudent Basel IV implementation buffer of 4-5% CET1 on top of our Supervisory Review and Evaluation Process (SREP) capital requirement, Pillar 2 guidance and the management buffer (totalling 13.5%). ABN AMRO reviews the buffer and the capital target annually to reflect possible capital developments such as TRIM and Basel IV. The target for return on average equity (10-13%) remains unchanged under Basel IV.

At year-end 2018, RWAs included the effects of TRIM and model reviews including Clearing. We expect regulatory headwinds from capital regulations, the industry-wide Non-Performing Exposure (NPE) guidance and model reviews (including TRIM), partly offset by progress on the CIB refocus. In particular, we expect further increase in RWAs in respect of Clearing during 2019 reflecting results of model review. TRIM is the regulatory assessment and harmonisation of internal RWA models whereas NPE aims to ensure the harmonisation of impairment provisioning across EU banks. TRIM is not expected to materially impact Basel IV fully-loaded RWAs, whereas NPE could impact both Basel III and Basel IV CET1 ratios and the leverage ratio.

Developments impacting capital ratios in 2018 EDTF 11

Common Equity Tier 1 capital

CET1 capital increased in 2018 primarily as a result of profit accumulation, while net profit attributable to shareholders amounted to EUR 2,286 million. Net profit after dividend allocation is included in CET1 capital, in accordance with regulations and the dividend policy.

Based on the final SREP, the full phase-in of the systematic risk buffer (from 2.25% in 2018 to 3.0% in 2019) and the capital conservation buffer (from 1.88% in 2018 to 2.5% in 2019), the SREP requirement increased from 10.45% in 2018 to 11.82% in 2019, including a counter-cyclical buffer of 0.07%. The maximum distributable amount (MDA) trigger level for ABN AMRO Bank N.V. has become 11.82% of CET1 capital, to be increased by any additional tier 1 (AT1) or tier 2 capital shortfall. Due to the minority interest rules interpretation of the EBA, there was an AT1 shortfall of 0.6% at year-end 2018, as ABN AMRO Group N.V. cannot incorporate all its available AT1 capital. However, the CET1 ratio is comfortably above the MDA trigger level.

The revised minority interest rule typically impacts on bank holding companies with a single subsidiary and a high level of total capital, as is the case for ABN AMRO. It implies that the portion of outstanding AT1 and T2 instruments issued by ABN AMRO Bank N.V. (the resolution entity) in excess of the minimum own funds requirement (excluding the SRB) can no longer fully contribute to the consolidated capital ratios of ABN AMRO Group.

On our Investor Day in November 2018, ABN AMRO announced it would explore the simplification of its corporate structure by merging ABN AMRO Group with ABN AMRO Bank. The Bank is making further preparations to proceed with this legal merger, which will require regulatory approval and the consent of several stakeholders. A legal merger will result in simplification of our organisation and financial benefits (lower costs and higher regulatory capital ratios). The simplification of the corporate structure removes the AT1 shortfall and is beneficial to the Tier 1, total capital and leverage ratio at the Group consolidated level, as the EBA interpretation for minority interest rules no longer applies.

Additional Tier 1

A total of EUR 2.0 billion of AT1 instruments is currently outstanding. The AT1 instruments have triggers at the Group level (7% CET1), Bank sub-consolidated level (5.125% CET1) and Bank solo level (5.125% CET1). If the CET1 ratio breaks through the trigger level, the AT1 is temporarily written down. ABN AMRO is comfortably above the trigger levels, with the Group level CET1 ratio at 18.4%, the Bank sub-consolidated CET1 ratio at 18.4% and the Bank solo CET1 ratio at 17.2%. Available distributable items (ADI) at 31 December 2018 totalled EUR 18.5 billion.

Tier 2 capital

The phase-in total capital ratio (22.2%) increased by 0.9 percentage points compared to 31 December 2017 due to profit accumulation and an RWA decrease, partly offset by the effect of the minority interest rule.

Risk-weighted assets

Total RWA decreased by EUR 0.8 billion to EUR 105.4 billion at 31 December 2018 (31 December 2017: EUR 106.2 billion). This decrease was primarily driven by market risk and operational risk, partly offset by credit risk. More information on RWA is provided in the Risk section of this report.

Further information on share capital, dividend and capital instruments

Share capital

The share capital remained unchanged in 2018. At 31 December 2017, the authorised share capital amounted to EUR 4,700 million, distributed as 4,500 million class A ordinary shares and 200 million class B ordinary shares. Class A and B ordinary shares have a nominal value of EUR 1.00 each.

At 31 December 2018, issued and paid-up capital amounted to EUR 940 million and consisted of 940 million class A ordinary shares. Further information is provided in note 32 to the Annual Financial Statements.

Dividend

From 2018 onwards, the dividend payout has been set at 50% of net sustainable profit attributable to owners of the parent company, excluding exceptional items that significantly distort profitability. Additional distributions, which can either be special dividends or share buy-backs (subject to regulatory approval), will be considered if capital is within or above the target range and will be subject to other circumstances, including regulatory and commercial considerations. The combined distribution will be at least 50% of sustainable profit.

ABN AMRO proposes a final cash dividend of EUR 752 million, representing EUR 0.80 per share and reflecting an additional distribution of EUR 260 million on top of the 50% payout ratio. Together with the interim cash dividend of EUR 611 million, this will bring the total dividend for 2018 to EUR 1,363 million or EUR 1.45 per share. This brings the payout ratio to 62% of sustainable profit after deduction of AT1 coupon payments and minority interests and reflects a 12% additional distribution. In 2017, the payout ratio was 50% with a EUR 1.45 dividend per share, or EUR 1.363 million, of which EUR 611 million (EUR 0.65 per share) was interim dividend and EUR 752 million (EUR 0.80 per share) was final dividend.

We expect continuing capital generation and are well placed to consider additional distributions in excess of the targeted 50% payout. However, we will continue to take a prudent approach to additional distributions reflecting commercial and regulatory developments. In 2019, our dividend provision in CET1 will be 62% of net profit attributable to shareholders, in line with applicable regulation setting out that this should be at least equal to the 2018 payout ratio.

Capital instruments

Capital instruments Audited

(in millions)	ISIN/CUSIP	Maturity date	First possible call date	31 December 2018 Nominal amount	31 December 2018 Carrying amount	31 December 2017 Nominal amount	31 December 2017 Carrying amount
Tier 1[1]							
EUR 1,000 million 5.75% per annum	XS1278718686	Perpetual	September 2020	1,000	1,005	1,000	1,004
EUR 1,000 million 4,75% per annum	XS1693822634	Perpetual	September 2027	1,000	1,004	1,000	1,003
Total Tier 1 capital instruments				**2,000**	**2,008**	**2,000**	**2,007**
Tier 2							
EUR 1,228 million 6.375% per annum	XS0619548216	April 2021		1,228	1,386	1,228	1,426
USD 595 million 6.250% per annum	XS0619547838	April 2022		519	541	495	528
USD 113 million 7.75% per annum	US00080QAD79/ USN0028HAP03	May 2023		99	98	94	95
EUR 1,000 million 7.125% per annum	XS0802995166	July 2022		1,000	1,109	1,000	1,119
EUR 1,500 million 2.875% per annum	XS1253955469	June 2025	June 2020	1,500	1,538	1,500	1,542
USD 1,500 million 4.75% per annum	US00080QAF28/ XS1264600310	July 2025	July 2020	1,309	1,311	1,249	1,275
EUR 1,000 million 2,875% per annum	XS1346254573	January 2028	January 2023	1,000	1,040	1,000	1,029
SGD 450 million 4.7% per annum	XS1341466487	April 2026	April 2021	288	292	280	286
USD 300 million 5.6% per annum	XS1385037558	April 2031		262	244	250	241
USD 1,000 million 4.8% per annum	US0008DAL47/ XS1392917784	April 2026		872	818	833	792
USD 1,500 million 4.4% per annum	XS1586330604	March 2028	March 2023	1,309	1,299	1,249	1,255
EUR various smaller instruments		2019-2031		129	131	130	132
Total Tier 2 capital instruments				**9,514**	**9,805**	**9,307**	**9,720**
- of which eligible for regulatory capital:							
Basel III, Tier 1				2,000		2,000	
Basel III, Tier 2				7,521		7,674	

[1] AT1 capital securities. For both AT1 instruments, the CET1 Trigger levels are 7.0% for ABN AMRO Group level, and 5.125% for ABN AMRO Bank sub-consolidated level and ABN AMRO Bank solo level. The amount of available distributable items for ABN AMRO Bank N.V per 31 December 2018 totals EUR 18.5 billion.

Movements in subordinated liabilities Audited

(in millions)	2018 Carrying amount	2017 Carrying amount
Balance as at 1 January	**9,720**	**11,171**
Cash flows		
Issuance	19	1,407
Redemption	-25	-1,988
Non cash changes		
Effect obtaining/losing control subsidiaries or other businesses		
Foreign exchange differences	177	-752
Other	-86	-120
Balance as at 31 December	**9,805**	**9,720**

Minimum capital requirements Audited EDTF 9 EDTF 14

The Pillar 1 capital requirement is the absolute minimum amount of capital required to cover the three major risk types that a bank faces: credit risk, operational risk and market risk, as determined in the CRD IV Pillar 1 framework. The following table provides an overview of RWA and minimum capital requirements per risk type, category of exposure and regulatory approach.

Minimum capital requirements Audited EDTF 9 EDTF 14

	31 December 2018		31 December 2017	
(in millions)	Capital requirement	RWA	Capital requirement	RWA
Credit risk IRB				
Central governments and central banks	56	694	93	1,166
Institutions[1]	160	2,000	211	2,642
Corporates	3,495	43,691	3,761	47,012
Retail	1,557	19,464	1,753	21,909
- of which secured by immovable property/retail mortgages	1,208	15,097	1,358	16,979
- of which qualifying revolving exposures	152	1,898	175	2,188
- of which other retail	198	2,470	219	2,742
Equities not held for trading	315	3,943	363	4,534
Securitisation positions	2	31		
Credit valuation adjustment	40	497	59	742
Other[2]	748	9,344	136	1,695
Total credit risk IRB	**6,373**	**79,664**	**6,376**	**79,700**
Credit risk SA				
Central governments and central banks				
Institutions[1]	13	167	15	189
Corporates	217	2,719	190	2,377
Retail	84	1,055	69	857
Secured by mortgages on immovable property	18	229	21	257
Exposures in default	5	58	4	50
Other[2]	65	810	57	710
Total credit risk SA	**403**	**5,037**	**355**	**4,441**
Other risks				
Market risk	129	1,612	191	2,391
- of which Standardised Approach		1		4
- of which Internal Model Approach	129	1,611	191	2,387
Operational risk	1,526	19,077	1,570	19,626
- of which Standardised Approach[3]	57	708	100	1,246
- of which Advanced Measurement Approach	1,470	18,369	1,470	18,379
Total other risks	**1,655**	**20,689**	**1,761**	**22,016**
Total	**8,431**	**105,391**	**8,493**	**106,157**

1 Institutions include exposures to banks and investment companies, regional and local governments and pension funds.
2 Other includes non-credit obligations.
3 Inclusive Basic Indicator Approach.

Main regulatory developments

CRD IV and CRR came into full effect on 1 January 2019. Further to this, the European Commission issued draft texts in November 2016 to amend CRD IV/CRR/BRRD, which include the changes to the leverage ratio and MREL mentioned hereafter. The EU legislative bodies are currently discussing finalisation of these proposals.

The Basel Committee has set the implementation date at 1 January 2022, from which date the output floor will be gradually phased-in over a period of 5 years. Basel IV will significantly impact ABN AMRO's portfolio. Based on year-end 2018 figures, the assessment indicates a potential increase of RWA of around 36% when applying a 72.5% floor. The calculations could still contain uncertainties, as a number of assumptions are made on how Basel IV standards will be applied. The potential impact may differ, depending on the implementation into European law and regulations. The assessment is based on a static balance sheet and does not take into account management actions. We aim to meet the fully-loaded Basel IV CET1 requirement early in the phase-in period, i.e. 13.5%.

Impact of CRD IV/CRR fully-loaded rules on capital ratios

	Phase-in	Fully-loaded
31 December 2018		
Common Equity Tier 1 capital	19,346	19,345
Common Equity Tier 1 ratio	18.4%	18.4%
Tier 1 capital	20,296	20,356
Tier 1 ratio	19.3%	19.3%
Total regulatory capital	23,386	23,285
Total capital ratio	22.2%	22.1%
RWA	105,391	105,391
Leverage ratio (CDR)	4.2%	4.2%

The CRR fully-loaded CET1 ratio at 31 December 2018 was 18.4%, which was equal to the CRR phase-in CET1 ratio. Under the CRD IV/CRR fully-loaded rules, RWA are equivalent to those under the phase-in rules. The amount of CET1 capital under the fully-loaded rules is approximately equal to the amount under the phase-in rules, since the fully-loaded impact on CET1 capital deductions is largely neutral. The CRR fully-loaded total capital ratio at 31 December 2018 was 22.1%, which was slightly lower than the CRR phase-in total capital ratio of 22.2%. In 2018, the fully-loaded ratio was lower than the phase-in ratio, as the revised EBA Q&A rule on minority interest had a more positive impact on the phase-in ratio than on the ratio under the fully-loaded rules.

Leverage ratio

	31 December 2018		31 December 2017	
(in millions)	Phase-in	Fully-loaded	Phase-in	Fully-loaded
Tier 1 capital	**20,296**	**20,356**	**19,618**	**19,780**
Exposure measure (under CDR)				
On-balance sheet exposures	381,295	381,295	393,171	393,171
Off-balance sheet exposures	40,092	40,092	31,915	31,915
On-balance sheet netting	9,875	9,875	12,427	12,427
Derivative exposures	56,786	56,786	59,864	59,864
Securities financing exposures	1,580	1,580	1,261	1,261
Other regulatory measures	-8,198	-8,198	-11,961	-11,971
Exposure measure	**481,428**	**481,428**	**486,677**	**486,666**
Leverage ratio (CDR)	**4.2%**	**4.2%**	**4.0%**	**4.1%**
Impact CRR 2 (incl. SA-CCR)	-53,496	-53,496	-56,116	-56,116
Exposure measure (incl. CRR 2)	**427,933**	**427,933**	**430,561**	**430,550**
Leverage ratio (incl. CRR 2)	**4.7%**	**4.8%**	**4.6%**	**4.6%**

The CRR introduced a non-risk-based leverage ratio that is expected to become a binding measure with effect from 2021. ABN AMRO aims for a leverage ratio of at least 4%. At 31 December 2018, the fully-loaded leverage ratio of ABN AMRO Group increased slightly to 4.2%, (31 December 2017: 4.1%) reflecting a decrease of the exposure measure, resulting mainly from balance sheet management and seasonal effects.

ABN AMRO expects a change in the methodology for calculating the exposure measure. The Basel Committee on Banking Supervision and the Council of Finance Ministers of the European Union (ECOFIN) both reached agreement on the use of the SA-CCR calculation methodology for clearing guarantees, providing further confidence that this will be applicable via CRR2 in 2021 at the earliest. ABN AMRO estimates that the cumulative CRR2 adjustments including SA-CCR would decrease the exposure measure by approximately EUR 53.5 billion, which would improve the fully-loaded leverage ratio by 0.6% percentage points to 4.8%. ABN AMRO continues to monitor and report the leverage ratio as being at least 4%, based on the current CEM methodology.

The potential merger between ABN AMRO Bank and Group will improve the leverage ratio with 0.2 percentage points, as the regulation for minority interest will no longer apply.

The exposure measure is reported to the Asset and Liability Committee (ALCO) at business line level and monitored closely in order to ensure the leverage ratio remains within the bank's risk appetite. The leverage ratio outlook takes into account business specific plans as well as (macro) economic conditions, regulatory developments and capital related uncertainties. In the event of risk appetite breaches for the leverage ratio, the bank-wide escalation paths for capital and funding are followed.

MREL

(in millions)	31 December 2018	31 December 2017
Regulatory capital	23,386	22,605
Reversal minority adjustment AT1 and T2	5,388	5,625
Other MREL eligible liabilities[1]	1,974	1,619
Total MREL eligible liabilities	**30,748**	**29,849**
Total risk-weighted assets	105,391	106,157
MREL[2]	29.2%	28.1%

[1] Other MREL eligible liabilities consists of subordinated liabilities that are not included in regulatory capital.
[2] MREL is calculated as total regulatory capital plus other MREL eligible subordinated liabilities divided by total risk-weighted assets.

The minimum requirement for own funds and eligible liabilities (MREL) aims to ensure that banks in the European Union have sufficient capacity to absorb losses in the event of a potential bank failure. The Single Resolution Board (SRB) has set requirements for ABN AMRO Bank at the consolidated level in line with a Single Point of Entry resolution strategy.

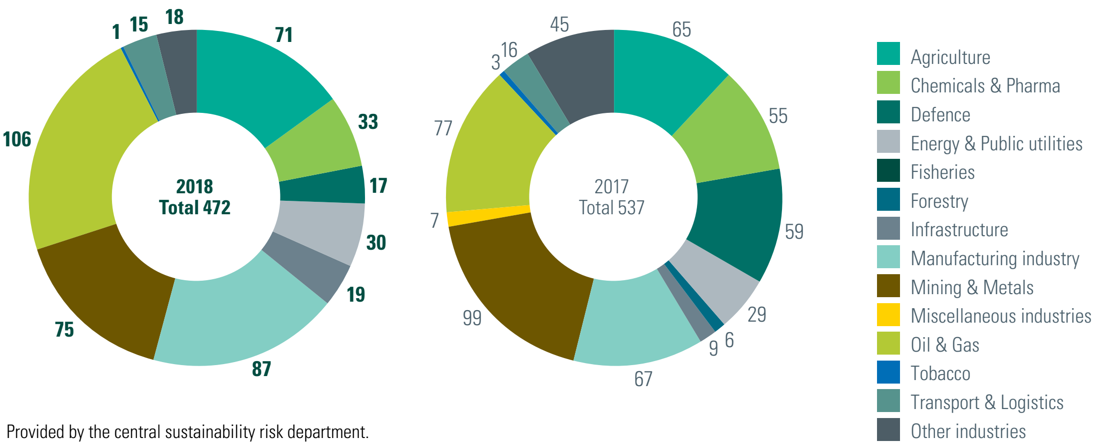
The binding MREL requirement is set at 8.91% (including senior debt) of total liabilities and own funds (TLOF), equalling EUR 32.9 billion and 31.55% of RWA for 2018. Taking into account MREL eligible senior debt, ABN AMRO currently exceeds this requirement. At the end of 2018, a bill was passed in the Dutch Parliament and Senate which introduces a new category of MREL eligible debt to the creditor hierarchy, called senior non-preferred. ABN AMRO has an MREL ambition of 29.3% of RWA for year-end 2019, to be met with own funds subordinated instruments and senior non-preferred instruments.

Sustainability risk

Advice on increased sustainability risk

Certain industries face more sustainability risks than others and the nature of the risks they face can also vary. Our Sustainable Banking department provides advice on clients operating in industries with a higher sustainability risk. The following graphs present a breakdown of advice given for each industry as well as the type of advice and conclusions.

Global advice[1]

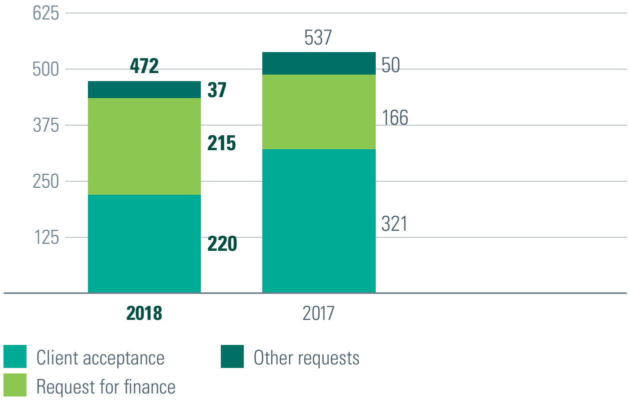


[1] Provided by the central sustainability risk department.

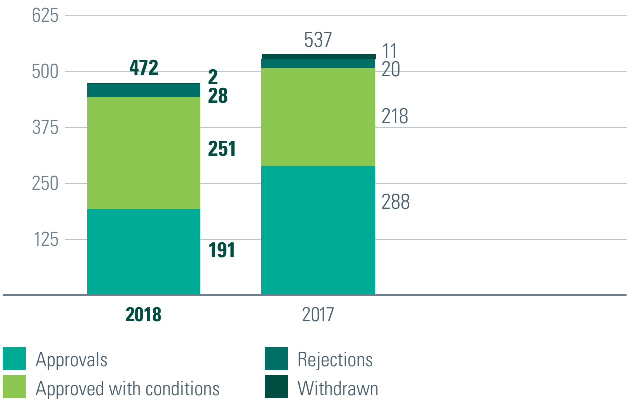
The number of cases in which the Sustainability Banking department provided advice decreased by 65 to 472 in 2018. This decrease was caused by the transfer of responsibility for non-complex mostly client acceptance files to other risk departments. The number of times the Sustainable Banking department gave advice related to our lending activities increased by 49 to 215 in 2018. Lending activities require a more extensive sustainability assessment than client acceptance. For lending activities, specific policy requirements apply to seven sectors. Furthermore, each sector is divided into multiple sub-sectors and activities at different places in the supply chain.

The types of advice and conclusions are presented below. The 472 cases for which advice was given in 2018 included 28 rejected cases and 191 approved cases. In 251 cases, approval was subject to certain conditions, which is a significant increase on 2017. The conditions range from requesting additional information to engagement aimed at realising substantial improvements in sustainability performance.

Type of advice



Conclusion of advice



Effectiveness of sustainability risk management

We believe that we are in control of our sustainability risk. Approximately 6% of the advice was negative in 2018. First-line relationship managers are aware of the bank's sustainability risk policies and predominantly submit credit applications that comply with these policies. In addition, we further developed our framework and performed sustainability assessments for more than 3,202 transactions in 2018, using the Global Sustainability Risk Index (GSRI) tool. We assessed 2,273 of these transactions, mainly regarding CIB clients, for compliance with our ESE standards, as they involved a higher level of sustainability risk. ESG/ESE criteria are used in sustainability assessments to assess clients' ethical, social, environmental and/or governance risks, their conduct or the entities they invest in.

Additional risk, funding & capital disclosures

The following section includes additional disclosures on risk, funding and capital. This mandatory information is provided in accordance with EU IFRS and EDTF. This section is supplemental to the core analysis provided in the Risk, funding & capital review section and provides additional or more detailed information.

Credit quality by exposure class under the Internal Ratings-Based (IRB) approach EDTF 15

The following tables provide an overview of EAD, REA and LGD buckets by exposure class and grade category.

IRB approach: credit quality by exposure class EDTF 15

		31 December 2018					
(in millions)		Total EAD	RWA	RWA/EAD	LGD 0-20% EAD (%)	LGD 20-50% EAD (%)	LGD >50% EAD (%)
Exposure class	**Grade category**						
Central governments and central banks	Investment grade	71,652	532	1%	92%	6%	2%
	Sub-investment grade	175	162	92%	5%	95%	
	Impaired						
	Total	**71,827**	**694**	**1%**	**91%**	**6%**	**2%**
Institutions[1]	Investment grade	13,232	1,678	13%	39%	57%	3%
	Sub-investment grade	979	323	33%	18%	81%	1%
	Impaired						
	Total	**14,211**	**2,000**	**14%**	**38%**	**59%**	**3%**
Corporates	Investment grade	51,415	13,318	26%	37%	59%	4%
	Sub-investment grade	66,146	25,711	39%	72%	28%	0%
	Impaired	4,580	4,662	102%	35%	45%	19%
	Total	**122,141**	**43,691**	**36%**	**56%**	**42%**	**3%**
Retail	Investment grade	150,581	8,052	5%	95%	3%	2%
	Sub-investment grade	23,211	9,966	43%	72%	15%	12%
	Impaired	1,241	1,446	117%	62%	22%	16%
	Total	**175,033**	**19,464**	**11%**	**92%**	**5%**	**3%**
Securitisation positions	Investment grade	415	31	7%	100%		
	Sub-investment grade						
	Impaired						
	Total	**415**	**31**	**7%**	**100%**	**0%**	**0%**
Credit valuation adjustment	Investment grade						
	Sub-investment grade		497				
	Impaired						
	Total		**497**				
Total	Investment grade	287,295	23,611	8%	81%	16%	2%
	Sub-investment grade	90,511	36,658	41%	71%	25%	4%
	Impaired	5,821	6,108	105%	41%	40%	19%
	Total[2]	**383,627**	**66,377**	**17%**	**78%**	**19%**	**3%**

1 Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.
2 Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

IRB approach: credit quality by exposure class EDTF 15

(in millions)		Total EAD	REA	RWA/EAD	LGD 0-20% EAD (%)	LGD 20-50% EAD (%)	LGD >50% EAD (%)
		31 December 2017					
Exposure class	**Grade category**						
Central governments and central banks	Investment grade	64,747	778	1%	90%	7%	3%
	Sub-investment grade	309	388	125%		96%	4%
	Impaired						
	Total	**65,057**	**1,166**	**2%**	**89%**	**7%**	**3%**
Institutions[1]	Investment grade	13,903	2,253	16%	36%	64%	0%
	Sub-investment grade	1,037	380	37%	48%	52%	0%
	Impaired	2	8	494%		100%	
	Total	**14,942**	**2,642**	**18%**	**36%**	**63%**	**0%**
Corporates	Investment grade	45,054	13,745	31%	47%	50%	4%
	Sub-investment grade	65,932	27,435	42%	74%	25%	1%
	Impaired	4,959	5,831	118%	47%	30%	23%
	Total	**115,944**	**47,012**	**41%**	**62%**	**35%**	**3%**
Retail	Investment grade	154,666	10,087	7%	91%	8%	1%
	Sub-investment grade	21,838	9,732	45%	51%	35%	14%
	Impaired	1,501	2,089	139%	40%	41%	19%
	Total	**178,005**	**21,909**	**12%**	**85%**	**12%**	**3%**
Securitisation positions	Investment grade	4			100%		
	Sub-investment grade						
	Impaired						
	Total	**4**			**100%**	**0%**	**0%**
Credit valuation adjustment	Investment grade						
	Sub-investment grade		742				
	Impaired						
	Total		**742**				
Total	Investment grade	278,374	26,864	10%	81%	17%	2%
	Sub-investment grade	89,117	38,678	43%	68%	28%	4%
	Impaired	6,461	7,929	123%	45%	32%	22%
	Total[2]	**373,953**	**73,471**	**20%**	**77%**	**20%**	**3%**

[1] Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.
[2] Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

Additional information on forborne, past due and credit impaired loans

Forbearance credit quality Audited

(in millions)	Total forborne assets	Forborne assets not past due and not stage 3	Forborne assets past due but not stage 3	Impaired forborne assets	Specific allowance	Collective allowance	Total allowance
	31 December 2018						
Loans and advances banks							
Loans and advances customers							
Residential mortgages	721	268	108	344	8	28	35
Consumer loans	396	222	23	151	37	37	75
Corporate loans	4,466	1,718	75	2,673	678	159	837
Other loans and advances customers	237	73		165	15		15
Total Loans and advances customers[1]	**5,820**	**2,282**	**206**	**3,332**	**737**	**224**	**961**
Other assets							
Total	**5,821**	**2,282**	**206**	**3,333**	**737**	**224**	**961**

[1] Excluding loans at fair value through P&L.

Forbearance credit quality Audited

(in millions)	Total forborne assets	Forborne assets not past due and not impaired	Forborne assets past due but not impaired	Impaired forborne assets	Specific allowance	Collective allowance	Total allowance
							31 December 2017
Loans and advances banks							
Loans and advances customers							
Residential mortgages	1,162	584	143	434		37	37
Consumer loans	360	190	34	135	59	32	92
Corporate loans	5,656	2,229	351	3,075	758	50	808
Other loans and advances customers	212	135	8	69	5		5
Total Loans and advances customers[1]	**7,390**	**3,140**	**537**	**3,713**	**822**	**120**	**942**
Other assets							
Total	**7,390**	**3,140**	**537**	**3,713**	**822**	**120**	**942**

[1] Excluding loans at fair value through P&L.

Forborne assets by geography Audited

(in millions)	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
						31 December 2018
Loans and advances banks						
Loans and advances customers						
Residential mortgages	703	17	1			721
Consumer loans	354	41				396
Corporate loans	2,885	660	266	147	508	4,466
Other loans and advances customers	173	65				237
Total Loans and advances customers[1]	**4,115**	**783**	**266**	**148**	**509**	**5,820**
Other assets						
Total	**4,115**	**783**	**266**	**148**	**509**	**5,821**

[1] Excluding loans at fair value through P&L.

Forborne assets by geography Audited

(in millions)	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
						31 December 2017
Loans and advances banks						
Loans and advances customers						
Residential mortgages[1]	1,124	28	1		10	1,162
Consumer loans[1]	318	42		1		360
Corporate loans[1]	3,714	663	346	203	730	5,656
Other loans and advances customers	151	61				212
Total Loans and advances customers[1,2]	**5,306**	**794**	**347**	**203**	**740**	**7,390**
Other assets						
Total[1]	**5,306**	**794**	**347**	**203**	**740**	**7,390**

[1] Excluding loans at fair value through P&L.

Forborne assets by business segment Audited

(in millions)	31 December 2018	31 December 2017
Retail Banking	989	1,513
Commercial Banking	2,807	3,449
Private Banking	209	297
Corporate & Institutional Banking	1,816	2,132
Total	**5,821**	**7,390**

Maturity overview of assets and liabilities Audited EDTF 20

The following table shows financial assets and liabilities arranged by the earliest possible contractual maturity.

Contractual maturity of assets and liabilities Audited EDTF 20

	31 December 2018								
(in millions)	Up to one month	Between one and three months	Between three and six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Maturity not applicable	Total
Assets									
Cash and balances at central banks	34,371								34,371
Financial assets held for trading	495								495
Derivatives	379	206	236	241	773	1,390	2,966		6,191
Financial investments	486	1,560	845	1,815	4,182	14,306	17,992	998	42,184
Securities financing	9,177	2,985	143	70					12,375
Loans and advances banks	4,801	560	360	266	308	703	1,126		8,124
Loans and advances customers	19,022	3,189	3,017	7,060	29,420	37,426	171,751		270,886
Other assets	2,374	440	154	261	311	401	966	1,761	6,668
Total assets	**71,105**	**8,940**	**4,755**	**9,715**	**34,994**	**54,225**	**194,802**	**2,758**	**381,295**
Liabilities									
Financial liabilities held for trading	253								253
Derivatives	379	459	231	290	664	1,535	3,600		7,159
Securities financing	6,198	1,202	4	2					7,407
Due to banks	2,726	879	387	344	4,240	4,508	353		13,437
Due to customers	218,333	7,557	1,054	1,113	544	2,197	5,325		236,123
Issued debt	7,292	11,466	3,747	4,676	8,571	21,352	23,680		80,784
- of which senior secured	115		10	1,761	2,699	7,803	20,242		32,629
- of which senior unsecured	4,854	2,282	317	1,536	5,872	13,549	3,438		31,848
- of which securitisation				500					500
- of which other	2,324	9,184	3,420	880					15,807
Subordinated liabilities			7		1,644	5,773	2,380		9,805
Other liabilities	2,296	296	23	20	66	7	240	2,020	4,968
Total liabilities	**237,478**	**21,859**	**5,453**	**6,446**	**15,730**	**35,371**	**35,578**	**2,020**	**359,935**
Total equity								**21,360**	**21,360**
Total liabilities and equity	**237,478**	**21,859**	**5,453**	**6,446**	**15,730**	**35,371**	**35,578**	**23,380**	**381,295**
Off-balance sheet liabilities									
Committed credit facilities	61,166								61,166
Guarantees	2,473								2,473
Irrevocable facilities	5,946								5,946
Recourse risks arising from discounted bills	6,822								6,822
Total off-balance sheet liabilities	**76,408**								**76,408**

Contractual maturity of assets and liabilities Audited EDTF 20

(in millions)	Up to one month	Between one and three months	Between three and six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	Maturity not applicable	Total
									31 December 2017
Assets									
Cash and balances at central banks	29,783								29,783
Financial assets held for trading	1,600								1,600
Derivatives	1,022	543	448	347	498	1,952	5,014		9,825
Financial investments	706	1,662	1,708	2,027	3,193	10,666	19,914	1,088	40,964
Securities financing[1]	10,746	3,697	621	10	612				15,686
Loans and advances banks	6,542	1,202	286	232	132	653	1,617		10,665
Loans and advances customers	27,321	9,005	2,746	5,614	23,360	28,646	178,214		274,906
Other assets[1]	2,448	216	819	3,191	315	269	881	1,605	9,743
Total assets	**80,168**	**16,325**	**6,628**	**11,422**	**28,110**	**42,187**	**205,639**	**2,692**	**393,171**
Liabilities									
Financial liabilities held for trading	1,082								1,082
Derivatives	818	584	323	276	465	1,553	4,348		8,367
Securities financing[1]	11,107	301			4				11,412
Due to banks	3,371	1,199	309	178	306	9,016	2,081		16,462
Due to customers	216,965	9,476	1,246	1,098	774	2,283	4,858		236,699
Issued debt	6,848	8,012	3,879	5,051	11,306	19,329	22,187		76,612
- of which senior secured	1,613	26		339	1,911	8,561	18,258		30,708
- of which senior unsecured	323	756	874	3,206	8,895	10,768	3,929		28,751
- of which securitisation				750	500				1,250
- of which other	4,912	7,230	3,004	756					15,903
Subordinated liabilities					7	5,007	4,705		9,720
Other liabilities[1]	3,487	291	60	4,862	283	17	43	2,446	11,488
Total liabilities	**243,677**	**19,862**	**5,816**	**11,465**	**13,145**	**37,205**	**38,224**	**2,446**	**371,841**
Total equity								**21,330**	**21,330**
Total liabilities and equity	**243,677**	**19,862**	**5,816**	**11,465**	**13,145**	**37,205**	**38,224**	**23,776**	**393,171**
Off-balance sheet liabilities									
Committed credit facilities[2]	55,295								55,295
Guarantees	2,509								2,509
Irrevocable facilities	6,526								6,526
Recourse risks arising from discounted bills	7,130								7,130
Total off-balance sheet liabilities	**71,460**								**71,460**

1 ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.
2 Figures have been restated. More information on this restatement can be found in note 1 of the Annual Financial Statements.

The following table provides a maturity analysis of the earliest contractual undiscounted cash flows for financial assets and liabilities. Financial assets and liabilities held for trading are recorded under On demand, at fair value. We believe this best represents the short-term nature and cash flows of these activities. The contractual maturity of the instruments may be extended over significantly longer periods.

Maturity based on contractual undiscounted cash flows Audited

31 December 2018

(in millions)	On demand	Trading derivatives	Up to one month	Between one and three months	Between three and six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	No maturity	Total
Assets:											
Cash and balances at central banks	34,371										34,371
Financial assets held for trading	495										495
Derivatives		379	63	456	833	1,311	2,494	4,285	5,602		15,423
Financial investments	129		384	1,667	1,103	2,282	4,963	15,446	19,014	998	45,986
Securities financing	6,661		2,521	2,992	144	71					12,388
Loans and advances banks	1,028		3,777	568	376	292	348	767	1,183		8,339
Loans and advances customers	6,613		12,769	4,555	6,379	13,264	39,740	57,758	191,832		332,909
Other assets	1,239		1,136	442	157	266	319	414	979	1,761	6,711
Total undiscounted assets	**50,536**	**379**	**20,650**	**10,680**	**8,991**	**17,486**	**47,864**	**78,670**	**218,610**	**2,758**	**456,623**
of which:											
Gross settled derivatives not held for trading:											
Contractual amounts receivable			1	2	2	4	8	12	6		35
Contractual amounts payable			6	20	26	52	101	88	20		313
Total undiscounted gross settled derivatives not held for trading			**-5**	**-18**	**-24**	**-48**	**-93**	**-76**	**-14**		**-278**
Net settled derivatives not held for trading			79	51	391	513	1,066	2,058	3,086		7,244
Liabilities:											
Financial liabilities held for trading	253										253
Derivatives		294	171	792	1,006	1,683	2,993	5,563	7,298		19,800
Securities financing	5,468		732	1,204	4	2					7,410
Due to banks	1,959		773	898	431	423	4,323	4,550	366		13,724
Due to customers	135,990		82,356	7,566	1,067	1,134	580	2,260	5,385		236,338
Issued debt			7,363	11,712	4,271	5,579	9,997	23,341	25,435		87,698
Subordinated liabilities			20	79	205	375	2,242	6,335	2,786		12,041
Other liabilities	867		1,429	296	23	20	66	7	240	2,020	4,968
Total liabilities	**144,536**	**294**	**92,843**	**22,547**	**7,006**	**9,217**	**20,202**	**42,056**	**41,510**	**2,020**	**382,232**
- of which:											
Gross settled derivatives not held for trading:											
Contractual amounts receivable			8	18	26	42	65	58	9		226
Contractual amounts payable			18	38	50	101	168	211	4		590
Total undiscounted gross settled derivatives not held for trading			**10**	**20**	**24**	**59**	**103**	**153**	**-5**		**364**
Net settled derivatives not held for trading			33	139	233	360	748	2,014	4,600		8,127
Net liquidity gap	**-94,001**	**85**	**-72,193**	**-11,867**	**1,985**	**8,269**	**27,662**	**36,614**	**177,100**	**738**	**74,392**
Off-balance sheet liabilities											
Committed credit facilities	61,166										61,166
Guarantees	2,473										2,473
Irrevocable facilities	5,946										5,946
Recourse risks arising from discounted bills	6,822										6,822
Total off-balance sheet liabilities	**76,408**										**76,408**

Maturity based on contractual undiscounted cash flows Audited

31 December 2017

(in millions)	On demand	Trading derivatives	Up to one month	Between one and three months	Between three and six months	Between six and twelve months	Between one and two years	Between two and five years	More than five years	No maturity	Total
Assets											
Cash and balances at central banks	29,783										29,783
Financial assets held for trading	1,600										1,600
Derivatives		979	232	113	310	404	960	2,728	1,639		7,365
Financial investments	173		535	1,670	1,725	2,058	3,246	10,752	19,995	1,088	41,240
Securities financing[1]	6,111		4,636	3,698	622	11	612				15,689
Loans and advances banks	1,936		4,645	1,270	409	440	498	1,300	2,238		12,735
Loans and advances customers	11,403		15,952	9,131	3,050	6,177	24,319	30,614	180,175		280,821
Other assets[1]	1,385		1,063	217	821	3,193	317	272	885	1,605	9,758
Total undiscounted assets	**52,390**	**979**	**27,063**	**16,098**	**6,938**	**12,283**	**29,950**	**45,667**	**204,931**	**2,692**	**398,992**
- of which:											
Gross settled derivatives not held for trading:											
Contractual amounts receivable			6	7	16	31	30	54	13		158
Contractual amounts payable			9	18	24	49	74	116	22		313
Total undiscounted gross settled derivatives not held for trading			**-3**	**-11**	**-8**	**-18**	**-44**	**-62**	**-9**		**-155**
Net settled derivatives not held for trading			235	124	319	422	1,003	2,788	1,590		6,481
Liabilities											
Financial liabilities held for trading	1,082										1,082
Derivatives		567	172	195	366	648	1,099	3,044	6,148		12,240
Securities financing[1]	9,432		1,676	301			4				11,413
Due to banks	990		2,419	1,324	594	706	1,279	9,747	2,515		19,574
Due to customers	132,784		84,182	9,477	1,247	1,100	778	2,290	4,865		236,723
Issued debt	1,698		5,156	8,031	3,920	5,122	11,410	19,476	22,319		77,130
Subordinated liabilities			1	5	13	25	54	5,069	4,759		9,926
Other liabilities[1]	1,689		1,800	298	76	4,870	283	18	44	2,446	11,524
Total liabilities	**147,674**	**567**	**95,406**	**19,629**	**6,217**	**12,470**	**14,907**	**39,644**	**40,650**	**2,446**	**379,611**
- of which:											
Gross settled derivatives not held for trading:											
Contractual amounts receivable			10	13	21	40	50	50	7		192
Contractual amounts payable			3	10	13	26	37	52	6		148
Total undiscounted gross settled derivatives not held for trading			**-6**	**-3**	**-8**	**-14**	**-13**	**2**	**-1**		**-44**
Net settled derivatives not held for trading			176	198	367	644	1,106	2,897	5,245		10,632
Net liquidity gap	**-95,284**	**412**	**-68,342**	**-3,532**	**721**	**-187**	**15,043**	**6,023**	**164,281**	**246**	**19,381**
Off-balance sheet liabilities											
Committed credit facilities[2]	55,295										55,295
Guarantees	2,509										2,509
Irrevocable facilities	6,526										6,526
Recourse risks arising from discounted bills	7,130										7,130
Total off-balance sheet liabilities	**71,460**										**71,460**

[1] ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.
[2] Figures have been restated. More information on this restatement can be found in note 1 of the Annual Financial Statements.

Leadership & governance

This section presents the bank's leadership which includes the Executive Board, Executive Committee and Supervisory Board. Additionally it presents the Report of the Supervisory Board over the year 2018 and an overview of the Group's corporate governance framework, including information on the Group's legal structure and remuneration policy.

Introduction to Leadership & governance

This section presents ABN AMRO's leadership and corporate governance framework. It includes information on the Executive Board, Executive Committee and Supervisory Board, as well as on the legal structure and remuneration policy. Additionally it presents the Report of the Supervisory Board for 2018.

Executive Board and Executive Committee

ABN AMRO's management structure includes an Executive Board at both ABN AMRO Group and ABN AMRO Bank level and an Executive Committee at ABN AMRO Bank level. On 1 March 2018, the Supervisory Board appointed Mr Christian Bornfeld as a member of the Executive Board and Chief Innovation & Technology Officer to succeed Mr Johan van Hall, who resigned on that same date. No other changes in the Executive Committee were made during 2018.

Role and responsibilities of the Executive Board

The Executive Board is the managing board of ABN AMRO Group and ABN AMRO Bank within the meaning of Section 2:129 of the Dutch Civil Code and is responsible for (i) the general course of business of ABN AMRO, for ensuring compliance with laws and regulations and for the adequate financing of its activities; (ii) the continuity of ABN AMRO and its business; and (iii) setting ABN AMRO's mission, vision, strategy, risk appetite, corporate standards and values, risk framework, main policies, budgets, financial and non-financial targets, and for the realisation thereof. In respect of these duties, and to the extent they relate to ABN AMRO Bank and its subsidiaries, the Executive Board consults the Executive Committee, without prejudice to the Executive Board's statutory collective management responsibilities.
The Executive Board is also required to consult the Executive Committee regarding the strategic direction of the bank (see next paragraph).

The Executive Board ensures close cooperation with the Supervisory Board in the discharge of its responsibilities and seeks the approval of the Supervisory Board for the bank-wide strategy (in line with the pursued culture aimed at long-term value creation) and targets. The Executive Board is accountable to the Supervisory Board and to the General Meeting for the performance of its duties.
In performing its duties, the Executive Board develops a view on long-term value creation for ABN AMRO and its business and takes into account the relevant stakeholder interests.

Role and responsibilities of the Executive Committee

The Executive Committee is part of ABN AMRO Bank's 'management body' (together with the Executive Board and the Supervisory Board) as defined in CRD IV and has duties and responsibilities based upon delegation by the Executive Board. The Executive Committee is entrusted with the effective direction of ABN AMRO Bank and the subsidiaries and is specifically mandated to ensure the translation of ABN AMRO's mission, vision, strategy, policies, annual budget, risk appetite, standards and values, financial and other non-financial targets into specific group aligned strategies, policies, budgets, risk appetites, standards and performance targets for each business line, with the aim to contribute to long-term value creation by ABN AMRO and to build and maintain the culture that is required for that purpose. The respective members of the Executive Committee are also responsible for the daily management of their own business lines.

In addition, the Executive Committee contributes to the definition of the strategic direction of the bank: the Executive Board is required to consult the Executive Committee in respect of any decisions with regard to the bank's (i) mission, vision and strategy, and (ii) risk policies, risk appetite framework and statement. The Executive Committee ensures an open dialogue with the Supervisory Board, both on specific issues and in general, in order to inform the Supervisory Board adequately. The Executive Committee provides the Supervisory Board and its committees with all the information necessary for the proper performance of their supervisory duties and as requested by the Supervisory Board through the Chairman of the Executive Committee.

In the execution of its duties, the Executive Committee focuses on client centricity, the activities and needs of the business lines, transformation, innovation, digitalisation and sustainable growth of operating income and promotes ABN AMRO Bank's and its subsidiaries' values through leading by example.

Composition and diversity

The Executive Board consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Risk Officer (CRO) and the Chief Innovation & Technology Officer (CI&TO). The Executive Committee is chaired by the CEO and consists of the four statutory Executive Board members and five non-statutory senior executives, including four business line roles (Retail Banking, Commercial Banking, Corporate & Institutional Banking, and Private Banking) and one role with bank-wide responsibilities (HR, Transformation & Communications). The management structure is thus designed to create an enhanced focus on the bank's business activities at a senior executive level.

The Executive Committee's composition is based on ABN AMRO's guiding principle that diversity of thought, expertise, background, competences and interpersonal styles, thus including but not limited to gender diversity, is a prerequisite for effective management and, by extension, for long-term value creation. In line with its diversity policy, ABN AMRO is striving to meet the gender target of 30% for the Executive Committee and Executive Board. Gender diversity within the Executive Committee is currently 22%, and 25% within the Executive Board. When vacancies arise, ABN AMRO Group will give due consideration to any applicable gender requirements in its search to find suitable new members meeting the fit and proper requirements stipulated in the Dutch Financial Markets Supervision Act.

The Rules of Procedure of the Executive Board and the Executive Committee are available on abnamro.com.

Personal details of the members of the Executive Board and Executive Committee

The information below refers to the members of the Executive Board and Executive Committee as at 12 March 2019.

Kees van Dijkhuizen (Dutch, male, 1955)

Chief Executive Officer
Chairman of the Executive Board and Executive Committee

Kees van Dijkhuizen was appointed to the Executive Boards (previously Managing Boards) of ABN AMRO Group N.V. and ABN AMRO Bank N.V. on 1 May 2013. He was Chief Financial Officer from 1 June 2013 to 31 December 2016 and was appointed Chairman of the Executive Boards and CEO effective 1 January 2017. As CEO, Kees van Dijkhuizen is also responsible for Corporate Office, Strategy & Sustainability and Legal (from 1 December 2018). Group Audit also reports to the CEO. On the occasion of the General Meeting in May 2017, his mandate as an Executive Board member was extended and aligned with his term as CEO of ABN AMRO. His current term expires in 2020.

Other positions: Chairman of the National Committee for Export, Import and Investment Guarantees (Rijkscommissie voor Export-, Import- en Investeringsgaranties), Board Member of the Dutch Banking Association (Nederlandse Vereniging van Banken), Member of the AFM Capital Market Committee.

Clifford Abrahams (British, male, 1967)

Chief Financial Officer and Vice-Chairman of the Executive Board and Executive Committee

Clifford Abrahams was appointed to the Executive Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. as a member and Chief Financial Officer (CFO) on 1 September 2017. He was appointed Vice-Chairman of the Executive Boards on 1 March 2018. As CFO, he is responsible for Finance, including Financial Accounting, Asset & Liability Management, Controlling, Tax, Treasury and Investor Relations. His current term expires in 2021.

Tanja Cuppen (Dutch, female, 1969)
Chief Risk Officer of the Executive Board and Executive Committee
Tanja Cuppen was appointed to the Executive Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. on 1 October 2017 and was appointed Chief Risk Officer (CRO) effective 1 November 2017. As CRO, she is responsible for Risk Management, Financial Restructuring & Recovery, Legal (until 1 December 2018) and Compliance. Her current term expires in 2021.
Other positions: Member of Investment Committee, Argidius Foundation, Zug, Switzerland.

Christian Bornfeld (Danish, male, 1976)
Chief Innovation & Technology Officer of the Executive Board and Executive Committee
Christian Bornfeld was appointed to the Executive Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. as Chief Innovation & Technology Officer (CI&TO) effective 1 March 2018. As CI&TO, he is responsible for Innovation, IT, Corporate Information Security and Business Services. His current term expires in 2021.

Frans van der Horst (Dutch, male, 1959)
CEO Retail Banking and Member of the Executive Committee
Frans van der Horst was appointed to the Executive Committee of ABN AMRO Bank N.V. as CEO Retail Banking on 5 February 2017, subject to regulatory approval. The appointment was formally approved by the regulator on 3 November 2017. His current term expires in 2020.
Supervisory positions: Chairman of the Supervisory Board of ABN AMRO Clearing Bank N.V., Member of the Supervisory Board of Nationale Nederlanden ABN AMRO Verzekeringen Holding B.V., ABN AMRO Levensverzekering N.V., ABN AMRO Verzekeringen B.V. and ABN AMRO Schadeverzekering N.V.
Other positions: Board Member of the Dutch Banking Association.

Daphne de Kluis (Dutch, female, 1969)
CEO Commercial Banking and Member of the Executive Committee
Daphne de Kluis was appointed to the Executive Committee of ABN AMRO Bank N.V. as CEO Commercial Banking on 5 February 2017, subject to regulatory approval. The appointment was formally approved by the regulator on 3 November 2017. Her current term expires in 2020.
Supervisory positions: Member of the Supervisory Board of Stadsherstel N.V., Member of the Supervisory Board of Euronext Amsterdam N.V.

Gert-Jan Meppelink (Dutch, male, 1968)
Chief HR, Transformation & Communications Officer and Member of the Executive Committee
Gert-Jan Meppelink was appointed to the Executive Committee of ABN AMRO Bank N.V. as Chief HR, Transformation & Communications Officer on 5 February 2017, subject to regulatory approval. The appointment was formally approved by the regulator on 3 November 2017. His current term expires in 2020.
Supervisory positions: Chairman of the Supervisory Board of ABN AMRO Arbo Services B.V. (Beter).
Other positions: Member of the Faculty of Economics and Business Advisory Board – University of Amsterdam, Guest Lecturer - University of Amsterdam.

Pieter van Mierlo (Dutch, male, 1961)
CEO Private Banking and Member of the Executive Committee
Pieter van Mierlo was appointed to the Executive Committee of ABN AMRO Bank N.V. as CEO Private Banking on 5 February 2017, subject to regulatory approval. The appointment was formally approved by the regulator on 3 November 2017. His current term expires in 2020.
Supervisory positions: Chairman of the Supervisory Board of Neuflize OBC S.A., Member of the Supervisory Board of Ruysdael Clinics

Rutger van Nouhuijs (Dutch, male, 1962)
CEO Corporate & Institutional Banking and Member of the Executive Committee
Rutger van Nouhuijs was appointed to the Executive Committee of ABN AMRO Bank N.V. as CEO Corporate & Institutional Banking on 5 February 2017, subject to regulatory approval. The appointment was formally approved by the regulator on 3 November 2017. His current term expires in 2020.
Other positions: Member of the Board of Directors of AmCham (American Chamber of Commerce in The Netherlands), Member of the Advisory Board of Euronext, Member of the Executive Board of Vereniging VNO-NCW (Confederation of Netherlands Industry and Employers).

Appointment, suspension and dismissal

Members of the Executive Board are appointed and reappointed by the Supervisory Board for a maximum term of three years, provided that the term of office continues up to and including the first General Meeting to be held after the expiry of this term. The diversity objectives laid down in ABN AMRO's internal policies are considered in the preparation of the appointment and reappointment of the members of the Executive Board. The Supervisory Board notifies the General Meeting of the intended appointment or reappointment of a member of the Executive Board. Only candidates who meet the fit and proper test under the Dutch Financial Markets Supervision Act are eligible for appointment. The Supervisory Board may appoint one of the members of the Executive Board as Chairman (to be awarded the title of Chief Executive Officer). Pursuant to the relationship agreement with NLFI, the Supervisory Board gives NLFI the opportunity to advise on the decision to appoint or reappoint a member of the Executive Board and on the decision to appoint the chairman of the Executive Board, as long as NLFI directly or indirectly holds at least 10% of the issued share capital of the Company. The Supervisory Board may at all times suspend a member of the Executive Board. Further information on the suspension and dismissal procedure of the Executive Board is provided in ABN AMRO Group's Articles of Association and the Executive Board Rules of Procedure as published on the ABN AMRO website.

Members of the Executive Committee (other than members of the Executive Board) are appointed, suspended and/or dismissed by the Executive Board subject to the approval of the Supervisory Board and advice of the Remuneration, Selection & Nomination Committee. The Executive Board takes into account ABN AMRO's diversity objectives in respect of the composition of the Executive Committee. Only candidates who meet the fit and proper test under the Dutch Financial Markets Supervision Act are eligible for appointment. The CEO is the Chairman of the Executive Committee. The Supervisory Board, upon the proposal of the Executive Board and the advice of the Remuneration, Selection & Nomination Committee, appoints one member of the Executive Board as Vice-Chairman of the Executive Committee. Members of the Executive Committee are appointed and reappointed for a maximum term of four years.

Committees

The Executive Board has established a number of committees that are responsible for the preparation of decision-making on certain subjects, for taking certain delegated decisions and for advising the Executive Board on certain matters. This includes the following three risk-related committees: the Group Risk Committee, the Group Assets & Liabilities Committee and the Group Central Credit Committee. More information on the delegated authority of these committees is provided in the Risk, funding & capital section.

In addition, the Executive Board has installed the Group Disclosure Committee and the Group Regulatory Committee.

The Group Disclosure Committee is responsible for, among other things, advising and supporting the Executive Board in relation to (i) supervision on the accuracy and timeliness of public disclosures by the Group, and (ii) integrity with regard to the financial statements and other public disclosures.

The Group Regulatory Committee is responsible for, among other things, ensuring a good understanding and an adequate overview of, and regularly informing and consulting the Executive Board about making strategic choices and taking decisions on, matters relating to changing national and international laws and regulations affecting the Group.

Supervisory Board

In February 2018 it was announced that Ms Olga Zoutendijk had decided not to stand for a second term of office as a member of the Supervisory Board and to transfer her duties as Chairman of the Supervisory Board with immediate effect. A search process for a new Chairman was consequently initiated. The Vice-Chairman, Mr Steven ten Have, temporarily assumed the duties of Chairman until the new Chairman, Mr Tom de Swaan, was appointed at the Extraordinary General Meeting on 12 July 2018. Mr ten Have was reappointed for a maximum of two years at the Annual General Meeting on 29 May 2018. As a result, he has been appointed for a total term in excess of eight years. The Supervisory Board proposed Mr ten Have's reappointment in accordance with the Employee Council's recommendation and in acknowledgement of the valuable role he has fulfilled as a member and Vice-Chairman of the Supervisory Board, and the individual and collective profile included in the meeting documents for the General Meeting. The Supervisory Board also recognised the need to ensure continuity in the Supervisory Board.

Mr Steven ten Have and Ms Frederieke Leeflang have decided to resign from ABN AMRO's Supervisory Board in 2019 in order to allow for the appointment of Ms Anna Storåkers and Mr Michiel Lap, two proposed new members with extensive experience in the financial sector. Ms Storåkers and Mr Lap will be nominated for appointment to the Supervisory Board for a period of four years at the Annual General Meeting on 24 April 2019. Their appointments will be subject to regulatory approval. Mr ten Have was appointed pursuant to the enhanced recommendation right of the Employee Council. As agreed with the Employee Council, Mr Arjen Dorland will be attributed the latter capacity with effect from the Annual General Meeting on 24 April 2019.

Role and responsibilities of the Supervisory Board

The Supervisory Board supervises, advises, challenges and supports the Executive Board and the Executive Committee in the exercise of their powers and duties. Together with the Executive Board, the Supervisory Board is responsible for ABN AMRO's long-term value creation, requiring members to execute their duties in a sustainable manner with due observance of the long-term viability of the strategy being pursued. In discharging its task, the Supervisory Board takes into account the dynamics and the relationship between the Executive Board and the Executive Committee and its members. The Supervisory Board's early and close involvement with the Executive Board is required in formulating the bank-wide strategy and targets, in line with the pursued culture aimed at long-term value creation.

In performing their duties, the members of the Supervisory Board are guided by the interests of ABN AMRO and its businesses, taking the legitimate interests of all of ABN AMRO's stakeholders (such as its clients, savers and deposit holders, shareholders, holders of depositary receipts, employees and the society in which ABN AMRO operates) into due consideration. Specific powers are vested in the Supervisory Board, including the approval of certain decisions taken by the Executive Board.

Composition and diversity

The Supervisory Board's composition is based on the Board's guiding principle that diversity of thought, expertise, background, competences and interpersonal styles, thus including but not limited to gender diversity, is a prerequisite for effective supervision and, by extension, for long-term value creation. In line with its diversity policy, ABN AMRO is striving to meet the gender target of 30% for the Supervisory Board. Gender diversity within the Supervisory Board of ABN AMRO is currently 29%. When vacancies arise, ABN AMRO Group will give due consideration to any applicable gender requirements in its search to find suitable new members meeting the fit and proper requirements stipulated in the Dutch Financial Markets Supervision Act. Collectively the members have expertise in retail and private banking, commercial banking, corporate & institutional banking, investment banking, risk management, P&L line management, strategy formulation and execution, cultural and other change management, IT, digitalisation, innovation, economics, remuneration and human resources management, sustainability and corporate social responsibility, legal and compliance matters and the development of products and services, and experience in the key markets in which the bank is active. The Supervisory Board has one financial expert (CPA/RA), in accordance with the formal definition and requirements, and two highly experienced bankers with a combined total of 60 years of broad and deep banking experience across all key areas of domestic and international banking.

2018	Executive experience	Banking, finance, audit, risk experience	IT, digitalisation, transformation, innovation experience	Legal, corporate governance experience
T. de Swaan	**	**	*	**
S. ten Have	**	*	**	*
A.C. Dorland	**	*	**	*
F.J. Leeflang	*	*	*	**
J.M. Roobeek	**	*	**	**
J.B.J. Stegmann	**	**	*	**
J.S.T. Tiemstra	**	**	*	**

1 * = has good understanding of the subject but is not expert.
2 ** = can make a balanced independent judgement on the subject (expert).

All members of the Supervisory Board passed the fit and proper test required under the Dutch Financial Supervision Act. The Supervisory Board confirms that all members of the Supervisory Board are independent within the meaning of best practice provision 2.1.10 of the Dutch Corporate Governance Code.

Personal details of the Supervisory Board

The information below refers to the members of the Supervisory Board as at 12 March 2019.

Tom de Swaan (Dutch, male, 1946)

Chairman of the Supervisory Board from 12 July 2018

Tom de Swaan was appointed to the Supervisory Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. on 12 July 2018. His current term expires at the first general meeting after 12 July 2022.

Last executive position held: CFO, ABN AMRO Bank N.V.

Supervisory positions: Chairman of the Supervisory Board of Antoni van Leeuwenhoekziekenhuis/Netherlands Cancer Institute, Member of the Supervisory Board of the Holland Festival Foundation (Netherlands), Board member of the Liszt Concours Foundation (Netherlands).

Other positions: Chairman of the Board of the National Opera & Ballet Fund Foundation (Netherlands), Member of the Board of the Premium Erasmianum Foundation, Member of the International Advisory Board of Akbank.

Steven ten Have (Dutch, male, 1967)

Vice-Chairman of the Supervisory Board and acting Chairman from 5 February to 12 July 2018

Steven ten Have was appointed to the Supervisory Board of ABN AMRO Group N.V. on 30 March 2010 and to the Supervisory Boards of ABN AMRO Bank N.V. (pre-merger with Fortis Bank (Nederland) N.V.) and Fortis Bank (Nederland) N.V. (merged with ABN AMRO Bank N.V. on 1 July 2010) on 1 April 2010. He was appointed Vice-Chairman of the Supervisory Board on 18 May 2016 and, in this capacity, temporarily assumed the duties of Chairman of the Supervisory Board from 5 February to 12 July 2018. After being reappointed for a maximum of two years at the Annual General Meeting on 29 May 2018, he announced his decision to resign from the Supervisory Boards at the Annual General Meeting to be held on 24 April 2019.

Current positions: Partner at TEN HAVE Change Management B.V., Full professor of Strategy and Change at VU University Amsterdam, Chairman of the part-time MSc programme in Change Management at VU University Amsterdam.

Other positions: Chairman of Stichting 'Center for Evidence-Based Management', Deputy expert member of the Enterprise Court at the Amsterdam Court of Appeal.

Arjen Dorland (Dutch, male, 1955)

Member

Arjen Dorland was appointed to the Supervisory Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. on 18 May 2016. His current term expires in 2020.

Last executive position held: Executive Vice-President of Technical and Competitive IT, Royal Dutch Shell.

Supervisory positions: Member of the Supervisory Council of Stichting Naturalis Biodiversity Center, Member of the Supervisory Board of Essent N.V., Chairman of the Supervisory Council of Haaglanden Medisch Centrum.

Frederieke Leeflang (Dutch, female, 1969)

Member

Frederieke Leeflang was appointed to the Supervisory Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. on 18 May 2016. She has announced her decision to resign from the Supervisory Boards at the Annual General Meeting to be held on 24 April 2019.

Current position: Special advisor at Dentons Boekel N.V., Director of F.J. Legal B.V., General Chair of the Council for the Administration of Criminal Justice and Youth Protection

Last executive position held: Lawyer – Competition and European Law, Chair of Dentons Boekel N.V.

Supervisory positions: Chair of the Supervisory Council of Stichting KWF Kankerbestrijding (Dutch Cancer Society), Chair of the Audit Advisory Committee of the Dutch Court of Audit, Vice-Chair of the Supervisory Council of Tergooi Hospital, Member of the Supervisory Board of Eneco Groep N.V.

Other positions: Chair of the Advisory Council of Centrum Indicatiestelling Zorg (CIZ, Care Assessment Centre), Board member of De Amsterdamsche Kring, Board member and Vice-chair of Amsterdam Diner Foundation, Member of the Board of Governors of the National Library of the Netherlands.

Annemieke Roobeek (Dutch, female, 1958)

Member

Annemieke Roobeek was appointed to the Supervisory Board of ABN AMRO Group N.V. on 30 March 2010 and to the Supervisory Boards of ABN AMRO Bank N.V. (pre-merger with Fortis Bank (Nederland) N.V.) and Fortis Bank (Nederland) N.V. (merged with ABN AMRO Bank N.V. on 1 July 2010) on 1 April 2010. She was reappointed at the Annual General Meeting on 30 May 2017 and will resign from the Supervisory Boards with effect from the date of her successor's appointment.

Current position: Professor of Strategy and Transformation Management at Nyenrode Business Universiteit, Director and owner of MeetingMoreMinds B.V., Owner of Open Dialogue B.V., Co-initiator and co-owner of XL Labs B.V.

Supervisory positions: Member of Supervisory Board of KLM N.V., Member of the Supervisory Board of Howaldt & Co. Investmentaktiengesellschaft TGV (Hamburg, Germany).

Other positions: Chair of PGGM Advisory Board for Responsible Investment, Chair of Stichting INSID (Institute for sustainable innovation & development directed by His Royal Highness Prince Carlos de Bourbon Parme), Member of the 'Inspirational Board' (Advisory Board) of CPI Governance, Chair of Stichting Social Finance NL.

Jurgen Stegmann (Dutch, male, 1960)

Member

Jurgen Stegmann was appointed to the Supervisory Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. on 12 August 2016. His term expires at the first general meeting after 12 August 2020.

Last executive position held: Director, Stegmanagement B.V.

Supervisory positions: Member of the Supervisory Board of Janssen de Jong Groep B.V., Member of the Supervisory Board of MN Services N.V.

Tjalling Tiemstra (Dutch, male, 1952)

Member

Tjalling Tiemstra was appointed to the Supervisory Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. on 18 May 2016. His current term expires in 2020.

Current position: Director Drs J.S.T. Tiemstra Management Services B.V.

Supervisory positions: Member of Supervisory Board, Royal Haskoning DHV B.V.

Other positions: Board member of Stichting Continuïteit KBW N.V. (Continuity Foundation Koninklijke Boskalis Westminster), Board member of Stichting Preferente Aandelen (Preference Shares) Wolters Kluwer, Board member of Stichting Administratie Kantoor van Aandelen N.V. Twentsche Kabel Holding (Administration Office for Shares), Member of Advisory Board of DUO (Education Executive Agency of the Dutch Ministry of Education, Culture and Science), Member of the Monitoring Committee of the Dutch Pension Funds Code, Member of the Advisory Board of the Rotterdam Court of Justice, Deputy expert member of the Enterprise Court at the Amsterdam Court of Appeal, Chairman of the Governance, Risk & Compliance Committee of NBA (Dutch Institute of Chartered Accountants), Chairman of the European Leadership Platform's Advisory Board.

Appointment, suspension and dismissal

Members of the Supervisory Board are appointed by the General Meeting, following nomination by the Supervisory Board itself. Only candidates who have passed the fit and proper test under the Dutch Financial Markets Supervision Act are eligible for appointment. The General Meeting and the Employee Council may recommend candidates to the Supervisory Board to be nominated as members of the Supervisory Board.

In accordance with the best practice provisions of the Dutch Corporate Governance Code, Supervisory Board members are appointed for a period ending at the close of the first General Meeting that is held after four (4) years have passed since their last appointment, unless a shorter period was set at the time of the appointment. The Supervisory Board is required to nominate a candidate recommended by the Employee Council in respect of one-third of the members of the Supervisory Board (the so-called 'enhanced recommendation right'). The Supervisory Board must accept the recommendation of the Employee Council, unless it believes that the candidate recommended is unsuitable to fulfil the duties of a member of the Supervisory Board, or that the Supervisory Board would not be properly composed if the appointment were made as recommended. In 2018 Mr Steven ten Have and Ms Annemieke Roobeek were the members of the Supervisory Board appointed following the enhanced recommendation right.

The Supervisory Board may suspend any of its members at any time. The General Meeting can dismiss the Supervisory Board in its entirety due to lack of confidence in the Board, by an absolute majority of the votes cast, representing a quorum of at least one-third of the issued share capital. If this quorum is not met, there is no possibility of holding a second General Meeting in which no quorum applies. Further information on the suspension and dismissal procedure is provided in ABN AMRO Group's Articles of Association and the Supervisory Board Rules of Procedure as published on the ABN AMRO website.

Committees

The Supervisory Board has established three committees to prepare its decision-making and to advise the Supervisory Board on specific matters. These committees are composed exclusively of Supervisory Board members. These committees are the:

- Audit Committee
- Risk & Capital Committee
- Remuneration, Selection & Nomination Committee

Report of the Supervisory Board

Meetings of the Supervisory Board

During 2018, the Supervisory Board held five formal meetings according to the pre-set schedule, twenty-three additional meetings and four informal team meetings.

The additional meetings focused on specific subjects, such as composition and competency profile of the Supervisory Board, strategy, capital distributions/buy-backs, on-site inspections, succession planning and the budget plan for 2019-2022. Supervisory Board meetings take place following the meetings of the Remuneration, Selection & Nomination Committee, the Risk & Capital Committee and the Audit Committee. The Supervisory Board receives from each of these committees a report of its deliberations and findings after each meeting and takes into account the outcome and recommendations of these committees. The Company Secretary attends all meetings and is the secretary of the Supervisory Board and its committees. The Executive Board attends the formal meetings of the Supervisory Board and prepares detailed supporting documents. The regular meetings last for an average of four hours. At each Supervisory Board meeting, on a rotational basis, an Executive Committee member is invited to give a presentation on the opportunities and risks in their specific line of business. Other bank staff and the external auditor were frequently invited to give presentations on specific topics such as performance highlights, the capital & funding plan, dividends, strategy, an investor relations update, the risk appetite, quarterly risk reports and quarterly audit reports. The implementation of the bank's strategy was extensively discussed in several meetings with the Executive Board and Executive Committee. These discussions included a critical review of the business lines, an assessment of the strategic challenges and risks, external (global) developments and trends, and how to execute the strategy in order to create long-term value.

Details of the composition of the Supervisory Board on 12 March 2019 can be found in the Composition and diversity paragraph in the Supervisory Board section The personal details and résumés of the members of the Supervisory Board are considered to be incorporated, by reference, in this Report of the Supervisory Board.

The attendance record of the Supervisory Board members in 2018 was as follows:

2018	Formal meetings (5)	Team meetings (4)	Additional meetings (23)	Total meetings (32)	Attendance (%)
T. de Swaan[1]	2	1	8	11	100%
O.L. Zoutendijk[2]		2	2	4	24%
S. ten Have	4	4	20	28	88%
A.C. Dorland	5	4	20	29	91%
F.J. Leeflang	5	4	18	27	84%
J.M. Roobeek	4	4	20	28	88%
J.B.J. Stegmann	5	3	19	27	84%
J.S.T. Tiemstra	5	4	22	31	97%

[1] Appointment date 12 July 2018 after which 11 meetings were held. [2] Resignation date 1 July 2018 before which 17 meetings were held.

Focus areas and activities of the Supervisory Board

During the year, the bank refreshed its strategic priorities. These are to support our clients' transition to sustainability, to reinvent the customer experience, and to build a future-proof bank. In July, the Supervisory Board and the Executive Committee spent two days extensively discussing the scope, ambition and approach for the strategic pillars. This is a good example of the Supervisory Board's collaboration with the Executive Committee, and where the focus is on long-term subjects that matter and on setting the strategic framework for executive actions. The refreshed Long-Term Vision & Strategy was launched in October 2018. The refreshed budget plan 2019-2022, which is an important aspect of the refreshed strategy, was discussed during the budget process later in the year.

Other key topics that the Supervisory Board discussed with management during the year included improving the bank's cost-to-income ratio, simplifying internal processes and controls, regulatory topics, optimising the bank's return on equity, updating the capital plan based on Basel IV, improving the overall data quality (especially given the increasing frequency of detailed data requests by the regulators) and IT innovation, as well as cybersecurity and the development of talent within the bank, including leadership development and succession planning at a management body level.

The Supervisory Board's key areas of focus also included the bank's compliance with legislation, codes and regulations, specifically the preparations for implementing the EBA Guidelines on Internal Governance and the EBA Guidelines on Suitability. The Supervisory Board was also regularly updated on ABN AMRO's key financial and non-financial risks and the design of the internal risk management and control systems. During these updates the Executive Board's assessment of the adequacy and effectiveness of the risk management and control systems was monitored and discussed. The bank's risk appetite and ICAAP/ILAAP were also discussed and approved. The Supervisory Board discussed material legal, credit, tax and compliance files in depth.

Banks have a responsibility to help protect the financial services sector. The Supervisory Board sees that ABN AMRO takes this responsibility very seriously. It invests significant resources in combatting financial crime and works closely with regulators, governments, other banks and law enforcement agencies. Accordingly, the topic of financial crime was discussed during various Supervisory Board meetings, as well as Risk & Capital and Audit Committee meetings.

ABN AMRO has decided, based on self-identified short-comings and input from the Dutch Central Bank, to accelerate its existing Customer Due Diligence (CDD) programme in order to become compliant with anti-money laundering and terrorist financing legislation. The Supervisory Board understands that ABN AMRO already carried out a review of our Corporate & Institutional Banking business and that a review of its Private Banking clients is now nearly complete. ABN AMRO has developed remediation programmes to speed up remediation actions in relation to International Card Services (ICS) and Commercial Banking and has shared these with the Dutch Central Bank and committed to their execution. For the incremental external costs involved, the Supervisory Board agreed with a provision taken in 2018 of EUR 85 million – for ICS and Commercial Banking. The amount is based on, among other items, the total number of files, the time needed to review each file and the percentage that will be reviewed using external resources.

Over the past year, a number of European banks have been the object of money laundering investigations. The Supervisory Board recognises that, with financial crime, ABN AMRO has to be vigilant and needs to be constantly looking for ways to strengthen its systems and raise awareness of potential risks within the bank. Therefore, the Supervisory Board encourages ABN AMRO to continue investing in combatting financial crime of any form.

Members of the Supervisory Board actively engaged its key stakeholders in 2018, visiting various parts of the organisation in the Netherlands and internationally to obtain client and staff feedback regarding the bank's duty of care, integrity, client focus, culture and competitive differentiation. The two members appointed pursuant to the enhanced recommendation right of the Employee Council, Mr ten Have and Ms Roobeek, met regularly with the Employee Council throughout the year to maintain an active dialogue and to obtain the Employee Council's thoughts and input on various matters, including the top management structure, appointments, diversity, work satisfaction and the negotiations for a new Collective Labour Agreement, which was concluded at the beginning of 2018. The Chairman and other members of the Supervisory Board also met with the Employee Council on several formal and informal occasions during the year. This included the annual half-day joint meeting of the Supervisory Board, the Executive Committee and the Employee Council ('drie raden overleg'), held on 27 September 2018. This year, the joint session focused on the revised strategy, and more specifically on the third pillar of building a future-proof bank by further developing a solid and stable organisation that is open and transparent and able to respond optimally to the market. The Supervisory Board appreciates the constructive relationship it has with the Employee Council, and highly values the input, engagement, suggestions and considerations provided by the Employee Council in the interests of the bank. Active engagement was also maintained throughout the year with the Dutch Central Bank (DNB), the European Central Bank (ECB), AFM, STAK AAG and NLFI. The Supervisory Board's aim throughout was to ensure that the bank is well positioned to create long-term value for its shareholders and for society, while focusing firmly on clients' interests and balancing the interests of all stakeholders.

The Supervisory Board approved amendments to the Executive Board Rules of Procedure (including the Executive Committee Rules of Procedure) and the Supervisory Board Rules of Procedure on 30 June 2018. These amendments represented the formal incorporation of the EBA Guidelines on Suitability and Internal Governance into the Rules of Procedure.

A description of the duties, responsibilities and current composition of the Supervisory Board, including its committees and other positions held by members of the Supervisory Board, is provided in the Supervisory Board section of this chapter. More information on remuneration is provided under Remuneration in this chapter. These subjects are considered to be incorporated, by reference, in this Report of the Supervisory Board.

Supervisory Board Committees

Audit Committee

The Audit Committee is tasked with the direct supervision of all matters relating to financial reporting and controlling. In doing so, it is responsible for supervising and advising the complete Supervisory Board on topics such as (i) the assessment of the principles of valuation and determination of results for the financial statements, (ii) internal control and financial reporting functions, (iii) internal and external audit, (iv) risk assessment of issues that could impact the financial reporting, (v) regulatory compliance in relation to financial reporting, (vi) mediation between internal or external auditors and/or management if required, and (vii) reporting to the Supervisory Board.

Throughout 2018, the Audit Committee (the 'Committee') consisted of Mr Tjalling Tiemstra (Chairman), Mr Arjen Dorland and Mr Jurgen Stegmann. Ms Olga Zoutendijk was also a member of the Committee until her resignation from the Supervisory Board on 1 July 2018. Mr Tom de Swaan replaced Ms Zoutendijk as a member of the Committee on 12 July 2018. The Committee held six regular plenary meetings in 2018.

The attendance rate of the members of the Committee was as follows:

2018	Regular meetings (6)	Additional meetings (1)	Total meetings (7)	Attendance (%)
T. de Swaan[1]	2		2	100%
O.L. Zoutendijk[2]	3	1	4	80%
A.C. Dorland	6	1	7	100%
J.B.J. Stegmann	6	1	7	100%
J.S.T. Tiemstra	6	1	7	100%

[1] Appointment date 12 July 2018 after which 2 meetings were held.
[2] Resignation date 1 July 2018 before which 5 meetings were held.

In addition, Mr Steven ten Have, in his role as acting Chairman of the Supervisory Board, attended one plenary meeting of the Committee in March 2018. All regular plenary meetings of the Committee were also attended by the CEO, the CFO and the CRO. The Director of Group Audit, the Director of Financial Accounting, the external auditor and the Company Secretary also attended the full plenary meetings. At one meeting, however, a representative of the Director of Group Audit was present, while a representative of the Director of Financial Accounting was present at another meeting, and a representative of the Company Secretary was present at a further meeting. Lastly, it was decided that, from November 2018 onwards, the Director of Corporate Controlling would attend plenary Committee meetings on a standard basis.

Additionally, the Committee held a conference call in January 2018 to discuss the bank's readiness for IFRS 9 and to pre-discuss the final 2017 dividend proposal. The CFO, the CRO, the external auditor, the Director of Financial Accounting, the Company Secretary and a representative of the Director of Group Audit also joined this conference call.

In addition to the plenary meetings, the Chairman and other members of the Committee regularly held separate sessions throughout 2018 with officers such as the Director of Group Audit, the CFO, the CRO, the Director of Financial Accounting and the Director of Corporate Controlling. The Chairman of the Committee met the external auditor bilaterally several times in 2018, focusing on the progress of the external audit and other subjects relevant to the responsibilities of the Committee. The Chairman also met with the European Central Bank and the Dutch Central Bank once in 2018. In addition, Committee members met various department managers to ensure the members remained well informed about the subjects under their supervision. Directly after the meeting in March 2018, when the annual accounts were discussed, the Committee met the external auditor bilaterally to seek confirmation that all relevant matters from the audit had come to the Committee's attention.

The topics discussed by the Committee in the plenary meetings included the quarterly reports, the interim and annual accounts, the quarterly press releases, the interim and final dividend proposals, the 2017 Integrated Annual Review and 2017 Annual Report of ABN AMRO, and key audit matters reported by internal and external audit, such as those described in the Independent Auditor's Report on page 258 and further of this Annual Report. In relation to the latter, the Audit Committee discussed all control observations and key audit matters identified by the internal and external auditors, including progress on improvements. The Committee also discussed financial reporting, the overall internal control environment, the governance and internal controls pertaining to financial reporting, adherence to legislation and regulations governing financial and regulatory reporting with a focus on IFRS 9, regular reports on any signals from clients or employees suggesting possible internal control issues, and updates on tax and tax-related issues.

The Committee extensively discussed the performance and audit ratings of the bank's first- and second-line departments on a quarterly basis. During each meeting the Committee devoted attention to the procedures for financial reporting, including the procedure for establishing loan impairments, the timelines in which impairments are established, and the robustness and development of the financial results and ratios, including the level of loan impairments. The Committee also took note of financial reports issued to supervisory authorities, such as the COREP and FINREP reports.

In addition, the Committee considered the role, performance and reports from Group Audit, reports from the external auditor, management letters and the auditor's independence and fees. The Committee was also informed of, and discussed, all relevant letters from the European Central Bank and the Dutch Central Bank. The Committee closely monitored the financial and regulatory reporting improvement programmes in 2018 and was regularly updated on the progress of these programmes by the Executive Board, Group Audit and the external auditor.

As well as the regular topics mentioned above, in February 2018 the Committee received the report of the external auditor regarding the 2017 Consolidated Annual Financial Statements. The Committee also exchanged views on a letter from the VEB, focusing on the explanation provided by the external auditor during the Annual General Meeting.

In March 2018, the Committee reviewed and discussed the 2017 Integrated Annual Review, the 2017 Annual

Reports of ABN AMRO Group and ABN AMRO Bank and the audits by the external auditor of these reports, the Management Control Statement and the overview of whistleblowing cases for the year 2017.

In May, in addition to the regular agenda items, the Committee discussed the 2018 Audit Plan of the external auditor and was updated by the Director of Group Tax on ABN AMRO's tax control framework and tax policy.

In August 2018, apart from the standard agenda items, the Committee discussed and subsequently advised the Supervisory Board to approve the auditor independence policy. For the first time, the Committee also reviewed the proposal to extend the appointment of EY as ABN AMRO's external auditor.

In November 2018, in addition to the standard agenda items, the Committee advised the Supervisory Board to approve the Group Audit Plan 2019 and the annual review of the Group Audit Charter. The Committee was also informed of the most important tax developments for ABN AMRO. Lastly, the Committee advised the Supervisory Board positively on both the appointment of external auditors as part of the planned legal merger between ABN AMRO Group and ABN AMRO Bank and on the reappointment of EY as the bank's external auditor for 2019, 2020 and 2021.

Risk & Capital Committee

The Risk & Capital Committee is responsible for supervising (and advising the complete Supervisory Board on) topics such as (i) risk management and risk control, (ii) the strategies for capital and liquidity management, (iii) the bank's risk appetite and risk strategy and reviewing the business activities in relation to these matters, (iv) compliance with applicable laws and regulations (including codes of conduct and internal procedures), (v) risk and compliance awareness within the bank, (vi) sound remuneration policies and practices in light of risk, capital, liquidity and expected earnings, (vii) proposing corrective and/or disciplinary measures against members of the Executive Board in the event of a breach of applicable laws and regulations, and (viii) periodic review of the Group's actual risk profile.

The Risk & Capital Committee (the 'Committee') consisted of Mr Jurgen Stegmann (Chairman), Mr Arjen Dorland, Ms Frederieke Leeflang, Ms Annemieke Roobeek, Mr Tom de Swaan (from July 2018), Mr Tjalling Tiemstra and Ms Olga Zoutendijk (until July 2018). The Committee held nine plenary meetings in 2018, four of which were regular meetings and five of which were additional meetings. These additional meetings discussed deep dives on mortgages, non-presence country activities, Global Markets, the ICAAP and ILAAP submission for 2018, and progress on specific Compliance change projects. All matters discussed at a plenary meeting of the Committee and which were relevant for the Supervisory Board were orally reported at the next full Supervisory Board meeting. The full Supervisory Board also received minutes of the Committee meetings.

The attendance rate of the members of the Committee was as follows:

2018	Regular meetings (4)	Additional meetings (5)	Total meetings (9)	Attendance (%)
T. de Swaan[1]	1	1	2	50%
O.L. Zoutendijk[2]	1	2	3	60%
A.C. Dorland	4	5	9	100%
F.J. Leeflang	3	3	6	67%
J.M. Roobeek	3	4	7	78%
J.B.J. Stegmann	4	5	9	100%
J.S.T. Tiemstra	3	4	7	78%

[1] Appointment date 12 July 2018 after which 4 meetings were held.
[2] Resignation date 1 July 2018 before which 5 meetings were held.

Recurring items on the Committee's agenda in 2018 were the Enterprise Risk Management (ERM) Report, the Capital & Funding Plan Update, Compliance and Legal Updates, regulatory correspondence with the ECB and DNB, and the Risk Policy Approval Report Update, which provides a quarterly overview of changes in relevant risk policies. Additionally, the CRO and CFO provided quarterly updates at the regular Committee meetings on relevant developments in their respective areas of control. As the prevailing economic cycle warranted increased attention for credit risk, the Committee also received a Quarterly Credit Risk Report from August 2018 onwards on quarterly credit risk parameter developments, including developments in impairments, modelling, the cost of risk and the coverage ratio.

The ERM Report provides a concise overview of ABN AMRO's position on all risk types identified in the risk taxonomy, as well as aiming to identify cross-risk type issues and effects and to provide a single integrated view on the bank's risk profile, benchmarked against the bank's risk appetite (which is established periodically by the Executive Board and approved by the Supervisory Board after advice from the Committee). Over the year, more attention was paid to geopolitical risks. Also change risk is now considered as a separate risk area. Other important subjects included in the ERM Report are the bank's largest single exposures and specific impairments. Based on the ERM Report, the Committee also discussed matters related to risk governance, operational risks, market risks, tax risks and credit concentration risks. The ERM Report and all other regular

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and one-off reports were used by the Committee to maintain oversight, challenge and advise the Executive Board on the operation and efficiency of the bank's operations versus its risk appetite, including the functioning of its internal Risk Management function.

Each quarter the Committee assessed the updated Capital & Funding Plans and was informed about the bank's current capital and funding positions. The Committee discussed the bank's management of its capital and liquidity ratios, including the issuance plans for capital and funding and options for RWA steering. Particular attention was paid to the impact of Basel IV on the bank's capital position, as well as a potential additional sustainable profit distribution, based on the bank's Basel III capital target range 2019 of 17.5-18.5% and subject to the 2019 SREP requirement. In all instances, the Committee advised the Supervisory Board to approve the Capital & Funding Plan as proposed.

Based on the quarterly Compliance and Legal Reports, the Committee discussed individual Legal, Tax and Compliance files, the performance of the Compliance function, Compliance policies and procedures, the relationship with the supervisory authorities and the impact of national and international laws and regulations. Examples of the files that were discussed included the settlement for SME derivatives-related issues, complaints relating to Euribor-based mortgages, the International Card Services redress scheme and the duty of care in relation to bank account transaction monitoring. Lastly, the Committee discussed the annual plans of the Compliance and Legal departments.

The Committee was informed of the correspondence with the Dutch Central Bank, the European Central Bank and other relevant supervisory authorities in quarterly oversight reports prepared by Group Audit and Compliance. Particular attention in this context was paid to on-site inspections by the ECB and to the EBA stress test results and process.

The Committee also paid specific attention, at three additional meetings, to certain Compliance change projects in the areas of MiFID II, customer due diligence and the duty of care. Worries regarding compliance with AML requirements, and the increasing importance and level of attention for this topic were a permanent agenda item. Given the prominence of these subjects, the Committee expects to devote continued interest to these areas in 2019. Lastly, other topics discussed by the Committee included data quality in general, cybersecurity, Brexit, commercial real estate and consumer credit.

More information on the risk, capital, liquidity and funding-related topics discussed by the Committee is provided in the Risk, funding & capital section.

Remuneration, Selection & Nomination Committee

The Remuneration, Selection & Nomination Committee (the 'Committee') is responsible for supervising (and advising the complete Supervisory Board on) topics such as (i) remuneration policies and their execution for members of the Executive Board, the Supervisory Board and selected members of senior management, (ii) the selection, appointment and reappointment of Supervisory Board and Executive Board members, (iii) succession plans of the Supervisory Board and the Executive Board, (iv) the knowledge, skills, experience, performance, size, composition and profile of both boards, (v) the performance of the members of these boards, (vi) reporting on the execution of the remuneration policies in a remuneration report, and (vii) total human capital, including talent and leadership development.

The Remuneration, Selection & Nomination Committee consists of Mr Arjen Dorland (Chairman), Mr Steven ten Have, Ms Frederieke Leeflang, Ms Annemieke Roobeek and Mr Tom de Swaan. As Mr ten Have had temporarily assumed the duties of the Chairman of the Supervisory Board, Mr Arjen Dorland temporarily assumed the duties of Chairman of the Committee from 12 February 2018. Mr ten Have has since switched his role as Chairman for that of member of the Committee. After the new Chairman of the Supervisory Board was appointed, Mr Arjen Dorland was formally appointed Chairman of the Committee.

In 2018, the Committee held six regular meetings and nine additional meetings. Four decisions were made without a meeting being held, in compliance with proper procedure. All Committee members made sure to review all relevant documents and to provide their input to the Committee Chairman in advance of any meeting that they were unable to attend. The CEO, the member of the Executive Committee responsible for Transformation & HR and the Company Secretary also attended the meetings. In accordance with stricter legislation, the Supervisory Board continued in 2018 to ratify all decisions made by the Committee, either at a meeting or in writing without a meeting being held.

The attendance rate of the members of the Committee was as follows:

2018	Formal meetings (6)	Additional meetings (9)	Total meetings (15)	Attendance (%)
T. de Swaan[1]	2	4	6	100%
O.L. Zoutendijk[2]	1		1	13%
S. ten Have	5	4	9	60%
A.C. Dorland	6	9	15	100%
F.J. Leeflang	6	8	14	93%
J.M. Roobeek	5	6	11	73%

1 Appointment date 12 July 2018 after which 6 meetings were held.
2 Resignation date 1 July 2018 before which 8 meetings were held.

In February and March, the proposals for the end-of-year process (decisions on organisation-wide Key Performance Indicators (KPIs), performance ratings of the Executive Board, determination of Identified Staff and related variable compensation and target-setting for 2018) were considered and discussed and presented to the Supervisory Board with a positive advice.

A full evaluation of the new management structure was conducted by external experts in early 2018 (see "Performance Evaluation" below).

The discussion on a necessary redesign of the KPI framework that started in 2016 was completed in 2018. The Committee regularly challenged the existing framework, recommending its replacement by a simpler framework with more emphasis on leadership. Financial KPIs have since been added to align with the bank's new strategic direction. The Committee also recommended sharpening the KPI sustainability for the coming years. In addition, a new performance management system was introduced for staff covered by the Collective Labour Agreement. This is part of the agile way of working and entails a continual dialogue on targets.

In addition, the Committee recommended that more management attention should be paid to crucial matters such as talent and leadership development, talent retention, succession planning, diversity in the broadest sense, the design and establishment of a leadership development function and programme, purpose and culture change.

Other subjects that were discussed extensively throughout the year included the process for selecting and nominating the new Chairman and two prospective Supervisory Board members (all these searches were conducted by an independent, external search firm, based on clearly defined role descriptions, and included interviews with multiple candidates for each role), succession planning, the European Banking Authority suitability guidelines and the results of the 2018 Employee Engagement Survey.

Performance evaluation

When the Executive Committee was set up in March 2017, it was decided that the new management structure should be evaluated after a year. The Supervisory Board and the Executive Board commissioned two external experts to carry out this evaluation. This evaluation, carried out in 2018, addressed themes such as the Executive Board and Executive Committee structures, the Supervisory Board's role and involvement, the bank's leadership, purpose and strategic story, as well as the implementation of the culture change. At the same time, the ECB was working with DNB to evaluate the same issues, particularly internal governance and risk management, as part of its on-site inspections 2018. From both evaluations board room dynamics (the way of working together, leadership style and open relationships) as well as technical aspects (the importance of clearly allocated tasks and responsibilities) came up as focus areas. These focus areas have been extensively discussed and are currently being addressed. The assessments of the Supervisory Board, Executive Board and Executive Committee for the 2018 performance year will be carried out in 2019.

Introductory Programme and Lifelong Learning Programme

Introductory Programme

Following their appointment, all new members of the Supervisory Board complete an extensive introductory programme designed to ensure they have the relevant knowledge needed to fulfil their role, including thorough knowledge of ABN AMRO Group and its business activities, financial reporting by the Group and general financial, social and legal affairs. As the knowledge, background and experience of newly appointed members of the Supervisory Board differ, the curriculum of the introductory programme is tailor-made.

Lifelong Learning Programme

A lifelong learning programme is in place for members of the Executive Board and Executive Committee. This is designed to keep their expertise up to date and to broaden and deepen their knowledge, where necessary. The objective is for members of the Executive Board and Executive Committee to participate in the same training sessions so as to foster knowledge-sharing. The curriculum is developed and updated continually to ensure a balanced programme covering all relevant aspects of the bank's performance and taking into account current developments in the global financial industry. Topics covered in 2018, in joint sessions with management, included risk governance, culture and conduct, interest rate risk management, data and modelling, sustainability, agile ways of doing business and innovation. The members of the Supervisory Board focused in 2018 on technical knowledge relating to non-financial risks, MIFID II, GDPR and cybersecurity.

General Meeting and shareholder structure

General Meeting

The Annual General Meeting is held each year no later than 30 June. The agenda for the Annual General Meeting must contain certain subjects as specified in ABN AMRO Group's Articles of Association and under Dutch law, for example the adoption of the Annual Financial Statements. Shareholders or holders of depositary receipts who alone or together represent at least 3% of the issued share capital of ABN AMRO Group are entitled to have items added to the agenda of the General Meeting, provided they submit a request for this (including reasons) to ABN AMRO Group at least 60 days prior to the General Meeting.

The Supervisory Board and the Executive Board can both convene a General Meeting. Shareholders or holders of depositary receipts issued with the cooperation of ABN AMRO Group may also convene a General Meeting, if they represent at least 10% of the issued share capital. NLFI may also request the Executive Board or Supervisory Board to convene a General Meeting, as stated in the Relationship Agreement.

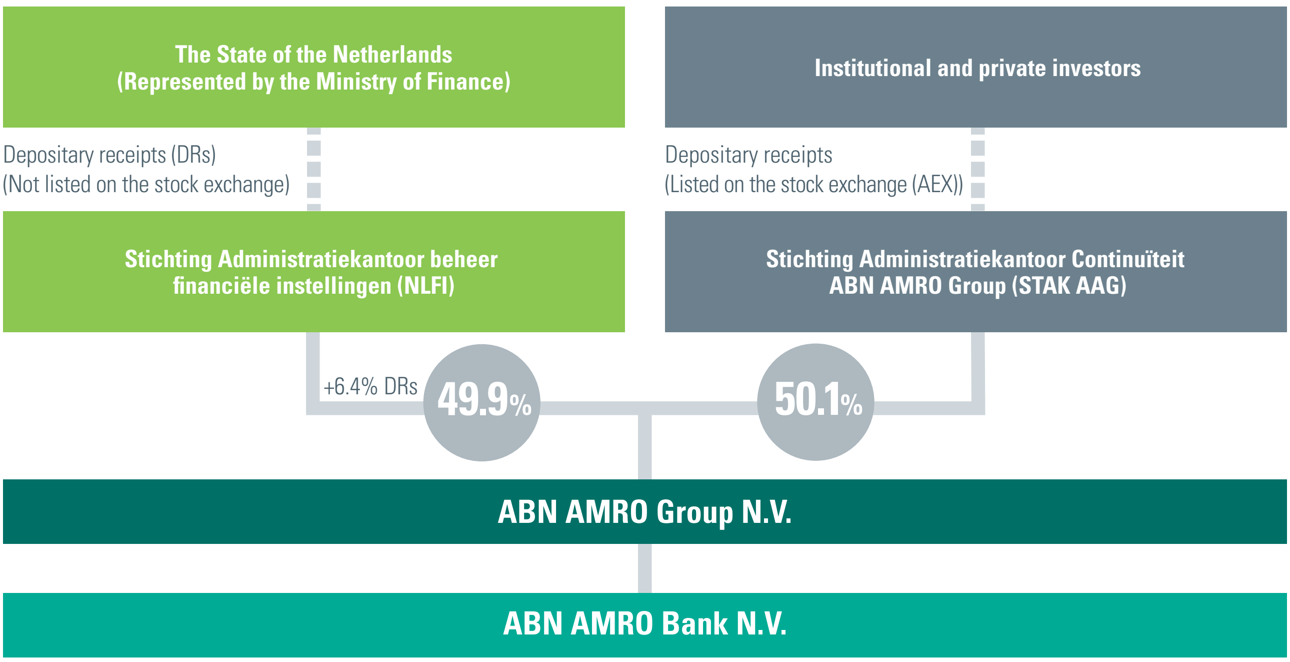
Extraordinary General Meetings may be convened if deemed necessary to resolve upon important decisions, such as major acquisitions and divestments or appointments of Supervisory Board members, that cannot be deferred until the next Annual General Meeting.

ABN AMRO Group held three General Meetings in 2018: the Annual General Meeting on 29 May and Extraordinary General Meetings on 28 February and 12 July.

The agenda of the Annual General Meeting of ABN AMRO Group on 29 May 2018 included:

- the adoption of the 2017 Annual Financial Statements;
- the approval of the proposed dividend for the year 2017;
- the discharge of each member of the Executive and Supervisory Boards in office during the financial year 2017;
- the authorisation for the Executive Board to (a) issue shares and grant rights to subscribe to rights for shares for a period of 18 months up to a maximum of 10% of the issued share capital of ABN AMRO Group, (b) limit or exclude pre-emptive rights, and (c) acquire shares or depositary receipts representing shares in ABN AMRO Group's own capital for a period of 18 months, subject to the approval of the Supervisory Board and provided that the total number of shares or Depositary Receipts held by ABN AMRO is limited to 10% of the issued share capital of ABN AMRO Group;
- the cancellation of shares or depositary receipts representing shares in ABN AMRO Group's own capital held by ABN AMRO Group and the related reduction of the authorised capital;
- the reappointment of Mr Steven ten Have as a member of the Supervisory Board.

Shareholder structure



Introduction
Strategy and performance
Risk, funding & capital
Leadership & governance
Annual Financial Statements
Other

ABN AMRO Bank is a wholly-owned subsidiary of ABN AMRO Group. At 31 December 2018, all shares in the capital of ABN AMRO Group were held by two foundations: NLFI and STAK AAG. On that date, NLFI held 56.3% in ABN AMRO Group, of which 49.9% is directly held via ordinary shares and 6.4% is indirectly held via depositary receipts for shares in ABN AMRO Group. On that date, STAK AAG held 50.1% of the shares in the issued capital of ABN AMRO Group. Only STAK AAG's depositary receipts have been issued with the cooperation of ABN AMRO Group and are traded on Euronext Amsterdam.

NLFI

The Dutch State holds an interest in ABN AMRO Group through NLFI. NLFI was set up with the objective to avoid potential conflicting responsibilities that the Dutch Minister of Finance might otherwise face and to avoid undesired political influence being exerted. NLFI issued exchangeable depositary receipts for shares in the capital of ABN AMRO Group to the Dutch State. NLFI is responsible for managing these shares and exercising all rights associated with these shares under Dutch law, including voting rights. NLFI acts as a standalone shareholder independently from the Dutch State, including the Dutch Ministry of Finance. However, important decisions taken by NLFI require the prior approval of the Dutch Minister of Finance, who can also give binding voting instructions to NLFI with respect to such decisions. NLFI is not permitted to dispose of or encumber the ordinary shares in the capital of ABN AMRO Group, except pursuant to an authorisation from and on behalf of the Dutch Minister of Finance.

NLFI entered into a Relationship Agreement with ABN AMRO Group governing their relationship after the IPO. The full text of the Relationship Agreement is available on abnamro.com. The Relationship Agreement will terminate if and when NLFI (directly or indirectly) holds less than 10% of ABN AMRO Group's issued share capital. A limited number of clauses will not terminate under any circumstances. The Relationship Agreement includes, among other things, the following provisions, subject to certain conditions stated in the agreement:

- the right of NLFI to be consulted by (a) the Supervisory Board on the appointment or reappointment of (i) members of the Managing Board and (ii) the Chairman of the Managing Board or the Supervisory Board, and (b) the Managing Board on a proposal for the appointment of the external auditor. The references to 'Managing Board' are currently to be understood to refer to the Executive Board;
- NLFI's right of prior approval of any issuance of (or granting of rights to acquire) shares in ABN AMRO Group or ABN AMRO Bank for as long as NLFI holds at least 33 1/3% of the shares in ABN AMRO Group;
- for as long as NLFI holds more than 50% of the shares in ABN AMRO Group: any investments or divestments by ABN AMRO Group or any of its subsidiaries with a value of more than 5% of the equity of ABN AMRO Group, and
- for as long as NLFI holds 50% or less but 33 1/3% or more of the shares in ABN AMRO Group: any investment or divestments by ABN AMRO Group or any of its subsidiaries with a value of more than 10% of the equity of ABN AMRO Group;
- the obligation of NLFI to effect sell-downs of ABN AMRO Group shares through STAK AAG;
- certain orderly market arrangements; and
- certain information rights for NLFI as long as it holds at least 33 1/3% of the shares in ABN AMRO Group.

STAK AAG

STAK AAG is independent from ABN AMRO and the holder of shares in ABN AMRO Group's issued share capital. STAK AAG has acquired such shares for the purpose of administration (*ten titel van beheer*) in exchange for depositary receipts. The manner in which this structure can serve as a defence measure and STAK AAG's role in this is further described in this section under Anti-takeover measures.

In addition to serving as a defence measure, STAK AAG also aims to promote the exchange of information between ABN AMRO Group on the one hand and holders of depositary receipts and shareholders on the other. It also promotes the acquisition of voting instructions from DR holders, for example by organising a meeting of depositary receipt holders prior to ABN AMRO Group's General Meeting. STAK AAG will also report on its activities at least once a year in its annual report. In addition, further sell-downs of NLFI's shareholding in ABN AMRO Group will take place through STAK AAG (and in the form of depositary receipts) only.

The Trust Conditions of STAK AAG state that it will ensure that, no later than two weeks before a General Meeting of ABN AMRO Group is held, a meeting of depositary receipt holders is held at which the agenda items of that General Meeting will be discussed. Accordingly, STAK AAG held meetings of depositary receipt holders on 6 February 2018, 3 May 2018 and 25 June 2018.

The STAK AAG website (stakaag.org) provides more information on the activities of STAK AAG, as well as its annual report, articles of association (including STAK AAG's objectives), the Trust Conditions and any information relating to meetings of depositary receipt holders.

Two periodic meetings were held between ABN AMRO and STAK AAG in 2018. In addition to the introduction of newly appointed STAK AAG board members, the items discussed included the published financial results, the refreshed long-term strategy and the intended governance in the event of hostile bids and shareholder activism.

Anti-takeover measures

ABN AMRO has implemented a structure whereby STAK AAG is the holder of shares in ABN AMRO Group's issued share capital and has issued depositary receipts representing such shares with the cooperation of ABN AMRO Group. The purpose of having a structure under which depositary receipts are created and STAK AAG is the legal owner of the underlying shares is to create a defence measure.

STAK AAG will do everything in its power to deter any action that could affect the independence, continuity or identity of ABN AMRO. In a non-hostile situation, STAK AAG will act primarily in the interests of depositary receipt holders. In a hostile situation, STAK AAG will act primarily in the interests of ABN AMRO Group and its business enterprises. Under all circumstances STAK AAG will also take into account the legitimate interests of all other stakeholders: clients, savers and deposit holders, shareholders, depositary receipt holders, employees, and the society in which ABN AMRO operates.

In a non-hostile situation, STAK AAG will grant a power of attorney to the holders of depositary receipts to exercise the voting rights attached to the underlying shares. STAK AAG will not exercise voting rights on the shares, unless holders of depositary receipts have requested it to do so. This may be different under hostile circumstances as described in section 2:118a of the Dutch Civil Code. In this case, STAK AAG may refuse or revoke powers of attorney for up to two years (whereby NLFI must pre-approve this decision by STAK AAG as long as NLFI holds at least 33 1/3% of the shares in ABN AMRO Group). In this case, STAK AAG will vote itself. In doing so, it should, pursuant to the Trust Conditions and the articles of association of STAK AAG, focus primarily on ABN AMRO's interests, taking into account the legitimate interests of the stakeholders mentioned above.

Employee Council

ABN AMRO's employees are represented by works councils (*ondernemingsraden*) at all levels of its group in which specifically appointed delegates are centralised in the overarching Employee Council (*Raad van Medewerkers*).

Under Dutch law, the managing board of any company running an enterprise where a works council has been established must seek the non-binding advice of the works council before taking certain decisions with respect to the enterprise, such as those related to a major restructuring, a change of control, or the appointment or dismissal of a member of the managing board. Certain other decisions directly involving employment matters that apply either to all employees or certain groups of employees may only be taken with the works council's consent.

The Employee Council deals primarily with topics that affect all parts of the group's organisation and meets regularly with members of the Executive Board and Supervisory Board on various other occasions throughout the year, including an annual joint meeting of the Executive Committee, the Supervisory Board and the Employee Council. The Employee Council and ABN AMRO Group have entered into an agreement under which the Employee Council has been granted certain additional rights (the Works Council Covenant). Under the Works Council Covenant, the Employee Council has the right of inquiry (*enquêterecht*) within the meaning of Section 2:346 of the Dutch Civil Code in the event of a hostile situation. The Works Council Covenant defines the following situations as hostile: (i) a public offer has been announced or is made in respect of shares in the capital of ABN AMRO Group (or in respect of depositary receipts representing such shares) or there is a justified expectation that this will take place, without agreement first having been reached between the bidder and ABN AMRO Group, (ii) the exercise of the voting rights by a depositary receipt holder or shareholder would effectively be in conflict with the interests of ABN AMRO Group and its business, or (iii) any other situation in which the independence, continuity or identity of ABN AMRO Group and the enterprises associated with ABN AMRO Group could be harmed. Other situations can be qualified as hostile by means of an agreement between the Employee Council and ABN AMRO Group. Furthermore, if NLFI requests the consent, cooperation and/or a position statement of ABN AMRO Group in the event of a subsequent placement or a private sale of shares or depositary receipts, the Employee Council will be requested by ABN AMRO Group to provide advice within the meaning of articles 25 and 26 of the Works Councils Act (*Wet op de Ondernemingsraden*).

Codes and regulations

ABN AMRO Group is required to comply with a wide variety of governance codes and regulations. This includes the Dutch Corporate Governance Code, the Banking Code and CRD IV. This section explains how ABN AMRO Group complies with these codes and regulations. More comprehensive overviews of ABN AMRO Group's compliance with such codes and regulations are published under the Corporate Governance section on abnamro.com.

Dutch Corporate Governance

We believe that corporate governance that meets high international standards significantly boosts the confidence of the stakeholders in a company. Compliance with the applicable corporate governance codes by financial institutions is an important basis for restoring trust in the financial sector as a whole. Since depositary receipts for shares in ABN AMRO Group are listed on Euronext Amsterdam, ABN AMRO Group is required to adhere to the Dutch Corporate Governance Code.

ABN AMRO Group has complied with all principles and best practices of the Dutch Corporate Governance Code, except for the deviations and nuances described below. Under the Corporate Governance section on its website, ABN AMRO Group also publishes a detailed 'comply or explain' list with regard to the Corporate Governance Code applicable in 2018.

Best practice provision 1.3.6 is not applicable as ABN AMRO does have an internal audit function.

ABN AMRO Group applies principle 2.7 and best practice provisions 2.7.1 through 2.7.4, which deal with actual and apparent conflicts of interest. However, ABN AMRO Group makes an exception with respect to qualitative conflicts of interest *(kwalitatief tegenstrijdige belangen)* that are exclusively the result of the identical composition of the Executive Boards of ABN AMRO Bank and ABN AMRO Group, and the Supervisory Boards of the respective entities.

ABN AMRO applies best practice provision 2.1.9, which states that the chairman of the supervisory board should not be a former member of the management board of the company. Although Mr Tom de Swaan was a member of the Managing Board of the former ABN AMRO, the current ABN AMRO is the result of various legal and operational separations and combinations, a merger and a legal demerger that took place after the acquisition of the former ABN AMRO Holding N.V. (the 'former ABN AMRO group') by a consortium of banks in October 2007. The consortium consisted of the Royal Bank of Scotland Group, Fortis and Banco Santander S.A (the 'Consortium'). In October 2008, when the Fortis group experienced financial difficulties, the Dutch State acquired certain operations of the Fortis group, as well as Fortis' interest in the vehicle that had acquired the former ABN AMRO group. The current ABN AMRO Group N.V. was newly incorporated on 18 December 2009 to hold the operations, assets and liabilities of parts of the former ABN AMRO group and the part of the Fortis group acquired by the Dutch State. On 6 February 2010, the new and current ABN AMRO Bank demerged from the former ABN AMRO Bank N.V. into a newly incorporated entity. The former ABN AMRO Bank N.V. was subsequently renamed Royal Bank of Scotland N.V. On 1 July 2010, the new ABN AMRO Bank and Fortis Bank (Nederland) N.V. merged pursuant to a legal merger (*juridische fusie*), following which the current ABN AMRO Bank was the surviving entity (*verkrijgende vennootschap*) and Fortis Bank (Nederland) N.V. was the disappearing entity (*verdwijnende vennootschap*). The current ABN AMRO Group and ABN AMRO Bank are therefore different entities from the former ABN AMRO Holding N.V. or former ABN AMRO Bank N.V .

ABN AMRO Group applies best practice provisions 2.2.5, 2.3.2 and 2.3.3, which set out the roles and responsibilities of the remuneration committee and the selection and appointment committee. Instead, however, of having a separate remuneration committee and a selection and nomination committee, these committees are combined into one committee.

ABN AMRO Group applies best practice provision 4.1.3, which states, among other things, that (a) each substantial change in the corporate governance structure of ABN AMRO Group and in the compliance with the Code and (b) material changes in the Articles of Association should be presented to the General Meeting as a separate discussion item or voting item, as applicable. The only exception to this practice is that the Executive Board and the Supervisory Board may decide to place certain topics on the agenda under one agenda item if these topics are justifiably related. ABN AMRO Group considers this to be a further substantiation of this best practice provision, which may be necessary due to the fact that a situation could arise in which proposals to amend the Articles of Association or the corporate governance structure of ABN AMRO Group are interrelated in such a way that separate votes on each of those proposals could result in an imbalanced voting result and consequently in an imbalance in the corporate governance structure.

Best practice provision 4.3.3 is not applicable as ABN AMRO Group does have a statutory two-tier status *(structuurregime)*.

ABN AMRO Group does not apply principle 4.4. In contradiction to this principle and provision, the issuing of depositary receipts by STAK AAG is primarily used as a defence measure and not to prevent a situation in which, as a result of shareholder absenteeism, a minority of shareholders can control the decision-making process at a General Meeting. Regulatory considerations have been decisive in choosing a structure with depositary receipts as a protective measure. Declarations of No Objection could be obtained up front only by means of a structure with depositary receipts. These Declarations of No Objection are required in connection with the direct or indirect acquisition of a qualified holding in ABN AMRO Bank and certain other regulated entities in which ABN AMRO Group holds an interest. Therefore, this structure provides the greatest possible certainty of adequate protection for ABN AMRO Group against a hostile takeover. Although the issuing of depositary receipts has been set up primarily as a defence measure and not to prevent absenteeism, STAK AAG aims to promote the exchange of information between ABN AMRO Group on the one hand and holders of depositary receipts and shareholders on the other by, for example, organising a meeting of depositary receipt holders before every General Meeting. More information on the purpose and functioning of the depositary receipts and STAK AAG, including information on situations in which STAK AAG may decide to limit, refuse or revoke powers of attorney (and to not observe any voting instructions received), can be found on the STAK AAG website (stakaag.org).

Compliance with best practice provisions 4.4.1 through 4.4.5 and 4.4.7 through 4.4.8 are a responsibility of the board of STAK AAG. With respect to best practice provisions 4.4.5 and 4.4.8, the following applies. In a non-hostile situation, STAK AAG will act primarily in the interests of depositary receipt holders. In a hostile situation, STAK AAG will act primarily in the interests of ABN AMRO Group and its business enterprises. Under all circumstances STAK AAG will also take into account the legitimate interests of all other stakeholders: clients, savers and deposit holders, shareholders, depositary receipt holders, employees, and the society in which ABN AMRO operates. Furthermore, STAK AAG has in principle the obligation to grant a power of attorney to depositary receipt holders to exercise the voting rights attached to the underlying shares and will not exercise voting rights on the shares in ABN AMRO Group (unless depositary receipt holders have requested STAK AAG to do so). The foregoing could be different in hostile situations as described in Article 2:118a of the Dutch Civil Code. STAK AAG may then decide to (a) limit, exclude or revoke powers of attorney and (b) not observe voting instructions received for a period of up to two years. Furthermore, under the depositary receipt terms, when exercising the voting rights in a hostile situation, STAK AAG should focus primarily on the interests of ABN AMRO Group and its business enterprises as set out above.

Principle 5.1 and best practice provisions 5.1.1 through 5.1.5 are not applicable because ABN AMRO Group has a two-tier board.

Dutch Banking Code

The Dutch Banking Code sets out principles that banks with a corporate seat in the Netherlands should observe in terms of corporate governance, risk management, audit and remuneration. The Dutch Banking Code applies to ABN AMRO Bank as the main entity within a group that holds a banking licence.

ABN AMRO is therefore committed to complying with the Dutch Banking Code and devotes a great deal of effort to ensuring that the spirit of the code is reflected in the behaviour of its employees and the culture of the bank. As such, we are pleased to confirm that ABN AMRO Group complies with the principles of the Dutch Banking Code. A principle-by-principle overview of the manner in which ABN AMRO Bank complied during 2018 with the Dutch Banking Code is published on abnamro.com. Throughout 2018, we continued to improve the manner in which we apply the principles of the Dutch Banking Code, taking into account the focus areas indicated by the Dutch Banking Code Monitoring Committee. In particular, the bank devoted a great deal of attention to leadership, integrity and its societal role, including increased efforts regarding sustainability and providing services to customers in their best interests. During 2018, as part of our assessment of code adherence, we noted that further enhancements can be made to the processes involving succession planning, permanent education and the self-assessments performed at Board level. Implementation of further enhancement of these processes has been initiated.

All members of the Supervisory Board and Executive Board of ABN AMRO Group have taken the Banker's Oath. Taking this oath is required by Dutch law. The oath is a confirmation of ABN AMRO's existing policy, which is fully in line with the bank's cultural principles and core values. Along with the introduction of a Social Charter and the Banking Code, the Dutch banking industry has taken the initiative to have all employees take the Banker's Oath. Employees take the oath to affirm their commitment to upholding high standards of ethical behaviour. They are personally responsible for complying with these rules of conduct and may be held accountable for non-compliance in the near future.

Subsidiaries of ABN AMRO Bank and the Dutch Banking Code

On 31 December 2018, ABN AMRO Bank had four Dutch subsidiaries with a banking licence: ABN AMRO Clearing Bank N.V., ABN AMRO Groenbank B.V., ABN AMRO Hypotheken Groep B.V. and International Card Services B.V. ABN AMRO applies the principles of the Dutch Banking Code to all of these Dutch subsidiaries on a consolidated basis by developing group-wide policies and standards to promote compliance with internal and external rules and best-practice provisions. In view, however, of the differences between the activities, organisation and risk management of the subsidiaries, the application of group-wide policy and standards can vary from one subsidiary to another. An explanation of the manner in which these subsidiaries comply with the Dutch Banking Code is published on abnamro.com.

CRD IV

Article 96 of CRD IV requires financial institutions to explain on their website how they comply with the requirements of Articles 88 through 95 of CRD IV. These Articles set out governance, disclosure, remuneration and nomination requirements for financial institutions. The obligation to publish such an overview was implemented into Dutch law by Article 134b of the Decree on Prudential Measures FMSA *(Besluit prudentiële regels Wft)*. ABN AMRO has published an overview on abnamro.com of how ABN AMRO Group and ABN AMRO Bank comply with Article 134b of the Decree on Prudential Measures and Article 96 of CRD IV.

Under CRD IV, all members of the management body of a bank (including non-executive members or supervisory board members acting in their role of overseeing and monitoring management decision-making) must commit sufficient time to allow them to perform their duties and to be able to understand the bank's business. In respect of significant banks, such as ABN AMRO Bank, Article 91 of CRD IV contains a specific regulation on limiting the number of executive and non-executive directorships such members may hold (these rules have been implemented in Dutch law in Section 3:8(3) Dutch Financial Markets Supervision Act). All members of the Executive Board and Supervisory Board currently comply with the above rules under CRD IV.

Legal structure

Global structure

The full list of subsidiaries and participating interests as referred to in Article 414, Book 2 of the Dutch Civil Code has been filed with the Trade Register.

Retail Banking

The Retail Banking business of ABN AMRO is supported by the following subsidiaries (this list is not exhaustive): ABN AMRO Hypotheken Groep B.V. offers all ABN AMRO labelled residential mortgage products, including Direktbank, Florius and Moneyou brands. ALFAM Holding N.V. provides consumer loans via intermediaries under four different labels: Alpha Credit Nederland, Credivance, Defam and GreenLoans. International Card Services B.V. (ICS) issues, promotes, manages and processes more than 25 different credit cards in partnership with companies, including credit card transactions, and offers other financial services, such as revolving credit facilities. Moneyou B.V. operates as an internet bank offering savings accounts and mortgages and is active in the Netherlands, Belgium, Germany and Austria. Nationale Nederlanden ABN AMRO Verzekeringen Holding B.V. (ABN AMRO Verzekeringen) is an associate of ABN AMRO Bank N.V (49%). Nationale Nederlanden N.V. holds a 51% interest. ABN AMRO Verzekeringen offers life and non-life insurance products under the ABN AMRO brand. ABN AMRO Pensioeninstelling N.V. (ABN AMRO Pensions) is a premium pension institution ('PPI') which offers pension schemes without insurance based on longevity or death.

Commercial Banking

The Commercial Banking business of ABN AMRO is supported by the following subsidiaries (this list is not exhaustive): ABN AMRO Asset Based Finance N.V. provides asset-based solutions (working capital solutions, equipment lease, equipment loans and vendor lease services) to its customers in the Netherlands, France, Germany, the United Kingdom and Belgium.

Private Banking

The Private Banking business of ABN AMRO is supported in France and Germany by the following subsidiaries (this list is not exhaustive): Banque Neuflize OBC S.A. offers a private banking model based on an integrated approach to private and commercial wealth, articulated around dedicated advisory and product offers. Bethmann Bank AG is a private bank and enjoys a strong local heritage and brand recognition in the German market. Bethmann covers all major regions of Germany and offers all private banking and private wealth management-related services. Neuflize Vie S.A. is a joint venture between Banque Neuflize OBC (60%) and AXA (40%). It was created to offer life insurance products to high net worth and ultra-high net worth individuals and has developed customised solutions, with a focus on unit-linked contracts.

Corporate & Institutional Banking

The Corporate & Institutional Banking business of ABN AMRO is supported by the following subsidiaries (this list is not exhaustive): ABN AMRO Clearing Bank N.V. is a global leader in derivatives and equity clearing. It is one of the few players currently able to offer global market access and clearing services on more than 85 of the world's leading exchanges and operates from several locations across the globe.

Group Functions

The Functions business of ABN AMRO is supported by the following subsidiaries (this list is not exhaustive): ABN AMRO Funding USA LLC is active in the US market, issuing ABN AMRO's US dollar Commercial Paper funding for clients operating in the US and for clients with US dollar loans. Stater N.V. offers administrative services related to mortgage loans. Stater works for ABN AMRO and other parties supplying mortgage loans.

Remuneration report

ABN AMRO's remuneration philosophy and principles apply to all our employees. The remuneration policy and practices for the Supervisory Board, the Executive Board and other Identified Staff are discussed in greater detail in the subsequent sections of this report.

Overview

As a financial institution ABN AMRO is subject to many guidelines and restrictions with respect to remuneration. Since 2015, limitations with respect to remuneration and, more specifically, to variable remuneration have applied to all employees in the Dutch financial sector, with even more restrictions applying to financial institutions to which the Dutch State provides support in the form of shareholdings. This applies to ABN AMRO, with the restrictions including a prohibition on bonuses for a specific group of senior employees. ABN AMRO aims to combine all applicable remuneration restrictions with our corporate strategy.

Remuneration philosophy

ABN AMRO's long-term corporate strategy and its strategic priorities are embedded in our remuneration policy and principles. In 2018 this applied to the four strategic priorities reflected in our remuneration philosophy:

- Client-driven – Our clients' interests come first in everything we do;
- Invest in the future – We need a flexible and agile workforce and want to be an attractive employer for which talented people are eager to work for;
- Moderate risk profile – We adhere to all applicable rules and regulations on remuneration and take care to ensure that our performance criteria do not provide any incentives for excessive risk-taking;
- Sustainable growth – We treat our employees as our most valuable asset.

As ABN AMRO always aims to combine the pillars of our corporate strategy with our remuneration philosophy, the remuneration principles will be revisited and aligned with the new strategy pillars from 2019 onwards. An overview of the new strategy can be found in the Strategy chapter. The remuneration policy applying in 2018 is described below.

Remuneration policy

Responsible remuneration policy

ABN AMRO aims to pursue a responsible remuneration policy that remains within the regulatory boundaries, such as limitations on variable remuneration and the prohibition on bonuses for a specific group of senior employees, while taking into account the interests of all our stakeholders and best practices.

Our remuneration principles are embedded in ABN AMRO's Global Reward Policy, which is designed to support ABN AMRO's business strategy, objectives, values and long-term interests. Our remuneration policy should enable us to attract and retain the right talent and should ensure that we can meet our responsibilities towards clients and other stakeholders, both now and in the future. Furthermore it provides a framework for effectively managing reward and performance across the bank. It is therefore periodically updated in order to remain aligned with ABN AMRO's goals and the applicable guidelines and regulations. The Supervisory Board approves the general remuneration principles laid down in the Global Reward Policy and assesses the general principles and exceptions that relate to the applicable governance and/or internationally applicable guidelines and regulations within the financial sector. The policy is therefore regularly reviewed, taking account of the company's strategy and culture, and any changes in these, and factors such as risk awareness, targets and corporate values, as well as relevant market practice. It also takes into account external requirements with respect to governance, the international context and relevant market data.

The Global Reward Policy applies at all levels and in all countries of ABN AMRO's international network (including branch offices). Different starting points apply to the various levels of the bank's workforce, but we always position our remuneration levels around the median of the relevant labour market while keeping labour costs under control. A typical remuneration package for ABN AMRO employees consists of an annual base salary, annual variable remuneration if the relevant market practice so requires, benefits and other entitlements. We also consider specific rules with respect to those staff whose professional activities could have a material impact on the bank's risk profile. Within ABN AMRO, individuals within this group are referred to as Identified Staff.

A separate Reward Policy applies to members of ABN AMRO's Executive Board. This policy is in alignment with the policy that was adopted in 2010 for the then Managing Board. The Executive Board's policy is aligned with all relevant and applicable guidelines and regulations and reflects applicable developments and recommendations of the EBA, ECB, DNB, AFM Banking Code and Corporate Governance Code.

Our annual performance management cycle for Identified Staff aims to create links between performance (realistic, sustainable results) and reward in such a way that reward is aligned with both the employee's and the bank's performance. We use a set of balanced financial and non-financial targets, as well as qualitative and quantitative

KPIs. For 2018, our Group non-financial KPIs consisted of Society at Large (based on the Dow Jones Index ranking and the AFM/NVB Confidence Monitor Banks), Employee Engagement (via the annual survey), the Net Promoter Score and House in Order (conveying the desired compliance and risk culture).The financial targets used in 2018 at Group level were revenue growth, RARORAC, CET1 ratio and cost ceiling. Cost ceiling and RARORAC are also used at a business line level. There is ample room to set individual and business-related KPIs, such as individual leadership, collaboration between business lines and diversity targets. The table of KPIs for Identified Staff provides more insight into the methodology used.

In line with the general trend toward less hierarchy and more teamwork ABN AMRO wants to subject employees to fewer checks and give them more empowerment and to offer them the tools needed to keep them well equipped to do their job and to deal with the ever-changing environment. Our responsible remuneration policy should enable our employees to further develop their expertise and help us create a simpler, more agile organisation. We strive to give our staff more autonomy and responsibility, thus making their work more meaningful, while at the same time ensuring it is aligned with all the bank's current and future priorities. We use Together & Better performance management to further emphasise our employees' ambitions, expertise and development and seek alignment with our goals, such as creating long-term value for all our stakeholders.

Changes in 2018

The evaluation of the Act on the Remuneration Policy for Financial Undertakings (*Wbfo*) was completed in 2018 and followed by a public consultation on the effectiveness of the remuneration restrictions embedded in the legislation. The Minister of Finance has indicated a wish to impose stricter measures regarding the use of the average 20% variable remuneration cap, to introduce a legal obligation to account for the relationship between remuneration and the sector and its position in society, to introduce mandatory requirements for board members holding shares and to impose stricter guidelines for clawing back fixed remuneration from board members of system banks.

Expected changes in 2019

During 2019 we will start negotiating a new Collective Labour Agreement and will incorporate any necessary adjustments and amendments that may follow from the *Wbfo* consultation process, as well as any amendments required owing to changes in the Banking Code.

Remuneration principles for the Supervisory Board, Executive Board and other Identified Staff

Supervisory Board remuneration

The remuneration of the members of the Supervisory Board is set by the General Meeting of Shareholders, based on a proposal of the Supervisory Board. ABN AMRO does not grant any variable remuneration or equity to Supervisory Board members in lieu of remuneration. The level of remuneration has not changed since 2010. The annual fees applicable since 2010 are as follows:

- Membership of Supervisory Board: EUR 50,000 (EUR 65,000 for the Chairman)
- Membership of Audit and Risk & Capital Committee: EUR 12,500 (EUR 15,000 for the Chairman)
- Membership of Remuneration, Selection & Nomination Committee: EUR 10,000 (EUR 12,500 for the Chairman).

The remuneration for Supervisory Board committee membership is limited to two such memberships. Details of the remuneration of members of the Supervisory Board in 2018 are provided in note 35 in the Consolidated Annual Financial Statements.

Executive Board remuneration

The Supervisory Board is responsible for proposing the remuneration policy and principles for the Executive Board and also executes the policy for the Executive Board. The policy and principles are subject to shareholder approval. The fixed remuneration for the Chairman and three members of ABN AMRO's Executive Board has been set at a level slightly below that of the former CEO and Managing Board members. The Executive Board members' views have not been taken into account in the design of the remuneration policy, given the remuneration restrictions that apply as long as the Dutch State provides support through a shareholding.

In the case of the former Managing Board, ABN AMRO always aimed for a level of compensation slightly below the median of the relevant markets. while using a peer group of companies. This peer group consisted of both financial and non-financial companies in the Netherlands and Europe, against which the remuneration proposals for the former Managing Board were assessed. In recent years, however, the many changes that have occurred in the banking industry in the Netherlands have made it difficult to properly assess the Managing Board's remuneration packages as such changes have not necessarily affected companies in the general industry or the financial industry outside the Netherlands. This currently makes benchmark comparisons difficult, if not impossible. As in 2017, therefore, the benchmark comparisons were not a leading factor in the process of fixing the new Executive Board annual salaries in 2018. These remained at the same level as in 2017 except for a minor collective adjustment (described below). The fixed remuneration for the five members of ABN AMRO's Executive Committee has been set on the basis of the Executive Board salaries and reflects the various responsibilities of the Executive Committee members. The new salary framework of the Executive Committee members became effective on the starting date of their appointments, 1 March 2017.

Details of the remuneration of the individual members of the Executive Board and of the Executive Committee members are provided in note 35 and note 36 respectively in the Consolidated Annual Financial Statements.

Annual fixed remuneration for 2018

The annual base salary for the Executive Board members follows the developments in the Collective Labour Agreement for the banking industry (CAO Banken). For the year 2018, a collective salary increase of 1.5% applied.

The three members of the Executive Board each earn the same salary which, for 2018, amounted to EUR 614,075 gross per annum. The differential between the salary of the Chairman of the Executive Board, Mr Kees van Dijkhuizen, and the other members is 15%. His salary for 2018 amounted to EUR 723,358.

In February 2019, a new Collective Labour Agreement for the banking industry was concluded for the years 2019-2020. This provides for two collective salary increases, each of 2.5%, from 1 January 2019 and 1 January 2020 respectively.

The Chairman of the Executive Board's 2019 salary will be EUR 741,442 gross, while the members of the Executive Board will each receive an annual salary of EUR 629,427 gross.

Variable remuneration

The remuneration package for members of the Executive Board provides for a variable compensation component. However, the prohibition on bonuses that became effective in 2011 and, since 7 February 2015, has been incorporated into Article 1:128 Financial Supervision Act does not allow such compensation to be paid to board members of financial institutions falling under the scope of the Financial Supervision Act during the period the Dutch State provides support through a shareholding in the institution. Consequently no benchmark scenario analysis was undertaken. The members of the Executive Board are therefore not entitled to receive variable remuneration during the period of state ownership. This continued to apply in the 2018 performance year. Executive Board members consequently do not participate in the Variable Compensation Plan applying to all Identified Staff within ABN AMRO.

Benefits

The Chairman and members of the Executive Board participate in the ABN AMRO pension schemes applicable to all employees in the Netherlands, whereby it should be noted that Mr Clifford Abrahams is not a Dutch tax resident. For pensionable salary up to the applicable threshold, which for 2018 amounted to EUR 105,075, a collective defined contribution (CDC) pension scheme applies. From 2018, the standard retirement age is 68, while the average income accrual is 1.875% and the employee pension contribution is 5.5%. For pensionable salary in excess of EUR 105,075, employees receive an allowance that can be used to build up a net pension in a defined contribution (DC) plan. The allowance amounted to 34% in 2018. The allowance is set annually, based on the year-end interest in the preceding calendar year. In addition to pension benefits, Executive Board members are eligible for benefits such as a company car and a chauffeur.

Severance

The remuneration policy for Managing Board members foresees in a severance payment equal to one year's gross salary in the event of their employment contract being terminated at ABN AMRO's initiative. The current Executive Board members all have the same contractual right to a severance payment equal to three months' gross fixed salary. In 2018, Mr Johan van Hall, as a former Managing Board member, was awarded a severance payment on his departure. Contrary to his contractual entitlement as a former Managing Board member, the severance payment made to Mr van Hall equalled three months' gross fixed salary, as applicable to the current Executive Board members.

Appointment period

The appointment term for Executive Board members is, in principle, set at three years. Mr van Dijkhuizen was appointed CEO and Chairman on 1 January 2017. Mr Clifford Abrahams was appointed an Executive Board member and CFO on 1 September 2017 and has acted as Vice-Chairman since 1 March 2018 as the successor of the former Managing Board member, Johan van Hall. Ms Tanja Cuppen was appointed an Executive Board member on 1 October 2017 and became CRO on 1 November 2017. Mr Christian Bornfeld was appointed an Executive Board member and CI&TO on 1 March 2018. The appointment terms for all current Executive Board members have been contractually agreed to be three years, with the appointment ending at the close of the first General Meeting held after the three-year term has expired. Reappointment is possible.

Executive Board 2018 performance

The Supervisory Board assessed the Executive Board members' performance and concluded that the set performance targets for 2018 were well met. The average performance outcome was above target, based on a set of financial and non-financial performance indicators as well as individual leadership. Owing to the applicable prohibition on bonuses, the members of the Executive Board are not eligible to receive variable remuneration linked to their performance during 2018.

Identified Staff remuneration

Remuneration restrictions apply not only to the Executive Board, but also to those staff whose professional activities could have a material impact on the bank's risk profile ('Identified Staff'). Within ABN AMRO, the group of Identified Staff consists of:

- Members of the Executive and Supervisory Boards;
- Members of the Executive Committee;
- Members who fulfil an Executive Committee -1 or -2 position at above-CLA level;
- Staff responsible for independent control functions;
- Other risk takers. The definition of the group of other risk takers follows from their impact on the economic capital of ABN AMRO (EC threshold), membership of certain Risk Committees, having credit authority above a certain threshold and fulfilling specific roles;
- Other employees whose total remuneration takes them into the same remuneration bracket as senior managers and risk takers.

Composition of remuneration packages

In general, the remuneration packages for Identified Staff have been structured in accordance with the various regulations and restrictions for the financial sector. A typical remuneration package for Identified Staff consists of the following components:

- Annual base salary;
- Annual variable remuneration (with deferred payout in alignment with the ABN AMRO Variable Compensation Plan);
- Benefits and other entitlements.

ABN AMRO strives to position the level of total direct compensation for the Executive Committee members and the Executive Committee -1 and -2 positions just below the market median levels. In alignment with the Act on the Remuneration Policy for Financial Undertakings (*Wbfo*), which came into force in 2015, the variable compensation for this group of employees is capped at 20% of base salary for those employed in the Netherlands. In addition, and also with effect from 2015, the further remuneration restrictions, including the prohibition on bonuses, were extended to a specific group of senior employees as defined in the *Wbfo*. Accordingly, these senior employees, comprising the five Executive Committee members, are also not allowed to be granted any variable remuneration until the Dutch State no longer holds an interest in ABN AMRO.

ABN AMRO's Collective Labour Agreement (CLA) governs the remuneration packages for Identified Staff based in the Netherlands unless they have been appointed to a positions to which the CLA does not apply, such as the Executive Committee -1 and -2 groups of employees. For Identified Staff based outside the Netherlands, ABN AMRO takes the relevant business dynamics (e.g. market conditions, local labour and tax legislation) into account when deciding on the composition of the reward packages. For the latter two categories of employees, the total direct compensation is aimed to be positioned around the median levels in the relevant market. The maximum variable compensation percentage for employees working outside the Netherlands in another European Economic Area ('EEA') state is 100%; for employees working outside the EEA more than 100% is allowed, with a maximum of 200% and subject to shareholder approval. These percentages are aligned to the international market environment in which we operate.

Until 14 December 2018 (the date on which the Private Equity Business was sold), special plans existed for certain key investment professionals within Private Equity. Key investment professionals were able to participate in private equity funds where separate performance-related incentives ('carried interest') had been agreed upon. Carried interest became payable only after the relevant private equity fund had first returned all the capital contributed by ABN AMRO plus an amount of profits at an agreed hurdle rate. Carried interest entitlement was awarded at the initiation of the private equity fund controlled by ABN AMRO. The value of this entitlement over the paid-up amount by the investment professionals was treated as variable compensation at the time of being granted. Subsequent changes in value were treated as third-party minority interests in the funds and reflected as other non-controlling interests in the consolidated income statement (see page 154). We also refer to the consolidated statement of changes in equity on page 157. Carried interest was subject to 'good and bad leaver' arrangements, as set out in the relevant agreement, to discourage malfeasance. Claw-back provisions were also in place. Due to the sale of the Private Equity business, the carried interest schemes no longer exist at ABN AMRO.

Performance is measured during a one-year performance period at three levels: group, business unit and individual level, and by means of (partly) risk-adjusted financial and non-financial performance indicators.

Performance indicators for Identified Staff

	Weighting Executive Board[5]	Weighting Executive Committee	Weighting above CLA identified staff	Weighting CLA identified staff
Organisation level KPIs	40-70%	20-40%	20%	10%
Businessline level KPIs	0-30%	30-50%	50%	15%
Individual KPI[1]	30%	30%	30%	75%
Total	**100%**	**100%**	**100%**	**100%**
- of which financial[2,3]	20-40%	20-30%	20-30%	0-50%
- of which non-financial[3,4]	60-80%	70-80%	70-80%	50-100%

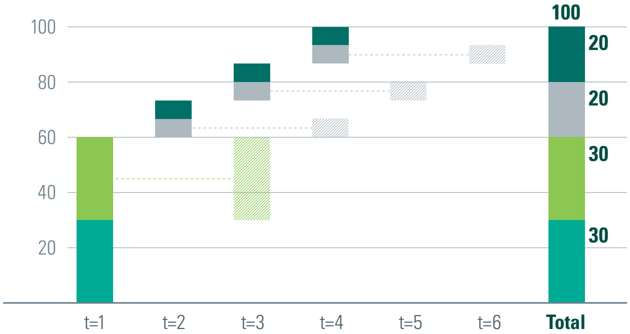
1 Individual KPI: For employees above CLA the individual KPI refers to leadership.
2 Financial KPIs include revenue growth, cost ceiling, RARORAC and CET1 ratio.
3 Non financial KPIs include sustainability, Net Promoter Score, Employee Engagement, House in order, Cultural transformation and Bank broad innovation.
4 Mix and weighting of KPIs tailored to specific function of the identified staff member.
5 The CEO only has KPIs on Individual and Organisation level.

Variable remuneration of Identified Staff

All variable remuneration awards for Identified Staff are subject to, and structured in accordance with, the Variable Compensation Plan. Before any variable remuneration is granted, ABN AMRO applies an ex-ante risk assessment consisting of collective quantitative risk adjustment mechanisms (such as the solvency check) and a qualitative individual check (the gatekeeper). The gatekeeper procedure forms part of the performance management framework and provides for an assessment of each individual Identified Staff member by the control functions (Risk, Compliance and Audit) on the basis of several behavioural elements. This assessment results in advice to the Executive Board, which ultimately decides on whether variable compensation can indeed be granted to the Identified Staff member concerned. The Executive Board's decision must be formally approved by the Supervisory Board, based on the advice of the Remuneration, Selection & Nomination Committee. For 2018 it was decided not to apply gatekeeper adjustments. The variable remuneration is awarded over time and split between an up-front portion (60%) and a deferred portion (40%), with all portions divided equally between a cash and a non-cash instrument, as shown in the following chart.

Variable remuneration

(in %)



1 The up-front payment (60% in total) is awarded in March following the relevant performance year.
2 The deferred award (40% in total) vests in three separate tranches respectively 1, 2 and 3 years after the end of the relevant performance year.
3 All non-cash awards are subject to a two year retention period.

Up-front variable remuneration is awarded in the first quarter of the year following the relevant performance year, while deferred variable remuneration vests in equal instalments in the three years following the first payment. This remuneration will vest only after an explicit ex-post risk assessment: the 'malus assessment' (see the ex-post risk adjustment tools paragraph).

The Supervisory Board approval of the new Variable Compensation Plan on is expected mid March 2019. Since the awards reflecting the 2016 performance year, the instrument underlying the non-cash award has consisted of an award in the form of a Depositary Receipt (DR) Award, which is a conditional right to receive DRs. One DR represents one share in ABN AMRO. The value therefore fluctuates in line with the market price of the DRs and its use will result in an increased alignment between remuneration and shareholder value for all participants in the Variable Compensation Plan.

Variable income awards with respect to the performance years up to and including 2015 will continue to use performance certificates, the value of which fluctuates in line with the net asset value of ABN AMRO.

A two-year retention period applies to the non-cash instruments. Any unconditional instrument will therefore need to be retained for a further two years.

The malus assessment is conducted by the Risk, Compliance, HR, Finance and Audit control functions, and any outcome is subject to approval by the Executive Board and Supervisory Board. This assessment includes determining whether any new information is available that prevents the vesting of deferred remuneration.

This could include:
Evidence of misconduct or serious error by the staff member (e.g. breach of a code of conduct or other internal rules, especially concerning risks);

- The institution or the business unit subsequently suffers a significant downturn in its financial performance (specific indicators must be used);
- The institution or the business unit in which the Identified Staff member works suffers a significant failure of risk management;
- Significant changes in the institution's economic or regulatory capital base.

The Supervisory Board decided that, on the basis of the reassessment performed by the control functions, there was no reason to apply a collective malus with respect to the vesting of:

- the third tranche of deferred variable compensation for the 2015 performance period;
- the second tranche of deferred variable compensation for the 2016 performance period;
- the first tranche of deferred variable compensation for the 2017 performance period.

In five individual cases, the Supervisory Board decided to apply a malus with respect to the vesting of any remaining deferred variable compensation for the 2015 and 2016 performance period. This affects two employees for a total outstanding amount of EUR 36 thousand.

The other deferred variable compensation awards with respect to the above three performance years will now be granted to the relevant Identified Staff members in line with the rules of the Variable Compensation Plan.

The Supervisory Board has discretionary power to reduce any variable compensation to a suitable amount if, in its opinion, payment of the compensation would be unacceptable under the principle of reasonableness and fairness. The Supervisory Board is also authorised to reclaim any variable remuneration for any performance period if the award, calculation or payment was based on incorrect data or if, in hindsight, the performance conditions were not achieved. The recipient will then be obliged to repay the relevant amount to the bank.

Lastly, personal hedging or insurance linked to remuneration and liability in order to circumvent the risk control effects that have been embedded in the variable compensation plan is not permitted.

Details of remuneration

Remuneration comprises fixed and variable compensation, employer pension contributions and sign-on, and retention and severance pay for 2018.

Remuneration details of Identified Staff

	2018		2017	
(in thousands)	Number of FTE (Identified Staff)[3]	Aggregated remuneration	Number of FTE (Identified Staff)[3]	Aggregated remuneration
Retail Banking	32	9,203	23	8,836
Commercial Banking	48	12,316	33	10,050
Private Banking	40	15,848	47	20,660
Corporate & Institutional Banking	108	41,982	148	51,198
Group Functions[2]	143	42,271	153	40,633
Total	**371**	**121,619**	**404**	**131,377**

1 Employer pension contribution was not included in the remuneration.
2 Executive and Supervisory Board members are reported under Group Functions.
3 The number of FTE includes all employees that were Identfied Staff during the year (including leavers).

	Number of FTEs (identified staff)		
(in thousands)	ExBo, ExCo, ExCo1 and ExCo2	Other	Aggregated remuneration
Fixed remuneration over 2018	165	206	110,089
Variable remuneration over 2018[1]	103	93	11,530
- of which in cash			3,468
- of which in performance certificates			3,455
- of which unconditional (up-front payment)			6,923
- of which conditional (deferred payment)			4,607
Retention payments over 2018	1		53
Sign on payments over 2018		1	212
Severance payments over 2018[2]	20		8,964

1 Certain variable compensation elements are, due to their specific nature, paid out in cash and are not or only partially subject to deferral.
2 Highest severance pay amounted EUR 1,050,000.

Remuneration details of all employees[1]

	Remuneration in millions[2]							
(in FTE)	1-1.5	1.5-2	2-2.5	2.5-3	3-3.5	3.5-4	4.5-5	>5
Retail Banking								
Commercial Banking								
Private Banking	2							
Corporate & Institutional Banking								
Group Functions[1]								

1 Executive and Supervisory Board members are reported under Group Functions.
2 Remuneration reflects the amounts paid in the financial year as per EBA requirement, as opposed to the remuneration disclosure in note 35 Remuneration of Executive Board and Supervisory Board which represents the remuneration allocated to the financial year in accordance with EU IFRS.

The variable remuneration awarded to all employees including Identified Staff, for 2018 amounted to EUR 79 million.

	Remuneration in millions[1]							
(in FTE)	1-1.5	1.5-2	2-2.5	2.5-3	3-3.5	3.5-4	4.5-5	>5
Executive Board/Executive Committee								
Executive Committee -1 and -2 above CLA	2							
Other Identified Staff								

1 Remuneration reflects the amounts paid in the financial year as per EBA requirement, as opposed to the remuneration disclosure in note 35 Remuneration of Executive Board and Supervisory Board which represents the remuneration allocated to the financial year in accordance with EU IFRS.

The ratio of the mean annual employee compensation and the total annual remuneration of the CEO in 2018 was 9.6, slightly lower than in 2017. The ratio is calculated as the CEO's remuneration, including pension costs, divided by the mean employee remuneration and pension costs for the average number of employees during 2018. This ratio is considered to be a fair reflection of ABN AMRO's current position. The ratios published in 2016 and 2017 were 11.4 and 10 respectively.

Annual Financial Statements 2018

Certain IFRS disclosures in the Risk, funding & capital information section are labelled as ‘Audited’ in the respective headings. These disclosures are an integral part of these Annual Financial Statements and are covered by the Audit opinion.

Consolidated income statement

(in millions)	Note	2018	2017
Income			
Interest income from financial instruments measured at amortised cost and fair value through other comprehensive income		10,597	10,421
Interest income from financial instruments measured at fair value through profit or loss		2,048	2,081
Interest expense		6,052	6,045
Net interest income	4	**6,593**	**6,456**
Fee and commission income		3,169	3,138
Fee and commission expense		1,470	1,391
Net fee and commission income	5	**1,699**	**1,747**
Net trading income	6	173	287
Share of result in equity accounted investments		43	54
Other operating income	7	584	745
Operating income		**9,093**	**9,290**
Expenses			
Personnel expenses	8	2,441	2,590
General and administrative expenses	9	2,737	2,746
Depreciation and amortisation of tangible and intangible assets	23	173	245
Operating expenses		**5,351**	**5,582**
Impairment charges on financial instruments		655	-63
Total expenses		**6,006**	**5,519**
Operating profit/(loss) before taxation		**3,086**	**3,771**
Income tax expense	10	762	979
Profit/(loss) for the period		**2,325**	**2,791**
Attributable to:			
Owners of the parent company		2,207	2,721
Holders of AT1 capital securities		79	53
Other non-controlling interests		39	18
Earnings per share (in euros)			
Basic earnings per ordinary share[1]	11	2.35	2.89

[1] Earnings per share consist of profit for the period excluding coupons attributable to AT1 capital securities and results attributable to other non-controlling interests divided by the average outstanding and paid-up ordinary shares.

Consolidated statement of comprehensive income

(in millions)	Note	2018	2017
Profit/(loss) for the period		**2,325**	**2,791**
Other comprehensive income:			
Items that will not be reclassified to the income statement			
Remeasurement gains/(losses) on defined benefit plans	30	20	-12
(Un)realised gains/(losses) on Liability own credit risk	28	28	
Share of other comprehensive income of associates not reclassified to the income statement		-115	
Items that will not be reclassified to the income statement before taxation		**-67**	**-12**
Income tax relating to items that will not be reclassified to the income statement		13	-3
Items that will not be reclassified to the income statement after taxation		**-81**	**-8**
Items that may be reclassified to the income statement			
(Un)realised gains/(losses) currency translation		41	-198
(Un)realised gains/(losses) available-for-sale			-94
(Un)realised gains/(losses) fair value through OCI		-223	
(Un)realised gains/(losses) cash flow hedge		-225	-102
Share of other comprehensive income of associates reclassified to the income statement		-22	28
Other changes			
Other comprehensive income for the period before taxation		**-429**	**-366**
Income tax relating to items that may be reclassified to the income statement		-39	-52
Other comprehensive income for the period after taxation		**-390**	**-314**
Total comprehensive income/(expense) for the period after taxation		**1,854**	**2,469**
Attributable to:			
Owners of the parent company		1,736	2,398
Holders of AT1 capital securities		79	53
Other non-controlling interests		39	18

Consolidated statement of financial position

(in millions)	Note	31 December 2018	31 December 2017
Assets			
Cash and balances at central banks	12	34,371	29,783
Financial assets held for trading	13	495	1,600
Derivatives	14	6,191	9,825
Financial investments	16	42,184	40,964
Securities financing	17	12,375	15,686
Loans and advances banks	19	8,124	10,665
Residential mortgages	20	150,784	152,691
Consumer loans	20	11,945	12,122
Corporate loans at amortised cost	20	100,408	101,118
Corporate loans at fair value through P&L	20	783	
Other loans and advances customers	20	6,966	8,975
Equity accounted investments	22	522	714
Property and equipment	23	1,506	1,458
Goodwill and other intangible assets	23	164	184
Assets held for sale	24	56	3,165
Tax assets	10	516	431
Other assets	25	3,904	3,790
Total assets		**381,295**	**393,171**
Liabilities			
Financial liabilities held for trading	13	253	1,082
Derivatives	14	7,159	8,367
Securities financing	17	7,407	11,412
Due to banks	26	13,437	16,462
Current accounts	27	84,192	83,627
Demand deposits	27	124,020	125,995
Time deposits	27	27,101	26,536
Other due to customers	27	810	541
Issued debt	28	80,784	76,612
Subordinated liabilities	28	9,805	9,720
Provisions	29	1,204	1,529
Liabilities held for sale	24	41	4,843
Tax liabilities	30	36	110
Other liabilities	31	3,686	5,006
Total liabilities		**359,935**	**371,841**
Equity			
Share capital		940	940
Share premium		12,970	12,970
Other reserves (incl. retained earnings/profit for the period)		6,346	5,724
Accumulated other comprehensive income		-906	-331
Equity attributable to owners of the parent company		**19,349**	**19,303**
AT1 capital securities		2,008	2,007
Equity attributable to other non-controlling interests		2	20
Total equity	32	**21,360**	**21,330**
Total liabilities and equity		**381,295**	**393,171**
Committed credit facilities	34	61,166	55,295
Guarantees and other commitments	34	15,241	16,165

Consolidated statement of changes in equity

(in millions)	Share capital	Share premium	Other reserves including retained earnings	Accumulated other compre-hensive income	Net profit/(loss) attributable to owners of the parent company	Total	AT1 Capital securities	Other non-controlling interests	Total equity
Balance at 1 January 2017 (IAS 39)	**940**	**12,970**	**2,265**	**-9**	**1,762**	**17,928**	**1,004**	**5**	**18,937**
Total comprehensive income				-323	2,721	2,398	53	18	2,469
Transfer			1,763		-1,763				
Dividend			-1,025			-1,025		-3	-1,028
Increase/(decrease) of capital							993		993
Paid interest on AT1 capital securities							-43		-43
Other changes in equity			2			2			2
Balance at 31 December 2017 (IAS 39)	**940**	**12,970**	**3,004**	**-331**	**2,721**	**19,303**	**2,007**	**20**	**21,330**
Balance at 31 December 2017 (IAS 39)	**940**	**12,970**	**3,004**	**-331**	**2,721**	**19,303**	**2,007**	**20**	**21,330**
Impact of adopting IFRS 9			-215	-104		-319			-319
Balance at 1 January 2018	**940**	**12,970**	**2,789**	**-435**	**2,721**	**18,984**	**2,007**	**20**	**21,011**
Total comprehensive income				-471	2,207	1,736	79	39	1,854
Transfer			2,721		-2,721				
Dividend			-1,363			-1,363		-10	-1,373
Increase/(decrease) of capital									
Paid interest on AT1 capital securities							-78		-78
Other changes in equity			-8			-8		-47	-54
Balance at 31 December 2018	**940**	**12,970**	**4,139**	**-906**	**2,207**	**19,349**	**2,008**	**2**	**21,360**

The 2018 opening balance was adjusted due to the impact of IFRS 9. The impact of the IFRS 9 implementation on total equity is EUR 319 million. The current year's net profit was added to retained earnings for an amount of EUR 2,207 million. A dividend payment to the owners of the parent company impacted equity with a total amount of EUR 1,363 million. Other non-controlling interest decreased as a result of the deconsolidation of the ABN AMRO Participaties Funds that were sold in December 2018.

(in millions)	Remeasurements on post-retirement benefit plans	Currency translation reserve	Available-for-sale reserve	Fair value reserve	Cash flow hedge reserve	Accumulated share of OCI of associates and joint ventures	Liability own credit risk reserve	Total
Balance at 1 January 2017 (IAS 39)	**-13**	**166**	**557**		**-843**	**124**		**-9**
Net gains/(losses) arising during the period	-12	-198	26		-274	28		-430
Less: Net realised gains/(losses) included in income statement			120		-172			-52
Net gains/(losses) in equity	-12	-198	-94		-102	28		-378
Related income tax	-3	1	-27		-25			-55
Balance at 31 December 2017 (IAS 39)	**-21**	**-32**	**490**		**-919**	**152**		**-331**
Balance at 31 December 2017	**-21**	**-32**	**490**		**-919**	**152**		**-331**
Impact of adopting IFRS 9			-490	450			-64	-104
Balance at 1 January 2018	**-21**	**-33**		**450**	**-919**	**152**	**-64**	**-435**
Net gains/(losses) arising during the period	20	41		-222	-352	-137	28	-622
Less: Net realised gains/(losses) included in income statement				1	-127			-126
Net gains/(losses) in equity	**20**	**41**		**-223**	**-225**	**-137**	**28**	**-496**
Related income tax	5	2		-59	18		9	-25
Balance at 31 December 2018	**-6**	**6**		**286**	**-1,162**	**15**	**-45**	**-906**

The opening balance of accumulated other comprehensive income was impacted by the implementation of IFRS 9 for EUR 104 million. The total movement in accumulated other comprehensive income for 2018 was EUR 471 million (2017: EUR 323 million). The main cause of this movement is related to the movement in the cash flow hedge reserve (EUR 243 million), the fair value reserve (EUR 164 million) and the accumulated share of OCI of associates and joint ventures (EUR 137 million). The deferred tax related to accumulated other comprehensive income was impacted by the substantively enacted future change in corporate income tax percentages in the Netherlands.

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Consolidated statement of cash flows

(in millions)	Note	2018	2017
Profit/(loss) for the period		**2,325**	**2,791**
Adjustments on non-cash items included in profit:			
(Un)realised gains/(losses)		495	-508
Share of profits in associates and joint ventures		-45	-45
Depreciation, amortisation and accretion		303	476
Provisions and impairment losses		994	314
Income tax expense	10	762	979
Tax movements other than taxes paid & income taxes		-125	
Operating activities			
Changes in:			
- Assets held for trading		1,108	7
- Derivatives – assets		2,999	4,535
- Securities financing – assets		3,734	-420
- Loans and advances banks		-888	2,834
- Residential mortgages		1,733	-571
- Consumer loans		-43	-1,376
- Corporate loans		818	-8,557
- Other loans and advances customers		464	-2,031
- Other assets		-2,692	3,145
- Liabilities held for trading		-830	291
- Derivatives – liabilities		-1,116	-6,136
- Securities financing – liabilities		-4,246	2,192
- Due to banks		-2,922	3,093
- Due to customers		1,554	13,074
Liabilities arising from insurance and investment contracts			-506
Net changes in all other operational assets and liabilities		-1,741	-4,714
Dividend received from associates and private equity investments		310	73
Income tax paid		-635	-951
Cash flow from operating activities		**2,317**	**7,988**

continued >

(in millions)	Note	2018	2017
Investing activities			
Purchases of financial investments		-13,741	-11,812
Proceeds from sales and redemptions of financial investments		12,403	14,813
Acquisition of subsidiaries (net of cash acquired), associates and joint ventures		-129	-12
Divestments of subsidiaries (net of cash sold), associates and joint ventures	22	324	117
Proceeds from sale of private banking activities in Asia and the Middle East	24		-1,180
Purchases of property and equipment		-396	-382
Proceeds from sales of property and equipment		125	66
Purchases of intangible assets		-23	-15
Proceeds from sales of intangible assets		1	
Cash flow from investing activities		**-1,436**	**1,594**
Financing activities:			
Proceeds from the issuance of debt	28	40,196	33,604
Repayment of issued debt	28	-36,396	-34,179
Proceeds from subordinated liabilities issued	28	19	1,407
Repayment of subordinated liabilities issued	28	-25	-1,988
Proceeds from capital securities			1,000
Dividends paid to the owners of the parent company	32	-1,362	-1,025
Interest paid AT1 capital securities		-103	-43
Dividends paid to other non-controlling interests		-10	-3
Cash flow from financing activities		**2,318**	**-1,227**
Net increase/(decrease) of cash and cash equivalents		3,199	8,355
Cash and cash equivalents as at 1 January		33,165	24,954
Effect of exchange rate differences on cash and cash equivalents		31	-144
Cash and cash equivalents as at 31 December		**36,395**	**33,165**
Supplementary disclosure of operating cash flow information			
Interest paid		6,190	6,444
Interest received		12,665	12,746
Dividend received excluding associates		176	98

(in millions)	Note	31 December 2018	31 December 2017
Cash and balances at central banks	12	34,371	29,783
Loans and advances banks (less than 3 months)[1]		2,024	3,383
Total cash and cash equivalents		**36,395**	**33,165**

[1] Loans and advances banks with an original maturity of 3 months or more is included in Loans and advances banks.

The cash position increased with a total of EUR 3.2 billion, and including EUR 31 million related to foreign currency translation differences. The non-cash activities were mostly impacted by movements in the fair value reserve, cash flow hedge reserve, foreign currency translation and interest accruals. The operating activities fluctuated mostly as a result of changes in derivatives, securities financing and due to banks. The variance in the investing activities was mostly attributable to purchases, sale and redemptions of financial investments. The proceeds from issuance of debt resulted in a total cash flow of EUR 40.2 billion, which was largely offset by the repayment of issued debt by EUR 36.4 billion. The dividend paid to ordinary shareholders of the parent company resulted in a total cash flow of EUR 1.4 billion.

Notes to the Consolidated Annual Financial Statements

1 Accounting policies

The notes to the Consolidated Annual Financial Statements, including the audited information in the Risk, funding & capital section, are an integral part of these Annual Financial Statements. This section describes ABN AMRO Group's significant accounting policies and critical accounting estimates or judgements relating to the Annual Financial Statements. If an accounting policy or a critical accounting estimate relates to a specific note, it is included within the relevant note.

Corporate information

ABN AMRO Group N.V. (referred to as ABN AMRO Group or the parent company) is the parent company of ABN AMRO Bank N.V. and a related consolidated group of companies (referred to as the Group or ABN AMRO). ABN AMRO Group is a public limited liability company, incorporated under Dutch law on 18 December 2009, and registered at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands (Chamber of Commerce number 34370515).

As at 31 December 2018, all shares in the capital of ABN AMRO Group were held by two foundations: NLFI and STAK AAG. On that date, NLFI held 56.3% in ABN AMRO, of which 49.9% is directly held via ordinary shares and 6.4% is indirectly held via depositary receipts for shares in ABN AMRO. STAK AAG held 50.1% of the shares in the issued capital of ABN AMRO Group N.V. Both foundations have issued depositary receipts for shares in ABN AMRO Group. Only STAK AAG's depositary receipts are issued with the cooperation of ABN AMRO Group and traded on Euronext Amsterdam.

ABN AMRO provides a broad range of financial services to retail, private and corporate banking clients. These activities are conducted primarily in the Netherlands and selectively abroad.

The Consolidated Annual Financial Statements of ABN AMRO Group for the annual period ended 31 December 2018 incorporate financial information of ABN AMRO Group N.V., its controlled entities, interests in associates and joint ventures. The Annual Financial Statements were prepared by the Executive Board and authorised for issue by the Supervisory Board and Executive Board on 12 March 2019.

Statement of compliance

The Consolidated Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). They also comply with the financial reporting requirements included in Title 9 of Book 2 of the Dutch Civil Code, as far as applicable.

Basis of preparation

The Consolidated Annual Financial Statements are prepared on a historical cost basis, except for derivative financial instruments, financial assets and liabilities held for trading or designated as measured at fair value through profit or loss, financial instruments not held in a hold to collect business model, debt instruments that do not meet the solely payments of principal and interest (SPPI) test, and equity investments in associates of a private equity nature, all of which are measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. Associates and joint ventures are accounted for using the equity method.

On 13 February 2019, ABN AMRO announced its intention to simplify the group structure by executing a legal merger between ABN AMRO Bank N.V. (ABN AMRO Bank) and ABN AMRO Group N.V. (ABN AMRO Group). As a result of the proposed merger, ABN AMRO Group will cease to exist. Shareholders in ABN AMRO Group will consequently become shareholders in ABN AMRO Bank, while shares in ABN AMRO Bank will be represented by depositary receipts, through which the listing on Euronext Amsterdam will be retained. Holders of debt instruments will continue to hold instruments issued by ABN AMRO Bank. The legal merger has no material effect on equity. Subject to all the necessary approvals, including regulatory approvals, the merger is expected to be executed during 2019. The activities of ABN AMRO Group will be integrated and continued in ABN AMRO Bank. Therefore the Annual Financial Statements are prepared under the going concern assumption.

The Annual Financial Statements are presented in euros, which is the reporting currency of ABN AMRO, rounded to the nearest million (unless otherwise stated).

Changed presentation of due to banks and due to customers

In 2018 ABN AMRO changed presentation of deposits included in due to banks (see note 26) and due to customers (see note 27) to better align with regulatory guidance and market practices.

The change in presentation did not impact the measurement of these line items, retained earnings or the result for any period. The comparative figures have been adjusted accordingly. As a result, the following definitions apply to the new presentation of due to banks and due to customers:

- Current accounts include amounts held at ABN AMRO which are available to the owner for the execution of payment transactions.
- Demand deposits are available to the account owner for frequent and immediate access, but cannot be used for payment transactions. As these deposits are on demand, they can be drawn or transferred by the client without prior notice to the bank.
- Time deposits are not available to the account owner for immediate access and have an agreed maturity. In special circumstances, early withdrawal may be permitted at a penalty payable by the account owner.
- Cash collateral on securities lent includes payables for cash collateral received in derivatives transactions.

The table below provides an overview of the changed presentation of due to banks and due to customers following from the new definitions applied:

	31 December 2017		1 January 2018
	Previous presentation	Changes in presentation	New presentation
	Carrying amount		Carrying amount
Due to banks			
Current accounts		2,588	2,588
Demand deposits	2,539	-2,508	31
Time deposits	1,083	10,064	11,147
Cash collateral on securities lent		2,673	2,673
Other deposits	12,817	-12,817	
Other	23		23
Total due to banks	**16,462**		**16,462**
Due to customers			
Current accounts		83,627	83,627
Demand deposits	127,675	-1,680	125,995
Saving deposits	95,751	-95,751	
Time deposits	13,274	13,262	26,536
Other		541	541
Total due to customers	**236,699**		**236,699**

Current accounts have been redefined to include products that were previously reported under demand deposits. Saving deposits are recorded under demand deposits and time deposits.

Reclassification of unsettled securities transactions

As at 1 January 2018, ABN AMRO reclassified all unsettled securities transactions previously included in securities financing as other assets and other liabilities. These assets were reclassified to reflect their nature as they comprise unsettled securities transactions and therefore do not necessarily relate to securities financing. As at 1 January 2018, EUR 1.0 billion of assets were reclassified from securities financing to other assets, while liabilities totalling EUR 1.5 billion were reclassified from securities financing to other liabilities. The comparative figures have been adjusted accordingly.

Reclassification for interest income related to derivatives qualifying for hedge accounting
In 2018, ABN AMRO changed the presentation of interest income from derivatives qualifying for hedge accounting from 'Interest income from financial instruments measured at amortised cost and fair value through other comprehensive income' to 'Interest income from financial instruments measured at fair value through profit or loss'. The comparatives have been adjusted accordingly. The interest income has been reclassified due to the amendment that IFRS 9 made to IAS 1. For the year 2018, EUR 1.9 billion has been reclassified (2017: EUR 1.9 billion).

Restatement of committed credit facilities
During the second half of 2018 ABN AMRO assessed the application of its definitions relating to committed and uncommitted credit facilities. This resulted in an increase in committed credit facilities. Adjusting the comparative figures resulted in an increase of EUR 22.5 billion as at 31 December 2017. The change did not impact retained earnings, the result or the total assets and liabilities for any period.

Disclosures
To combine disclosures, and to reduce duplication, we have integrated some IFRS disclosures into our Executive Board report. These are:
- IFRS 7 Risk disclosures of financial instruments. These are disclosed in the Risk, funding and capital section;
- IAS 1 Capital disclosures. These are part of the Risk, funding and capital section.

IFRS disclosures in the Risk, funding and capital section are labelled as 'audited'. These disclosures are an integral part of the Consolidated Annual Financial Statements and are covered by the Auditor's report.

Changes in accounting policies
New EU-endorsed standards became effective as at 1 January 2018. The following standards were adopted:

IFRS 9 Financial instruments
ABN AMRO adopted IFRS 9 Financial Instruments as at 1 January 2018. IFRS 9 was issued by the IASB in July 2014 and endorsed by the EU in November 2016. ABN AMRO has applied the principles of IFRS 9 retrospectively from 1 January 2018 onwards. Prior years have not been restated in line with the transitional provisions of the standard. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and includes requirements for the classification and measurement (C&M) of financial instruments, impairment of financial assets, and hedge accounting.

ABN AMRO has decided to continue applying IAS 39 for hedge accounting and the application of the EU carve-out. See the IFRS 9 transition disclosures in this note for details of the transitional impact of IFRS 9.

Classification and measurement
The classification and measurement of financial assets under IFRS 9 is determined by the business model in which the assets are held and whether the contractual cash flows are solely payments of principal and interest (SPPI). Under IFRS 9, financial assets can be measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). These categories replace the IAS 39 classifications of loans and receivables (L&R), available-for-sale (AFS), FVTPL, and held-to-maturity.

As part of the transition to IFRS 9, ABN AMRO has performed an analysis of the business models and contractual cash flows of all financial asset portfolios. This has resulted in a number of changes. Additional information on these changes is provided in the IFRS 9 transition disclosure.

Classification and measurement of financial liabilities has largely remained unchanged except for financial liabilities measured at FVTPL. Changes in fair value attributable to changes in the credit risk of such liabilities are presented in other comprehensive income. This resulted in a transfer from retained earnings to accumulated other comprehensive income as at 1 January 2018. The cumulative amount of changes in fair value attributable to the credit risk of issued debt is presented as liability own credit risk reserve in equity.

The IFRS 9 classification and measurement accounting policies of ABN AMRO are explained in the section on significant accounting policies in this note.

Impairments

IFRS 9 replaced the incurred loss model with the expected credit loss (ECL) model, which is designed to be forward-looking. The IFRS 9 impairment requirements are applicable to financial assets measured at amortised cost and FVOCI. Additionally, the scope of the IFRS 9 impairment requirements is broader than under IAS 39 as loan commitments and financial guarantee contracts are also included. The financial instruments in scope of the IFRS 9 impairment requirements are divided into three groups, depending on the stage of credit quality deterioration:

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

Reference is made to the Credit risk management section for information on ABN AMRO's impairment policy.

Transition to IFRS 9

This section provides insight into the impact of the transition to IFRS 9 on the consolidated statement of financial position at the transition date of 1 January 2018. The impact is the result of specific changes attributable to new classification and measurement requirements, combined with an increase in the allowances for expected credit losses following the new impairment requirements.

In the case of other off-balance sheet items, which mainly consist of revocable loan commitments, ABN AMRO reclassified the provisions for these items from Loans and advances customers to Provisions.

The following tables reconcile the carrying amounts under IAS 39 with the carrying amounts under IFRS 9 and show the impact (net of tax) on shareholders' equity and total equity attributable to the transition to IFRS 9 on 1 January 2018.

Transition of assets

		IAS 39						IFRS 9	
		31 December 2017		Reclassi-fications		Remeas-urement		1 January 2018	
	Ref	Measurement Category	Carrying amount	From L&R to FVTPL[1]	From AFS to FVTPL	C&M	ECL	Carrying amount	Measurement Category
Cash and balances at central banks		L&R	29,783					29,783	AC
Financial assets held for trading		FVTPL	1,600					1,600	FVTPL
Derivatives	a	FVTPL	9,825	-141				9,684	FVTPL
Financial investments (FVTPL)	b	FVTPL	679		415			1,094	FVTPL
Financial investments (AFS)	b,g	AFS	40,285		-415			39,870	FVOCI
Securities financing		L&R	15,686					15,686	AC
Loans and advances banks	d	L&R	10,665				-2	10,662	AC
Residental mortgages	d	AC	152,691				-48	152,644	AC
Consumer loans	d	AC	12,122				-58	12,064	AC
Corporate loans (AC)	a,c,d	AC	101,118	-310		-190	-35	100,583	AC
Corporate loans (FVTPL)	a,d	FVTPL		2,044		-33		2,012	FVTPL
Other loans	a	AC	8,975	-1,619				7,356	AC
Tax assets	e	AC	431			56	52	540	AC
Other assets		L&R	9,311				-1	9,311	AC
Total assets			**393,171**	**-25**		**-166**	**-92**	**392,888**	

[1] This column includes the reclassification of previously embedded derivatives to Corporate loans at FVTPL.

Transition of liabilities and equity

		IAS 39						IFRS 9	
			31 December 2017	Reclassi-fications		Remeas-urement		1 January 2018	
	Ref	Measurement Category	Carrying amount	From L&R to FVTPL[1]	From AFS to FVTPL	C&M	ECL	Carrying amount	Measurement Category
Financial liabilities held for trading		FVTPL	1,082					1,082	FVTPL
Derivatives	a	FVTPL	8,367	-25				8,342	FVTPL
Securities financing		AC	11,412					11,412	AC
Due to banks		AC	16,462					16,462	AC
Due to customers		AC	236,699					236,699	AC
Issued debt (AC)		AC	75,429					75,429	AC
Issued debt (FVTPL)	f	FVTPL	1,182					1,182	FVTPL
Subordinated liabilities		AC	9,720					9,720	AC
Provisions	d	AC	1,529				61	1,590	AC
Tax liabilities		AC	110					109	AC
Other liabilities		AC	9,849					9,849	AC
Total liabilities			**371,841**	**-25**			**61**	**371,877**	
Share capital			940					940	
Share premium			12,970					12,970	
Other reserves (incl retained earnings/profit for the period)	a-g		5,724			-62	-153	5,509	
Accumulated other comprehensive income	b,f,g		-331			-104		-435	
Equity attributable to the owners of the parent company			**19,303**			**-166**	**-153**	**18,984**	
AT1 capital securities			2,007					2,007	
Equity attributable to other non-controlling interests			20					20	
Allocation equity		AC							
Total equity			**21,330**			**-166**	**-153**	**21,011**	
Total liabilities and equity			**393,171**	**-25**		**-166**	**-92**	**392,888**	

1 This column includes the reclassification of previously embedded derivatives to Corporate loans at FVTPL.

a. Certain portfolios of corporate loans have embedded derivatives that were bifurcated under IAS 39. These are loans where the return is based on the price of underlying commodity contracts or loans with a floating interest rate, and where the interest reset period does not match the interest reference rate. These contracts were analysed in their entirety in accordance with IFRS 9 and failed the solely payment of principal and interest (SPPI) criterion. As a result, the loans, together with the embedded derivatives that were previously bifurcated, were reclassified as FVTPL at 1 January 2018. The amounts relating to the reclassification are EUR 1,929 million for loans, EUR 141 million for derivatives assets and EUR 25 million for derivatives liabilities. As the fair value of these loans is EUR 33 million below their carrying amount under IAS 39, this has resulted in a C&M remeasurement.
b. ABN AMRO has chosen not to select the FVOCI option under IFRS 9 for all equity securities. As a result, an amount of EUR 415 million has been reclassified from available-for-sale (AFS) under IAS 39 to FVTPL under IFRS 9. In addition, the cumulative AFS reserve of EUR 42 million (net of tax) relating to these equity securities reclassified to FVTPL has been transferred to retained earnings. All AFS debt instruments were remeasured at FVOCI.
c. For a portfolio of corporate loans that had been reclassified from held for trading to loans and receivables in 2015, a revised amortised cost measurement has been applied in accordance with IFRS 9, as if these loans had always been measured at amortised cost. This resulted in a reduction in the carrying amounts of these loans at 1 January 2018, reflected as a C&M remeasurement of EUR 190 million negative in the above table.
d. The IFRS 9 impairment requirements resulted in ECL remeasurement of total assets by EUR 92 million and of total liabilities by EUR 61 million, largely as a result of a EUR 141 million impact on loans and advances to customers and a EUR 52 million increase in tax assets. Allowances for irrevocable loan commitments and financial guarantees are included in provisions.
e. The tax effect recognised in tax assets is EUR 108 million.
f. IFRS 9 changes the measurement criteria for financial liabilities designated as FVTPL, as a result of which the cumulative change in the fair value attributable to changes in the credit risk of that liability are presented in accumulated other comprehensive income. This change resulted in the transfer of EUR 64 million (net of tax) from retained earnings to accumulated other comprehensive income at 1 January 2018.
g. Allowances for credit losses of EUR 2 million on FVOCI instruments are recorded in accumulated other comprehensive income. These allowances for credit losses have no effect on the carrying value of FVOCI financial assets, which continue to be measured at fair value. The adoption of IFRS 9 resulted in a transfer of EUR 2 million from the fair value reserve to retained earnings to reflect the cumulative impairment recognised in profit or loss.

The tables below provide a reconciliation from the IAS 39 allowances/IAS 37 provisions to the IFRS 9 ECL allowances/provisions recognised as at 1 January 2018 upon adoption of IFRS 9.

Transition of on-balance sheet allowances

	IAS 39		IFRS 9		
	31 December 2017		1 January 2018		
	Measurement Category	Allowances for credit losses	Remeasurement	Allowances for credit losses	Measurement Category
Financial investments[1]	**AFS**				**FVOCI**
Loans and advances banks	**L&R**	**7**	**2**	**9**	**AC**
Residental mortgages	AC	134	48	182	AC
Consumer loans	AC	304	58	362	AC
Corporate loans (AC)	AC	2,020	36	2,055	AC
Other loans	AC	2		2	AC
Loans and advances customers	**L&R**	**2,460**	**141**	**2,601**	**AC**
Total loans and advances		**2,467**	**143**	**2,610**	
Other assets	L&R	3	1	4	AC
Total on-balance sheet allowances		**2,470**	**144**	**2,614**	

[1] Allowances for credit losses of EUR 2 million on FVOCI instruments are recorded in accumulated other comprehensive income. These debt securities remain at FVOCI on the balance sheet.

Transition of off-balance sheet allowances and provisions

	IAS 39/IAS 37		IFRS 9/IAS 37
	31 December 2017		1 January 2018
	Allowances and provisions for credit losses	Remeasurement	Allowances and provisions for credit losses
Allowances for irrevocable loan commitments and financial guarantees	6	19	25
Provisions for other off-balance sheet items		42	42
Total allowances and provisions on off-balance sheet items	**6**	**61**	**67**

The following tables summarise the financial instruments to which the IFRS 9 impairment requirements are applied and the related stage and allowances for credit losses.

Coverage and stage ratio

	1 January 2018			
(in millions)	Gross carrying amount	Allowances for credit losses	Coverage ratio	Stage ratio
Stage 1				
Loans and advances banks	**10,227**	**7**	**-0.1%**	**95.8%**
Residential mortgages	145,881	26	-0.0%	96.9%
Consumer loans	10,130	42	-0.4%	81.5%
Corporate loans	80,338	138	-0.2%	85.7%
Other Loans and advances customers[1]	13,863	1	-0.0%	93.4%
Total Loans and advances customers stage 1	**250,212**	**206**	**-0.1%**	**92.1%**
Stage 2				
Loans and advances banks	**373**	**1**	**-0.3%**	**3.5%**
Residential mortgages	3,662	24	-0.7%	2.4%
Consumer loans	1,826	74	-4.1%	14.7%
Corporate loans	8,307	112	-1.4%	8.9%
Other Loans and advances customers[1]	703	1	-0.2%	4.7%
Total Loans and advances customers stage 2	**14,498**	**212**	**-1.5%**	**5.3%**
Stage 3				
Loans and advances banks	**71**	**1**	**-0.9%**	**0.7%**
Residential mortgages	1,018	132	-13.0%	0.7%
Consumer loans	470	246	-52.4%	3.8%
Corporate loans	5,153	1,805	-35.0%	5.5%
Other Loans and advances customers[1]	269		-0.0%	1.8%
Total Loans and advances customers stage 3	**6,909**	**2,183**	**-31.6%**	**2.5%**
Total of stages 1, 2 and 3				
Total Loans and advances banks	**10,671**	**9**	**-0.1%**	
Residential mortgages	150,562	182	-0.1%	
Consumer loans	12,426	362	-2.9%	
Corporate loans	93,797	2,055	-2.2%	
Other Loans and advances customers[1]	14,835	2	-0.0%	
Total Loans and advances customers[2]	**271,619**	**2,601**	**-1.0%**	
Loans at fair value through P&L	**2,012**		**0.0%**	
Fair value adjustments from hedge accounting on Loans and advances customers	**3,629**			
Total Loans and advances banks	10,671	9	-0.1%	
Total Loans and advances customers	277,260	2,601	-0.9%	
Total Loans and advances	**287,931**	**2,610**	**-0.9%**	
Other balance sheet items[3]	107,571	4	-0.0%	
Total on-balance sheet	**395,502**	**2,614**	**-0.7%**	
Loan commitments and financial guarantee contracts	64,934	25	-0.0%	
Irrevocable letters of credit	6,526		0.0%	
Total on- and off-balance sheet	**466,962**	**2,639**	**-0.6%**	

[1] Other loans and advances customers consists of Government and official institutions, Financial lease receivables and Factoring.
[2] Excluding fair value adjustments from hedge accounting on Loans and advances customers
[3] The allowances for credit losses excludes allowances for financial investments held at FVOCI (EUR 2 million)

Allowances per stage

	IFRS 9			
	1 January 2018			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances banks	**7**	**1**	**1**	**9**
Residential mortgages	26	24	132	182
Consumer loans	42	74	246	362
Corporate loans	138	112	1,805	2,055
Other loans	1	1		2
Total Loans and advances customers	**206**	**212**	**2,183**	**2,601**
Other assets		1	3	4
Total allowances on-balance sheet	**214**	**213**	**2,187**	**2,614**
Allowances for irrevocable loans commitment and financial guarantee contracts	9	1	15	25
Total allowances on-balance and off-balance sheet	**222**	**215**	**2,202**	**2,639**

Individual and collective loan allowances

	1 January 2018							
	Banks	Residential mortgages	Consumer loans	Corporate loans	Other loans	Other assets	Off-balance	Total
Individual impairment	**1**	**24**	**55**	**1,556**		**3**	**2**	**1,641**
Stage 3	1	24	55	1,556		3	2	1,641
Collective impairment	**8**	**158**	**307**	**500**	**2**	**1**	**23**	**999**
Stage 1	7	26	42	138	1		9	222
Stage 2	1	24	74	112	1	1	1	215
Stage 3		108	191	250			13	562
Balance at 1 January 2018	**9**	**182**	**362**	**2,055**	**2**	**4**	**25**	**2,639**

Impact of IFRS 9 on regulatory capital and capital ratios

(in millions)		IFRS 9 1 January 2018		IAS 39 31 December 2017
Total equity as at 31 December 2017 (IAS 39)		**21,330**		**21,330**
Impact of adopting IFRS 9		-319		
Total equity as at 1 January 2018 (IFRS 9)		**21,011**		
Cash flow hedge reserve		919		919
Dividend reserve		-752		-752
AT1 capital securities	-2,007		-2,007	
Profit attributable minus interest paid to holders of AT1 capital securities	21		21	
AT1 capital securities		-1,987		-1,987
Other regulatory adjustments		-502		-718
Common Equity Tier 1		**18,689**		**18,793**
AT1 capital securities		1,987		1,987
Other regulatory adjustments[1]		-1,158		-1,162
Tier 1 capital		**19,518**		**19,618**
Subordinated liabilities Tier 2		7,674		7,674
Other regulatory adjustments[1]		-4,677		-4,687
Total regulatory capital		**22,515**		**22,605**
Total risk-weighted assets (risk exposure amount) (IAS 39)		**106,157**		**106,157**
Impact of adopting IFRS 9 on risk-weighted assets		129		
Total risk-weighted assets (risk exposure amount) (IFRS 9)		**106,286**		
Common Equity Tier 1 ratio		17.6%		17.7%
Tier 1 ratio		18.4%		18.5%
Total capital ratio		21.2%		21.3%
Common Equity Tier 1 capital (fully-loaded)		18,633		18,737
Common Equity Tier 1 ratio (fully-loaded)		17.5%		17.7%
Tier 1 capital (fully-loaded)		19,681		19,780
Tier 1 ratio (fully-loaded)		18.5%		18.6%
Total capital (fully-loaded)		22,629		22,718
Total capital ratio (fully-loaded)		21.3%		21.4%

[1] This includes the impact of IFRS 9 on minority interest calculation.

The transition to IFRS 9 has resulted in a decline in RWA-based capital ratios and leverage ratios. This impact is attributable to classification and measurement changes and risk-weighting of the related potential future tax savings. In addition, the allowances for credit losses have increased due to IFRS 9, but the regulatory capital impact was more than offset by a reversal in the IRB Provision Shortfall. Transition to IFRS 9 has resulted in a decrease of CET1 capital by 12bps.

The regulatory transitional arrangements which allow for gradual phasing-in of the negative impact on own funds will not be applied by ABN AMRO due to the limited expected impact on CET1 capital. If future IFRS 9 credit loss allowances increase significantly, ABN AMRO may apply the transitional provisions, subject to prior permission from the ECB.

IFRS 15 Revenue from Contracts with Customers

The IFRS 15 standard became effective for annual periods beginning on or after 1 January 2018. It establishes a comprehensive framework for determining the nature, amount, timing and uncertainty of revenue from contracts with customers.

After contracts and their performance obligations have been identified, revenue is recognised as an amount that reflects the consideration to which the bank expects to be entitled in exchange for transferring promised goods or services to customers. The transaction price is allocated to each performance obligation. Revenue is recognised when a promised good or service is transferred to the customer, either at a point in time or over time. ABN AMRO elected to apply the modified retrospective approach in the transition to the new standard and uses practical expedients where applicable. The standard introduced enhanced disclosures on fee and commission income, and had no further impact on ABN AMRO's financial statements and comparative figures.

IFRS 2 Share-based Payments
In June 2016 the IASB issued amendments to IFRS 2 Share-based Payments: Classification and Measurement of Share-based Payment Transactions. This comprised three amendments that clarify how to account for certain types of share-based payment transactions. As ABN AMRO does not currently have any IFRS 2 share-based payment plans, this amendment does not impact on ABN AMRO.

Annual Improvements to IFRS Standards 2014-2016 Cycle
This cycle of annual improvements comprises three amendments, one of which became effective on 1 January 2017. This amendment relates to IFRS 12 Disclosure of Interests in Other Entities and provides clarifications on the scope of the standard. The other two amendments became effective on 1 January 2018. Neither amendment, IFRS 1 relating to First-Time Adoption and IAS 28 relating to Investments in Associates and Joint Ventures, had an impact on the financial statements.

New standards, amendments and interpretations not yet effective
The following amendments to IFRS have been issued by the IASB and endorsed by the EU, but are not yet effective. ABN AMRO does not early apply these amendments. Note that only the amendments to IFRS that are relevant for ABN AMRO are discussed.

IFRS 16 Leases
The new standard on leases was issued by the IASB in January 2016 and became effective on 1 January 2019. IFRS 16 replaces IAS 17 Leases and removes the distinction between ‘operating’ and ‘finance’ leases for lessees. The requirements for lessor accounting remain largely unchanged.

The main impact of IFRS 16 on ABN AMRO’s financial statements is expected to arise from leases of office buildings and cars which the bank leases for its own use as lessee. ABN AMRO has elected to apply the modified retrospective approach in the transition to the new standard and will use several of the practical expedients. The transition to IFRS 16 is estimated to result in an increase in assets and liabilities of approximately EUR 0.3 billion. The expected impact on equity is not significant. Additional disclosures regarding both the lessor and lessee lease portfolios will be included in the 2019 financial statements.

Amendments to IFRS 9
The IASB issued amendments to IFRS 9, Prepayment Features with Negative Compensation, which became effective on 1 January 2019. These amendments allow instruments with symmetric prepayment options to be measured at amortised cost or at fair value through other comprehensive income. As ABN AMRO does not currently have any financial instruments with these features, these amendments do not have an impact.

IAS 28 Investments in Associates and Joint Ventures
In October 2017, the IASB issued amendments to IAS 28 that will become effective on 1 January 2019. The amendments state that IFRS 9 should be applied to long-term interests in an associate or joint venture to which the equity method is not applied. Based on our initial analysis, no impact on ABN AMRO is expected.

New standards, amendments and interpretations not yet endorsed
The following new or revised standards and amendments have been issued by the IASB, but have not yet been endorsed by the EU and are therefore not open for early adoption. Note that only the amendments to IFRS that are relevant for ABN AMRO are discussed.

Annual Improvements 2015-2017 Cycle
In December 2017, the IASB issued the Annual Improvements to IFRS Standards 2015-2017 Cycle. These amendments are required to be applied for annual periods beginning on or after 1 January 2019. This cycle of annual improvements comprises amendments relating to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs. The impact of the amendments on the financial statements is expected to be insignificant.

IFRS 3 Business Combinations
In October 2018 the IASB issued amendments to IFRS 3 Business Combinations. The amendments resolve difficulties in determining whether an entity has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after 1 January 2020. ABN AMRO is currently assessing the impact of the amendments.

Definition of Material (IAS 1 and IAS 8)
In October 2018 the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments revise the definition of material and align the definition across other IFRS publications. ABN AMRO is currently assessing the impact of the amendments.

Critical accounting estimates and judgements

The preparation of financial statements requires management to exercise its judgement in the process of applying ABN AMRO's accounting policies and to make estimates and assumptions concerning the future. Actual results may differ from those estimates and assumptions. Accounting policies for the most significant areas requiring management to make judgements and estimates that affect reported amounts and disclosures are made in the following sections:

Impairment losses on loans and advances	Risk, funding & capital section
Fair value of financial instruments	note **18**
Income tax expense, tax assets and tax liabilities	note **10**
Impairment of instruments measured at FVOCI	note **16**
Provisions	note **29**
Impairment of goodwill	note **23**

Assessment of risks, rewards and control

Whenever ABN AMRO is required to assess risks, rewards and control, when considering the recognition and derecognition of assets or liabilities and the consolidation or deconsolidation of subsidiaries, it may sometimes be required to use judgement. Although management uses its best knowledge of current events and actions in making such assessments, the actual risks, rewards and control may ultimately differ.

Significant accounting policies

Basis of consolidation

The Consolidated Annual Financial Statements of ABN AMRO Group N.V. include the financial statements of the parent company and its controlled entities, thus incorporating the assets, liabilities, revenues and expenses of ABN AMRO Group N.V. and its subsidiaries. Non-controlling interests (held by third parties) in both equity and results of group companies are presented separately in the Consolidated Annual Financial Statements.

Subsidiaries are included using the same reporting period and consistent accounting policies. Intercompany balances and transactions, and any related unrealised gains and losses, are eliminated in preparing the Consolidated Financial Statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of ABN AMRO's interest in the entities. Unrealised losses are also eliminated unless the transaction provides evidence of impairment in the asset transferred.

Foreign currency

ABN AMRO applies IAS 21 The Effects of Changes in Foreign Exchange Rates. Transactions in foreign currencies are translated into euros at the rate prevailing on the transaction date. Foreign currency balances of monetary items are translated into euros at the period-end exchange rates. Exchange gains and losses on such balances are recognised in the income statement.

The Consolidated Annual Financial Statements are stated in euros, which is the presentation and functional currency of ABN AMRO. The Group's foreign operations may have different functional currencies. The functional currency is the currency that best reflects the economic substance of the underlying event and circumstances relevant to that entity. Prior to consolidation (or equity accounting), the assets and liabilities of non-euro operations are translated at the closing rate, and items in the income statement and other comprehensive income are translated into euros at the rate prevailing on the transaction dates. Exchange differences arising on the translation of foreign operations are included in the currency translation reserve within equity. These are transferred to the income statement when the Group loses control, joint control or significant influence over the foreign operation.

Financial assets and liabilities

Classification and measurement of financial assets (applicable from 1 January 2018)
Under IFRS 9, ABN AMRO classifies financial assets based on the business model in which they are held. The business model is determined at a portfolio level. Portfolios are based on how ABN AMRO as a group manages financial assets in

order to achieve a particular business objective. The business model assessment is based on the level of sales, risk management, performance evaluation and management compensation. Derecognition is used as a condition to determine whether a transaction results in a sale.

Three business models are distinguished:
- 'Hold to collect' business model, in which cash flows are primarily generated by collecting contractual cash flows until maturity of the financial instrument. Sales can occur, as long as they are incidental, infrequent and insignificant. The assessment of the frequency and significance of sales is determined for each underlying portfolio. Sales that result from increases in the credit risk of the counterparty or take place close to maturity do not contradict the 'hold to collect' business model.
- 'Hold to collect and sell' business model, in which the selling of financial assets is integral to achieving the business objective. In this business model, sales take place more frequently and have a greater value than in a business model with an objective to hold to collect.
- 'Other' business models not meeting the criteria of the business models mentioned above, for example business models in which financial assets are managed with the objective of generating cash flows from sales (trading book) are managed on a fair value basis. Under these business models, the financial assets are measured at FVTPL.

After the business model has been determined, the contractual cash flows of financial assets are assessed. Debt instruments can be classified at amortised cost or FVOCI only when the contractual cash flows are solely payments of principal and interest (SPPI). Contractual cash flows that are SPPI are consistent with a basic lending arrangement in which consideration for the time value of money and credit risk are typically the most significant interest elements. Debt instruments that do not meet the SPPI requirements are mandatorily measured at FVTPL. Financial assets are assessed in their entirety, including any embedded derivatives that are not separated from the host contract.

Based on the business model determined and the SPPI assessment, the following measurement categories are identified under IFRS 9:
- Amortised cost – Financial instruments measured at amortised cost are debt instruments within a hold to collect business model with fixed or determinable payments which meet the SPPI criteria. These instruments are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest rate method, with the periodic amortisation recorded in the income statement. Financial instruments measured at amortised cost are presented net of credit loss allowances in the Statement of financial position.
- FVTPL – Financial instruments measured at FVTPL include instruments held for trading, derivatives, equity instruments for which the FVOCI option has not been elected and instruments whose cash flows do not meet the SPPI requirements. Changes in the fair value of these instruments are directly recognised in the income statement.
- FVOCI – Financial instruments measured at FVOCI are debt instruments which are held in a hold to collect and sell business model and which meet the SPPI criteria. They are initially measured at fair value, with subsequent unrealised changes recognised in other comprehensive income. Equity instruments for which the fair value option is elected are also measured at FVOCI.

Reclassifications of financial assets are expected to be very infrequent and occur only when ABN AMRO changes its business model for a certain portfolio of financial assets. No reclassifications occurred during the reporting period.

Please refer to pages 65 to 122 in the Risk, funding & capital section for our accounting policies on the measurement of expected credit losses on financial instruments measured at amortised cost and FVOCI.

Classification and measurement of financial assets (applicable before 1 January 2018)
Before 1 January 2018, financial assets were classified, based on the criteria in IAS 39, as assets held for trading, financial investments, or loans and receivables. Their measurement and income recognition depended on the classification of the financial assets. The following four groups were identified:
- Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They generally arose when money or services were directly provided to a client with no intention of trading or selling the loan. They were initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest rate method, with the periodic amortisation recorded in the income statement;
- Held-to-maturity investments were non-derivative financial assets that consisted of instruments quoted on an active market with fixed or determinable payments and a fixed maturity for which the positive intent and ability to hold to maturity was demonstrated. They were initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest rate method, with the periodic amortisation recorded in the income statement;

- Financial assets at fair value through profit or loss included:
  - financial assets held for trading;
  - financial assets that ABN AMRO irrevocably designated at initial recognition to be held at fair value through profit or loss when the instruments were held to reduce an accounting mismatch, were managed on the basis of their fair value or included terms that had, by nature, substantive derivative characteristics;
- Available-for-sale financial assets were those assets that were otherwise not classified as loans and receivables, held-to-maturity investments, financial assets designated at fair value through profit or loss or financial assets held for trading. They were initially measured at fair value, with subsequent changes recognised in other comprehensive income.

If ABN AMRO reclassified a financial asset from held for trading, the financial asset was reclassified at its fair value and this fair value became the new amortised cost. On the same date, a new effective interest was calculated.

Classification of assets and liabilities held for trading
In both the current and prior reporting period a financial asset or financial liability is classified as held for trading if it is:
- Acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- Part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- A trading derivative (except for a derivative that is a designated and effective hedging instrument).

Classification and measurement of financial liabilities
Financial liabilities are initially recognised at their fair value. Under both IFRS 9 and IAS 39, financial liabilities are classified as subsequently measured at amortised cost, except for the following instruments:
- Financial liabilities held for trading are measured at fair value through profit or loss;
- Financial liabilities that ABN AMRO has irrevocably designated at initial recognition as held at fair value through profit or loss when the instruments are held to reduce an accounting mismatch are managed on the basis of their fair value or include terms that have derivative characteristics in nature.

Under IFRS 9, the changes in fair value attributable to changes in the credit risk of financial liabilities designated at FVTPL are presented in other comprehensive income. The cumulative amount of changes in fair value attributable to credit risk of such liabilities is presented as liability own credit risk reserve in equity.

Financial liabilities are never reclassified after initial recognition.

Recognition and derecognition
Traded instruments are recognised on the trade date, which is defined as the date on which ABN AMRO commits to purchase or sell the underlying instrument. If the settlement terms are non-standard, the commitment is accounted for as a derivative between the trade and settlement dates. Loans and advances are recognised when they are acquired or funded by ABN AMRO and derecognised when settled. Issued debt is recognised when issued, and deposits are recognised when the cash is deposited with ABN AMRO. Other financial assets and liabilities, including derivatives, are recognised when ABN AMRO becomes a party to the contractual provisions of the asset or liability.

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

Financial assets continue to be recognised in the balance sheet, and a liability recognised for the proceeds of any related funding transaction, unless a fully proportional share of all or specifically identified cash flows are transferred to the lender without material delay and the lender's claim is limited to those cash flows, and substantially all the risks, rewards and control associated with the financial instruments have been transferred, in which case that proportion of the asset is derecognised.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified (for example in forbearance measures), ABN AMRO analyses – in both qualitative and quantitative terms – whether the modification should be accounted for as derecognition. Generally a 10% difference in the present value of the cash flows between the initial and modified contract is accounted for as derecognition. Qualitative terms such as changes in the repayment schedule, counterparty or currency could also result in derecognition. Derecognition is accounted for as an expiration of the financial asset and recognition of a new financial asset. The difference between the former carrying amount and the carrying amount of the new financial asset is recognised in the income statement. If the modification does not result in derecognition, ABN AMRO recalculates the gross carrying amount of the financial asset, based on the present value of the renegotiated or modified contractual cash flows and discounted at the financial asset's original effective interest rate. The effect is recognised and disclosed as a modification loss in the income statement.

Financial liabilities are derecognised when the liability has been settled, has expired or has been extinguished. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms, qualitatively and quantitatively (a 10% difference in the present value of the cash flows) is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the former amortised cost and the consideration paid is recognised in the income statement. Any subsequent resale is treated as a new issuance.

Client clearing

As a general clearing member, ABN AMRO provides clearing and settlement services to its clients for, among other things, exchange traded derivatives.

In its capacity as a clearing member, ABN AMRO guarantees the fulfilment of obligations towards central counterparty clearing houses (CCPs) of clients' transactions. ABN AMRO is not liable to clients for the non-performance of the CCP. In the event of a client defaulting, ABN AMRO has the legal obligation to settle all the client's positions with the relevant CCPs, possibly at a loss. Possible losses arising from this guarantee might relate not only to a client's current positions, but also to future trades of the client. ABN AMRO receives and collects (cash) margins from clients, and remits these margins to the relevant CCP in whole or in part. Given the stringent margin requirements set by the CCPs, possible future outflows of resources for new clearing transactions are considered close to zero.

ABN AMRO does not reflect the exchange-traded derivatives cleared on behalf of clients in its financial statements. Under normal circumstances, the guarantee has no fair value and is not recognised in the financial statements. The loss recognition in the event of non-performance of a client will be in line with our contingent liabilities policy (see note 34).

Offsetting

The bank offsets financial assets and liabilities and the net amount reported in the Statement of financial position if it is legally entitled to set off the recognised amounts and intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Statement of cash flows

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, freely available balances with central banks and other banks, and net balances on current accounts with other banks with less than three months maturity from the date of acquisition. The statement of cash flows, based on the indirect method of calculating operating cash flows, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking activities, investment activities and financing activities. Movements in loans and advances and interbank deposits are included in the cash flow from operating activities. Investment activities are comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in, and sales of, subsidiaries and associates, property and equipment. The issuing of shares and the borrowing and repayment of long-term funds are treated as financing activities. Cash flows arising from foreign currency transactions are translated into euros using the exchange rates at the date of the cash flows.

Government grants

Government grants are recognised in the income statement on a systematic basis over the periods that the related expenses, for which it is intended to compensate, are recognised. In the case of an income-related grant, the grant is deducted from the related expense.

Levies and other regulatory charges
ABN AMRO recognises a liability arising from levies and similar charges when it becomes legally enforceable (i.e. when the obligating event arises).

2 Segment reporting

Accounting policy for segment reporting

The segment reporting is in accordance with IFRS 8 Operating Segments. The segments are reported in a manner consistent with internal reporting provided to the Executive Board, which is responsible for allocating resources and assessing performance and has been identified as the chief operating decision-maker. All transactions between segments are eliminated as intersegment revenues and expenses in Group Functions.

During the first half of 2018, ABN AMRO transferred the portfolio of small business clients with a turnover of up to EUR 1 million from Retail Banking to Commercial Banking. As a consequence, the segment reporting has also changed. Historical figures have been adjusted for comparison purposes. The transfer has no effect on the historical overall group results or financial position of the bank.

Geographical data are presented according to the management view.

Segment assets, liabilities, income and results are measured based on our accounting policies. Segment assets, liabilities, income and results include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Transactions between segments are conducted at arm's length.

Interest income is reported as net interest income because management primarily relies on net interest income as a performance measure, not gross income and expense.

There was no revenue from transactions with a single external client or counterparty exceeding 10% of the bank's total revenue in 2018 or 2017.

Retail Banking

Retail Banking provides banking products and services to individuals. In addition, a wide variety of banking and insurance products and services are provided through our branch network, online, via contact centres and through subsidiaries. ABN AMRO HypothekenGroep, Alfam, ICS and Moneyou are part of Retail Banking.

Commercial Banking

Commercial Banking serves business clients with a turnover of up to EUR 250 million, clients active in commercial real estate (excluding publicly listed companies, which are served by Corporate & Institutional Banking) and small businesses. Our Asset Based Finance activities are included in Commercial Banking.

Private Banking

Private Banking provides total solutions to meet its clients' global wealth management needs and offers a rich array of products and services designed to address these clients' individual requirements. Private Banking operates under the brand name of ABN AMRO MeesPierson in the Netherlands and internationally under the name of ABN AMRO Private Banking or various local brand names such as Banque Neuflize OBC in France and Bethmann Bank in Germany.

Corporate & Institutional Banking

Corporate & Institutional Banking (CIB) serves business clients with turnover exceeding EUR 250 million. In Northwest Europe, clients with turnover exceeding EUR 100 million are served in eight selected sectors. CIB covers loan products (Structured Finance and Trade & Commodity Finance), flow products (Global Markets) and specialised products (Clearing and Private Equity). CIB's business activities are organised according to sector, geography and product.

Group Functions

Group Functions supports the business segments and consists of Innovation & Technology, Risk Management, Legal and Compliance, Finance, HR, Transformation and Communications, Group Audit, Strategy & Sustainability, and the Corporate Office. The majority of Group Functions' costs are allocated to the businesses. The results of Group Functions include those of ALM and Treasury and the securities financing activities.

Segment income statement for the year 2018

(in millions)	Retail Banking	Commercial Banking	Private Banking	Corporate & Institutional Banking	Group Functions	Total 2018
Net interest income	3,122	1,602	719	1,166	-16	6,593
Net fee and commission income	365	258	509	527	40	1,699
Net trading income		-1	8	153	14	173
Share of result in equity accounted investments	28	2	13	2	-1	43
Other operating income	3	38	91	268	183	584
Operating income	**3,517**	**1,899**	**1,340**	**2,116**	**220**	**9,093**
Expenses						
Personnel expenses	442	335	390	480	794	2,441
General and administrative expenses	568	202	248	337	1,381	2,737
Depreciation and amortisation of tangible and intangible assets	10	7	21	8	127	173
Intersegment revenues/expenses	1,008	502	269	363	-2,143	
Operating expenses	**2,028**	**1,046**	**929**	**1,189**	**160**	**5,351**
Impairment charges on financial instruments	-12	253	3	427	-16	655
Total expenses	**2,016**	**1,299**	**932**	**1,616**	**143**	**6,006**
Operating profit/(loss) before taxation	**1,501**	**600**	**408**	**501**	**77**	**3,086**
Income tax expense	375	153	95	75	64	762
Profit/(loss) for the period	**1,126**	**448**	**312**	**426**	**13**	**2,325**
Attributable to:						
Owners of the company	1,126	448	312	387	-66	2,207
Holders of AT1 capital securities					79	79
Other non-controlling interests				39		39

Retail Banking

Net interest income decreased by 3% to EUR 3,122 million (2017: EUR 3,233 million). If adjusted for incidentals in the two periods, the decrease is mainly attributable to the combined impact of approximately EUR 60 million resulting from the updating of the model used for non-maturing deposits (NMD) and the reallocation of net interest income from Group Functions. Interest income from residential mortgages remained stable as the lower average volumes were offset by a slight improvement in margins resulting from good pricing discipline in a highly competitive market. Interest income on consumer loans decreased as a result of lower average volumes and margins. Deposit income continued to be impacted ongoing margin pressure in the low interest rate environment.

Net fee and commission income increased by EUR 27 million to EUR 365 million (2017: EUR 338 million), mainly due to the increase in payment package fees in 2018.

Other operating income amounted to EUR 3 million (2017: EUR 116 million). The figure for 2017 included a book gain of EUR 114 million following the sale of the remaining equity stake in Visa Inc.

Personnel expenses decreased by EUR 31 million to EUR 442 million (2017: EUR 473 million), mainly due to lower restructuring costs in 2018 (EUR 5 million versus EUR 24 million in 2017) and declining FTE levels. This was partly offset by the new Collective Labour Agreement, which provided for a 2% increase in salaries and a one-off payment of EUR 1,000 per employee. The number of FTE fell by 615 to 4,445 as at 31 December 2018 as a result of digitalisation and cost-saving programmes, and this decrease is also reflected in the further reduction in the number of branches.

General and administrative expenses increased by EUR 46 million to EUR 568 million (2017: EUR 522 million), mainly due to a provision of EUR 30 million for additional costs to accelerate customer due diligence (CDD) remediation programmes (see note 29 Provisions for further information) and higher regulatory levies (EUR 169 million, compared with EUR 155 million in 2017).

Impairment charges amounted to a release of EUR 12 million, compared with a release of EUR 101 million in 2017. Impairment charges in 2017 largely benefited from favourable model updates, as well as from additional IBNI releases of EUR 60 million.

Commercial Banking

Net interest income decreased by EUR 26 million to EUR 1,602 million (2017: EUR 1,628 million). The figure for 2017 included a favourable incidental relating to a EUR 37 million release for unearned interest. Excluding this release, net interest income rose on the back of continued growth in client lending across all sectors and improved margins. The increase was partly offset by the combined impact of the updating of the model for NMD and the reallocation of net interest income from Group Functions. These items' negative impact on net interest income in 2018 amounted to approximately EUR 40 million.

Net fee and commission income decreased by EUR 12 million to EUR 258 million (2017: EUR 270 million) as the figure for 2017 included a one-off reclassification in the fourth quarter of that year. Excluding this reclassification, net fee and commission income remained stable in an increasingly competitive market.

Other operating income in 2018 decreased to EUR 38 million (2017: EUR 59 million). The figure for 2017 included the benefits of more favourable revaluation results.

Personnel expenses increased by EUR 7 million to EUR 335 million (2017: EUR 328 million). The increase was driven by a higher restructuring provision in 2018 of EUR 31 million (2017: EUR 12 million), the one-off payment to employees in the Collective Labour Agreement and wage inflation. These items were largely offset by the decline in the number of FTEs that was achieved through well-executed cost-saving programmes.

General and administrative expenses increased by EUR 62 million to EUR 202 million (2017: EUR 140 million), mainly owing to a provision of EUR 55 million for additional costs to accelerate CDD remediation programmes (See note 29 Provisions for further information) and higher regulatory levies (EUR 48 million versus EUR 40 million in 2017).

Intersegment expenses decreased by EUR 18 million to EUR 502 million (2017: EUR 520 million) as a result of the continued benefits of cost-saving programmes in Group Functions.
Impairment charges amounted to a charge of EUR 253 million, compared with a release of EUR 179 million in 2017.

Impairments were elevated in 2018 due to charges recorded in specific sectors (primarily healthcare and shipping), whereas the impairment releases in 2017 resulted mainly from model refinements for SME lending and mortgages, as well as IBNI releases.

Private Banking

Net interest income rose by EUR 60 million to EUR 719 million (2017: EUR 659 million). Excluding the contribution of PB Asia, net interest income rose by EUR 79 million. The increase was mainly due to margin improvements and partly offset by the combined impact of the updating of the NMD model and the reallocation of net interest income from Group Functions, which negatively impacted on net interest income by EUR 20 million. Net interest income in 2017 was negatively impacted by the Euribor provision of EUR 10 million.

Net fee and commission income decreased by EUR 64 million to EUR 509 million (2017: EUR 573 million). Excluding the contribution of PB Asia in 2017, net fee and commission decreased by EUR 49 million. Due to the volatility in the financial markets, Private Banking clients were less active in securities transactions, while more clients opted for execution only instead of managed portfolios, and the raised client threshold for advisory services resulted in lower advisory volumes.

Other operating income decreased by EUR 176 million to EUR 91 million (2017: EUR 267 million). Excluding the proceeds of the PB Asia divestments in 2017, other operating income rose by EUR 58 million in 2018. This was mainly the result of positive incidentals of EUR 60 million relating to sale proceeds and provision releases from divestments, specifically the sale of PB Luxembourg and asset management activities in France.

Personnel expenses decreased by EUR 82 million to EUR 390 million (2017: EUR 472 million). Excluding the results of PB Asia in 2017, personnel expenses decreased in 2018 owing to the substantial reduction in FTE numbers, which was partly offset by wage inflation. The number of FTE was 445 lower than in 2017, primarily due to progress made in the restructuring programmes and the divestment of PB Luxembourg.

General and administrative expenses amounted to EUR 248 million, compared with EUR 280 million in 2017. Excluding the results of PB Asia in 2017, general and administrative expenses increased by EUR 6 million, mainly due to higher regulatory levies.

Depreciation and amortisation of tangible and intangible assets amounted to EUR 21 million (2017: EUR 65 million). The figure for 2017 included a goodwill impairment of EUR 36 million.

Intersegment expenses were EUR 10 million lower at EUR 269 million (2017: EUR 279 million) as a result of the ongoing cost-saving programmes in Group Functions.

Impairment charges totalled EUR 3 million, compared with a release of EUR 6 million in 2017, largely driven by additions in the Netherlands.

Corporate & Institutional Banking

Net interest income rose by EUR 191 million to EUR 1,166 million (2017: EUR 975 million) owing to the favourable impact of new deals and on the back of increased client lending, while growth slowed throughout 2018 as a result of the strategy refocus. Deposit income was also higher as margins improved modestly and compensated for the lower volumes. The increase also included an amount of approximately EUR 40 million representing the combined impact of the updating of the model used for NMD and the reallocation of net interest income from Group Functions, as well as higher results in both Global Markets and Clearing.

Net fee and commission income decreased by EUR 11 million to EUR 527 million (2017: EUR 538 million). The decrease was mainly in Global Markets, which is volatile by nature, and was partly offset by higher fees in Clearing as a result of greater market volatility.

Net trading income decreased by EUR 73 million to EUR 153 million. CVA/DVA/FVA amounted to EUR 2 million negative (2017: EUR 76 million).

Other operating income totalled EUR 268 million (2017: EUR 76 million). The increase was mainly attributable to favourable Equity Participations results (EUR 274 million versus EUR 114 million in 2017) and more favourable revaluations in Clearing.

Personnel expenses amounted to EUR 480 million (2017: EUR 442 million). The increase was driven by restructuring provisions in 2018, mainly relating to the previously announced strategy refocus and, to a lesser extent, to wage inflation.

General and administrative expenses decreased by EUR 86 million to EUR 337 million (2017: EUR 423 million), mainly due to lower provisions for project costs of SME derivatives-related issues (EUR 41 million versus EUR 139 million in 2017). In addition, regulatory expenses were higher in 2018 (EUR 86 million versus EUR 76 million in 2017).

Intersegment expenses declined by EUR 30 million to EUR 363 million (2017: EUR 393 million) as a result of the continued benefits of cost-saving programmes in Group Functions.

Impairment charges amounted to EUR 427 million (2017: EUR 219 million). The higher impairments taken were mainly on existing impaired loans and primarily in offshore markets (mainly in Natural Resources and Global Transportation & Logistics) and in Trade & Commodity Finance, including diamonds.

Group Functions

Net interest income amounted to EUR 16 million negative (2017: EUR 38 million negative). The figure for 2018 included a provision release of EUR 35 million relating to securities financing activities discontinued in 2009. If adjusted for this, the decrease was mainly attributable to a decline in duration-related interest results, partly offset by the positive impact of approximately EUR 80 million resulting from the updating of the model for non-maturing deposits and the reallocation of net interest income to the business segment, and higher mortgage penalty fees.

Net fee and commission income increased by EUR 12 million to EUR 40 million (2017: EUR 28 million), partly due to the increase in net fee and commission income from Stater (mortgage service provider).

Other operating income amounted to EUR 183 million (2017: EUR 228 million). The decrease was attributable to less favourable hedge accounting-related income, including the partial sale of the public sector loan portfolio (EUR 79 million versus EUR 181 million in 2017), and to the lower provision release for securities financing activities discontinued in 2009, and was partly offset by the revaluation of equensWorldline (EUR 69 million).

Personnel expenses decreased by EUR 82 million to EUR 794 million (2017: EUR 876 million), partly as a result of lower restructuring provisions in 2018 (EUR 58 million versus EUR 112 million in 2017). If adjusted for restructuring provisions, personnel expenses decreased on the back of the lower average number of FTE in 2018, partly offset by wage inflation and the one-off payment of EUR 1,000 per employee provided for in the Collective Labour Agreement.

General and administrative expenses remained broadly stable at EUR 1,381 million (2017: EUR 1,383 million). The benefits of ongoing cost-saving programmes were offset by higher IT investments.

Depreciation and amortisation expenses decreased by EUR 29 million to EUR 127 million (2017: EUR 156 million). The figure for 2017 included a EUR 17 million impairment related to the ATM network. The remainder of the decrease in 2018 was attributable to lower investments in ATMs and buildings as ongoing digitalisation means we are continuing to reduce the number of branches.

Intersegment revenues/expenses amounted to EUR 2,143 million negative in 2018 (2017: EUR 2,228 million negative) as a result of lower costs being allocated to the commercial business segments.

Segment income statement for the year 2017

						2017
(in millions)	Retail Banking	Commercial Banking	Private Banking	Corporate & Institutional Banking	Group Functions	Total
Income						
Net interest income	3,233	1,628	659	975	-38	6,456
Net fee and commission income	338	270	573	538	28	1,747
Net trading income	3	2	30	226	25	287
Share of result in equity accounted investments	31	2	10	15	-5	54
Other operating income	116	59	267	76	228	745
Operating income	**3,721**	**1,961**	**1,540**	**1,830**	**238**	**9,290**
Expenses						
Personnel expenses	473	328	472	442	876	2,590
General and administrative expenses	522	140	280	423	1,383	2,746
Depreciation and amortisation of tangible and intangible assets	8	4	65	11	156	245
Intersegment revenues/expenses	1,036	520	279	393	-2,228	
Operating expenses	**2,040**	**991**	**1,095**	**1,269**	**187**	**5,582**
Impairment charges on financial instruments	-101	-179	-6	219	4	-63
Total expenses	**1,938**	**813**	**1,089**	**1,488**	**190**	**5,519**
Operating profit/(loss) before taxation	**1,783**	**1,148**	**450**	**342**	**48**	**3,771**
Income tax expense	454	288	64	121	52	979
Profit/(loss) for the period	**1,329**	**860**	**386**	**221**	**-4**	**2,791**
Attributable to:						
Owners of the company	1,329	860	386	204	-58	2,721
Holders of AT1 capital securities					53	53
Other non-controlling interests				17	1	18

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Selected assets and liabilities by segment

(in millions)	Retail Banking	Commercial Banking	Private Banking	Corporate & Institutional Banking	Group Functions	Total
						31 December 2018
Assets						
Financial assets held for trading				495		495
Derivatives			31	5,170	990	6,191
Securities financing				5,286	7,089	12,375
Residential mortgages	145,986	4	2,693		2,101	150,784
Consumer loans	6,815	537	4,530	64		11,945
Corporate loans	1,667	40,763	5,236	50,321	3,205	101,191
Other loans and advances customers	8	340	4	6,394	220	6,966
Other	1,252	2,000	5,168	6,725	76,202	91,348
Total assets	**155,728**	**43,642**	**17,661**	**74,455**	**89,807**	**381,295**
Liabilities						
Financial liabilities held for trading				253		253
Derivatives			13	5,282	1,864	7,159
Securities financing				462	6,945	7,407
Current accounts	15,375	28,472	18,603	21,144	598	84,192
Demand deposits	70,311	12,971	40,099	623	16	124,020
Time deposits	7,660	3,515	7,454	5,615	2,858	27,101
Other due to customers	136			636	38	810
Other	62,246	-1,316	-48,508	40,441	56,130	108,993
Total liabilities	**155,728**	**43,642**	**17,661**	**74,455**	**68,447**	**359,935**

(in millions)	Retail Banking	Commercial Banking	Private Banking	Corporate & Institutional Banking	Group Functions	Total
						31 December 2017
Assets						
Financial assets held for trading				1,599		1,600
Derivatives			19	8,659	1,146	9,825
Securities financing				2,711	12,975	15,686
Residential mortgages	147,495	7	2,926		2,264	152,691
Consumer loans	7,295	453	4,324	49		12,122
Corporate loans	1,552	39,160	4,926	51,377	4,102	101,118
Other loans and advances customers	3	464	3	8,250	254	8,975
Other	1,777	1,855	8,963	7,824	70,735	91,154
Total assets	**158,123**	**41,940**	**21,162**	**80,470**	**91,476**	**393,171**
Liabilities						
Financial liabilities held for trading				1,082		1,082
Derivatives			12	6,368	1,987	8,367
Securities financing				657	10,755	11,412
Current accounts[1]	14,555	26,521	18,554	23,370	628	83,627
Demand deposits[1]	72,107	13,695	39,280	906	6	125,995
Time deposits[1]	7,442	3,969	7,173	5,745	2,207	26,536
Other due to customers[1]	216	4	24	253	45	541
Other	63,804	-2,250	-43,882	42,090	54,519	114,281
Total liabilities	**158,123**	**41,940**	**21,162**	**80,470**	**70,146**	**371,841**

[1] Change in Due to customers effective as of 1 January 2018.

Geographical segments

(in millions)	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total 2018
Net interest income	5,663	554	167	151	57	6,593
Net fee and commission income	1,138	335	116	96	15	1,699
Net trading income	148	9	15	1	-1	173
Share of result in equity accounted investments	37	6				43
Other operating income	478	82	20	4		584
Operating income	**7,465**	**986**	**319**	**251**	**72**	**9,093**
Expenses						
Personnel expenses	1,922	325	104	66	24	2,441
General and administrative expenses	2,386	253	50	33	15	2,737
Depreciation and amortisation of tangible and intangible assets	142	25	3	3	1	173
Intersegment revenues/expenses	-44	28	8	16	-8	
Operating expenses	**4,406**	**630**	**165**	**117**	**32**	**5,351**
Impairment charges on financial instruments	287	169	45	84	69	655
Total expenses	**4,694**	**800**	**211**	**201**	**102**	**6,006**
Operating profit/(loss) before taxation	**2,771**	**186**	**108**	**51**	**-30**	**3,086**
Income tax expense	674	44	45	4	-4	762
Profit/(loss) for the period	**2,098**	**143**	**63**	**47**	**-25**	**2,325**
Attributable to:						
Owners of the company	1,980	143	63	47	-25	2,207
Holders of AT1 capital securities	79					79
Other non-controlling interests	39					39

(in millions)	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total 2017
Income						
Net interest income	5,388	587	244	167	70	6,456
Net fee and commission income	1,139	369	111	113	15	1,747
Net trading income	227	46	10	5	-1	287
Share of result in equity accounted investments	44	10				54
Other operating income	449	4	-1	293		745
Operating income	**7,247**	**1,016**	**364**	**578**	**85**	**9,290**
Expenses						
Personnel expenses	1,909	439	99	121	23	2,590
General and administrative expenses	2,357	249	61	65	15	2,746
Depreciation and amortisation of tangible and intangible assets	172	59	4	8	2	245
Intersegment revenues/expenses	-46	32	7	13	-6	
Operating expenses	**4,393**	**779**	**170**	**206**	**34**	**5,582**
Impairment charges on financial instruments	-274	80	101	21	10	-63
Total expenses	**4,119**	**859**	**271**	**227**	**43**	**5,519**
Operating profit/(loss) before taxation	**3,129**	**157**	**93**	**350**	**41**	**3,771**
Income tax expense	822	54	75	15	13	979
Profit/(loss) for the period	**2,307**	**103**	**18**	**336**	**28**	**2,791**
Attributable to:						
Owners of the company	2,236	103	18	336	28	2,721
Holders of AT1 capital securities	53					53
Other non-controlling interests	18					18

3 Overview of financial assets and liabilities by measurement base

	31 December 2018				
(in millions)	Amortised cost	Fair value through profit or loss - Trading	Fair value through profit or loss - Other	Fair value through other comprehensive income	Total
Financial assets					
Cash and balances at central banks	34,371				34,371
Financial assets held for trading		495			495
Derivatives		5,247	943		6,191
Financial investments			1,004	41,180	42,184
Securities financing	12,375				12,375
Loans and advances banks	8,124				8,124
Loans and advances customers	270,099		787		270,886
Assets held for sale	5				5
Other assets	945				945
Total financial assets	**325,918**	**5,743**	**2,735**	**41,180**	**375,576**
Financial Liabilities					
Financial liabilities held for trading		253			253
Derivatives		5,727	1,432		7,159
Securities financing	7,407				7,407
Due to banks	13,437				13,437
Due to customers	236,123				236,123
Issued debt	79,739		1,045		80,784
Subordinated liabilities	9,805				9,805
Liabilities held for sale					
Other liabilities	796				796
Total financial liabilities	**347,307**	**5,979**	**2,477**		**355,763**

	31 December 2017				
(in millions)	Amortised cost	Fair value through profit or loss - Trading	Fair value through profit or loss - Other	Fair value through other comprehensive income	Total
Financial assets					
Cash and balances at central banks	29,783				29,783
Financial assets held for trading		1,600			1,600
Derivatives		8,749	1,076		9,825
Financial investments			679	40,285	40,964
Securities financing	15,686				15,686
Loans and advances banks	10,665				10,665
Loans and advances customers	274,906				274,906
Assets held for sale	385		2,728	7	3,120
Other assets	959				959
Total financial assets	**332,384**	**10,349**	**4,482**	**40,292**	**387,507**
Financial Liabilities					
Financial liabilities held for trading		1,082			1,082
Derivatives		6,695	1,672		8,367
Securities financing	11,412				11,412
Due to banks	16,462				16,462
Due to customers	236,699				236,699
Issued debt	75,429		1,182		76,612
Subordinated liabilities	9,720				9,720
Liabilities held for sale	2,092		2,729		4,821
Other liabilities	1,464				1,464
Total financial liabilities	**353,278**	**7,777**	**5,583**		**366,637**

4 Net interest income

Accounting policy for net interest income

Interest income and expense on financial instruments is recognised in the income statement on an accrual basis using the effective interest rate method, except for those financial instruments measured at fair value through profit or loss. The effective interest rate method allocates interest, amortisation of any discount or premium or other differences, including transaction costs and qualifying fees and commissions, over the expected lives of the assets and liabilities. The effective interest rate is the rate that exactly discounts estimated future cash flows to the net carrying amount of the asset. As a result, this method requires ABN AMRO to estimate future cash flows, in some cases based on its experience of customer behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Interest on loans and advances measured at fair value through profit or loss is also included in net interest income and recognised using the contractual interest rate. There are no individual products that are material to the bank's results or financial position. Interest income and expenses of trading balances are included in net trading income. Interest paid on assets with a negative interest yield is classified as interest expense. Interest received from liabilities with a negative interest yield is classified as interest income.

(in millions)	2018	2017
Interest income from financial instruments measured at amortised cost and fair value through other comprehensive income	10,597	10,421
Interest income from financial instruments measured at fair value through profit or loss	2,048	2,081
Interest expense	6,052	6,045
Net interest income	**6,593**	**6,456**

Net interest income

Net interest income for 2018 amounted to EUR 6,593 million, an increase of EUR 137 million compared with EUR 6,456 million in 2017. The main drivers were growth in corporate loans, the favourable impact of new deals (mainly interest-related fees) and higher mortgage penalty fees. Interest income on residential mortgages remained stable as average volumes and margins remained under control despite the increasing competition. Interest income on consumer loans was slightly down due to lower volumes and continued margin pressure.

Interest income

(in millions)	2018	2017
Interest income from:		
Financial investments at fair value through other comprehensive income	662	646
Securities financing	435	340
Loans and advances – banks	308	208
Loans and advances – customers	9,029	9,033
Other	163	193
Interest income from financial instruments measured at amortised cost and fair value through other comprehensive income	**10,597**	**10,421**
Interest income from financial instruments measured at fair value through profit or loss	2,048	2,081
Total interest income	**12,645**	**12,502**

Interest income amounted to EUR 12,645 million, an increase of EUR 143 million compared with EUR 12,502 million in 2017. Interest income from items not at fair value through profit or loss amounted to EUR 10,597 million (2017: EUR 10,421 million).

Securities financing increased by EUR 95 million to EUR 435 million (2017: EUR 340 million) due to higher rates from securities financing transactions.

Loans and advances - banks increased by EUR 100 million to EUR 308 million in 2018 (2017: EUR 208 million) due to higher results for Clearing business, increased client balances year-over-year, and interest-bearing results with financial institutions.

Interest income from financial instruments measured at fair value remained stable in 2018. This line item includes interest from economic hedging derivatives and interest from loans and investments mandatorily held at fair value.

Interest expense

(in millions)	2018	2017
Interest expenses from:		
Securities financing	300	227
Due to banks	223	151
Due to customers	766	875
Issued debt	1,628	1,570
Subordinated liabilities	455	511
Other	2,680	2,711
Total interest expense	**6,052**	**6,045**

Interest expense for 2018 amounted to EUR 6,052 million, an increase of EUR 6 million compared with EUR 6,045 million in 2017. Interest expense from items not at fair value through profit or loss amounted to EUR 5,899 million (2017: EUR 5,905 million).

The decrease in interest expense from due to customers, which fell by EUR 109 million to EUR 766 million (2017: EUR 875 million), was attributable to lower interest rates for client savings. This was offset by an increase of EUR 72 million to EUR 300 million in interest expense from securities financing transactions and an increase of EUR 72 million to EUR 223 million in interest expense due to banks.

Other includes interest expense on hedging instruments for an amount of EUR 2,289 million (2017: EUR 2,366 million)

5 Net fee and commission income

Accounting policy for net fee and commission income

ABN AMRO applies IFRS 15 when recognising revenue from contracts with customers, all of which is included in net fee and commission income. After identifying contracts and their performance obligations, revenue is recognised as an amount that reflects the consideration to which the bank expects to be entitled in exchange for transferring promised services to customers. The transaction price is allocated to each performance obligation. Revenue is measured at the fair value of the consideration received, taking into account discounts and rebates. The amount of revenue recognised is discounted to the present value of consideration due, if payment extends beyond normal credit terms.

Revenue is recognised when a promised service is transferred to the customer. Fees and commissions are recognised either:

- At a point in time: the fee is a reward for a service provided at a moment in time; or
- Over time (amortised): the fee relates to services on an ongoing basis.

Net fee and commission income decreased by EUR 48 million in 2018 compared to 2017. A third of this decrease was attributable to the PB Asia divestment in 2017 as the figure for that year included four months of fee income from this business. The remaining decrease occurred primarily within Private Banking as net fee and commission income was higher in 2017 due to more favourable market conditions. The decrease in 2018 was partly offset by higher fees in Retail Banking, and specifically the increase in the fees charged for payment packages, and to higher fees in the Clearing business as a result of greater market volatility.

Fee and commission income

Fee and commission income for the years ended 31 December is specified in the following table.

(in millions)	2018	2017
Fee and commission income	3,169	3,138
Fee and commission expense	1,470	1,391
Net fee and commission income	**1,699**	**1,747**

						2018
(in millions)	Retail Banking	Commercial Banking	Private Banking	Corporate & Institutional Banking	Group Functions	Total
Fee and commission income from:						
Securities and custodian services	19	1	60	1,436	1	1,516
Payment services	310	202	28	87	35	661
Portfolio management and trust fees	45	1	475			521
Guarantees and commitment fees	21	28	5	109		163
Insurance and investment fees	46	1	32			78
Other service fees	17	71	14	48	80	230
Total fee and commission income	**457**	**303**	**613**	**1,680**	**115**	**3,169**
Timing fee and commission income						
Recognised at a point in time	241	271	355	1,652	115	2,633
Recognised over time	216	33	259	29		536
Total fee and commission income	**457**	**303**	**613**	**1,680**	**115**	**3,169**

Fee and commission income rose by EUR 31 million compared with 2017, partly thanks to the increase in fees in the Clearing business that resulted from greater market volatility. This increase was partly offset by a decrease in Private Banking portfolio management fees, with more clients opting for execution only.

						2017
(in millions)	Retail Banking	Commercial Banking	Private Banking	Corporate & Institutional Banking	Group Functions	Total
Fee and commission income from:						
Securities and custodian services	18	1	86	1,322	1	1,427
Payment services	304	204	28	87	35	659
Portfolio management and trust fees	52	2	508	1		563
Guarantees and commitment fees	23	28	6	113		170
Insurance and investment fees	47		36			83
Other service fees	18	78	14	54	73	237
Total fee and commission income	**462**	**313**	**678**	**1,577**	**109**	**3,138**

Fee and commission expense

The components of fee and commission expense for the years ended 31 December are as follows:

(in millions)	2018	2017
Fee and commission expenses from:		
Securities and custodian services	1,167	1,086
Payment services	158	164
Portfolio management and trust fees	73	80
Guarantees and commitment fees	9	9
Insurance and investment fees	36	34
Other service fees	27	19
Total fee and commission expense	**1,470**	**1,391**

Fee and commission expense increased by EUR 79 million in 2018, mainly in Clearing from increased transaction volumes following higher market volatility.

6 Net trading income

Accounting policy for net trading income

In accordance with IFRS 9, trading positions are held at fair value, and net trading income includes gains and losses arising from changes in the fair value of such financial assets and liabilities. The latter comprise trading financial assets and liabilities, interest income and expenses related to trading financial assets and liabilities, dividends received from trading instruments and related funding costs. Dividend income from trading instruments is recognised when entitlement is established. Net trading income also includes changes in fair value arising from changes in counterparty credit spreads (CVA) and changes in own credit spreads (DVA) where these impact on the value of our trading liabilities. The funding valuation adjustment (FVA) incorporates the incremental cost of funding into the valuation of uncollateralised and partly collateralised derivatives.

(in millions)	2018	2017
Interest instruments trading[1]	12	80
Equity and commodity trading[1]	20	61
Foreign exchange transaction results[2]	142	146
Total net trading income	**173**	**287**

1 Due to a refinement of transaction results in trading income prior year amounts of interest instruments trading, equity and commodity trading and other trading have been adjusted.
2 The foreign exchange transaction results have been refined, therefore foreign exchange transaction results for balances not being 'fair value to profit or loss' have been reported as part of the other operating income. Comparative figures have not been adjusted.

Net trading income amounted to a gain of EUR 173 million (2017: gain of EUR 287 million) and was EUR 114 million lower than in 2017. This was mainly caused by stable CVA/DVA/FVA reserves in 2018 as a result of relatively stable credit spreads and interest rates during the year, whereas an amount of EUR 75 million of CVA/DVA/FVA was released to net trading income in 2017 as a result of tightening credit spreads and geopolitical-economic events.

Income from interest instruments trading decreased by EUR 68 million compared with 2017. This item was negatively impacted by the above-mentioned development of CVA/DVA/FVA in both 2018 and 2017 and favourably offset by the addition to the SME provision being EUR 21 million lower in 2018.

Equity and commodity trading income decreased to EUR 20 million (2017: EUR 61 million), largely because of exposure to energy market volatility.

Foreign exchange transaction results amounted to EUR 142 million in 2018, remaining relatively stable (2017: EUR 146 million).

7 Other operating income

Accounting policy for other operating income

Other operating income includes all other banking activities such as leasing activities and results on the disposal of assets. It also includes the change in fair value of derivatives used for risk management purposes that do not meet the requirements for hedge accounting, ineffectiveness of hedging programmes, fair value changes relating to assets and liabilities measured at fair value through profit or loss, and changes in the value of derivatives related to such instruments. Dividend income from non-trading equity investments is recognised when entitlement is established.

(in millions)	2018	2017
Leasing activities	21	22
Disposal of operating activities and equity accounted investments	42	327
Result from financial transactions	411	334
Other	110	62
Total other operating income	**584**	**745**

Other operating income decreased by EUR 161 million to EUR 584 million (2017: EUR 745 million), mainly due to a decrease in the disposal of operating activities and equity investments.

Disposal of operating activities and equity investments in 2018 includes Private Banking Luxembourg and part of the stake in the investment funds of ABN AMRO Participaties. For 2017 this line item included PB Asia divestment.

The result from financial transactions increased by EUR 77 million to EUR 411 million in 2018 (2017: EUR 334 million), mainly due to the increase of results from revaluation and divestments of equity securities designated at FVTPL of EUR 217 million and the decrease in hedge accounting-related results at Group Functions of EUR 104 million in 2018.

Result from financial transactions includes, amongst others, a total amount of EUR 448 million of fair value gains and losses relating to instruments mandatorily measured at FVTPL, EUR 2 million of fair value gains and losses relating to instruments designated at FVTPL, EUR 2 million of fair value gains and losses relating to FVOCI instruments, and a total loss of EUR 41 million relating to the derecognition of financial instruments measured at amortised cost, mainly due to the sale of a significant part of the PSL portfolio. The foreign exchange transaction results for balances not being FVTPL amounted to EUR 19 million in 2018. These results are included in result from financial transactions as of 2018 due to a refinement of transactions results in trading income. The comparative figures have not been restated.

Other income – Other increased by EUR 47 million to EUR 110 million in 2018 (2017: EUR 62 million), mainly as the result of a property sale in Luxembourg.

8 Personnel expenses

Accounting policy for personnel expenses

Salaries and wages, social security charges and other salary-related costs are recognised over the period in which the employees provide the services to which the payments relate. The accounting policies for pensions and other post-retirement benefits are included in note 30.

(in millions)	2018	2017
Salaries and wages	1,594	1,656
Social security charges	243	227
Pension expenses relating to defined benefit plans	2	
Defined contribution plan expenses	338	369
Other	265	338
Total personnel expenses	**2,441**	**2,590**

Total personnel expenses for 2018 amounted to EUR 2,441 million, a decrease of EUR 149 million compared with EUR 2,590 million in 2017.

Salaries and wages decreased by EUR 62 million to EUR 1,594 million in 2018. This was mainly due to the declining FTE levels, reflecting the continued progress being achieved by cost-saving programmes. This decrease was partly offset by wage inflation as the new Collective Labour Agreement resulted in salaries increasing by 2% and a one-off payment of EUR 16 million.

Social security charges increased by EUR 16 million to EUR 243 million in 2018, mainly due to the higher social security charges resulting from the new Collective Labour Agreement.

Other decreased by EUR 74 million to EUR 265 million in 2018, mainly due to higher additions to staff restructuring provisions in 2017.

Personnel expenses include costs for a variable compensation plan for Identified Staff. This is not an employee share-based payment plan as defined in IFRS 2 Share-based Payment. As a result of ABN AMRO depositary receipts being listed on the Amsterdam stock exchange, ABN AMRO is in the process of changing the variable compensation plan into a plan that may qualify as a share-based payment plan.

9 General and administrative expenses

Accounting policy for general and administrative expenses

Costs are recognised in the period in which services have been provided and to which the payment relates.

(in millions)	2018	2017
Agency staff, contractors and consultancy costs	699	664
Staff related costs	73	77
Information technology costs	1,002	1,021
Housing	167	184
Post, telephone and transport	48	55
Marketing and public relations costs	112	111
Regulatory charges	362	325
Other	273	310
Total general and administrative expenses	**2,737**	**2,746**

Total general and administrative expenses decreased by EUR 9 million to EUR 2,737 million in 2018 (2017: EUR 2,746 million).

Agency staff, contractors and consultancy costs increased by EUR 35 million, mainly due to higher costs for external staff hired to increase short-term capacity for regulatory projects.

Other decreased by EUR 37 million to EUR 273 million in 2018, mainly due to lower additions provisions. Please refer to note 29 Provisions for more information.

(in millions)	2018	2017
Bank tax	103	103
Deposit Guarantee Scheme	108	94
Single Resolution Fund	125	103
Other regulatory levies	26	25
Total regulatory charges	**362**	**325**

Regulatory charges increased by EUR 37 million to EUR 362 million in 2018, due to higher costs for the Single Resolution Fund and the Deposit Guarantee Scheme.

Fees paid to EY are included under agency staff, contractors and consultancy costs. These fees are specified in the following table.

(in millions)	2018	2017
Financial statements audit fees	9	8
Audit related fees	4	5
Total auditor's fee	**13**	**13**

Financial statement audit fees relating to the audit of activities in the Netherlands amounted to EUR 7 million in 2018 (2017: EUR 6 million). Audit-related fees for activities in the Netherlands amounted to EUR 2 million in 2018 (2017: EUR 2 million).

Audit-related fees comprise services for regulatory reporting purposes, comfort letters and consent letters, assurance engagements on segregation of assets, assurance on service organisation reports and procedures agreed for supervisory purposes.

10 Income tax expense, tax assets and tax liabilities

Accounting policy for income tax expense, tax assets and tax liabilities

ABN AMRO is subject to income taxes in numerous jurisdictions. Income tax expense consists of current and deferred tax. Income tax is recognised in the income statement and in the statement of other comprehensive income in the period in which profits arise. Withholding taxes are included in income tax if these taxes are payable by a subsidiary, associate or joint arrangement on distributions to ABN AMRO. Income tax recoverable on tax-allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offsetting against taxable profits arising in the current or prior period. Current tax is measured using tax rates enacted at the balance sheet date.

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

Deferred tax assets and liabilities are offset only when there is both a legal right to offset and an intention to settle on a net basis.

(in millions)	2018	2017
Recognised in income statement:		
Current tax expenses for the current period	779	979
Adjustments recognised in the period for current tax of prior periods	-61	-3
Previously unrecognised tax losses, tax credits and temporary differences increasing (reducing) current tax expenses	1	4
Total current tax expense	**718**	**981**
Deferred tax arising from the current period	-16	-52
Impact of changes in tax rates on deferred taxes	11	34
Deferred tax arising from the write-down or reversal of a write-down of a deferred tax asset	19	25
Deferred tax prior period	42	
Previously unrecognised tax losses, tax credits and temporary differences reducing deferred tax expense	-8	-9
Tax expense (income) relating to changes in accounting policies and errors included in profit and loss	-4	
Total deferred tax expense	**44**	**-1**
Total income tax expense	**762**	**979**

Reconciliation of the total tax charge

The effective rate based on the Consolidated income statement differs from the theoretical rate that would arise using the statutory tax rate of the Netherlands. This difference is explained as follows:

(in millions)	2018	2017
Profit/(loss) before taxation	3,086	3,771
Applicable tax rate	25.0%	25.0%
Expected income tax expense	772	943
Increase/(decrease) in taxes resulting from:		
Tax exempt income	-4	-52
Share in result of associates and joint ventures	-108	-23
Non-deductable Dutch bank tax	25	24
Other non-deductable expenses	73	60
Other permanent items	4	
Adjustments for tax of prior years	-19	-3
Previously unrecognised tax losses and temporary differences	-8	-5
Write-down and reversal of write-down of deferred tax assets	19	25
Impact of changes in tax rates on temporary differences	11	34
Foreign tax rate differential	1	-40
Other	-3	15
Actual income tax expense	**762**	**979**

The effective tax rate of 24.7% (2017: 26.0%) decreased from the previous year. Although the total non-deductible expenses in respect of interest, bank levy and expenses that are partly deductible increased, this was exceeded by the non-taxable gains and income. The changes to tax rates in various countries resulted in the carrying value of the deferred tax assets being reduced. The adjustments of prior years reflect the effects of changes of facts or other factors in comparison of previous periods.

Tax assets and liabilities

The most significant temporary differences arise from the revaluation of certain financial assets and liabilities, including derivative contracts, allowances for loan impairment and investments. The following table summarises the tax position at 31 December:

	31 December 2018		31 December 2017	
(in millions)	Assets	Liabilities	Assets	Liabilities
Current tax	172	30	72	101
Deferred tax	344	6	359	9
Total tax assets and liabilities	**516**	**36**	**431**	**110**

The significant components and annual movements in deferred tax assets and deferred tax liabilities at 31 December are shown in the following tables:

(in millions)	As at 31 December 2017	Impact IFRS 9	As at 1 January 2018	Income statement	Equity	Other	As at 31 December 2018
Deferred tax assets:							
Assets held for trading and derivatives	310		310	1	-19	-1	291
Investments	9		9	-3		-3	3
Property and equipment	13		13	3		3	19
Goodwill				-2		3	1
Insurance policy and claim reserves	1		1			-1	
Loans and advances customers	64	2	66	-13	4	-16	41
Provisions for pensions and post-retirement benefits	38		38	-6	-6	13	39
Accrued expenses and deferred income	68		68	-24	2	-16	30
Unused tax losses and unused tax credits	20		20	2		-8	14
Other	3		3	-11	-2	38	28
Total deferred tax assets before offsetting	**525**	**2**	**527**	**-53**	**-21**	**13**	**466**
Offsetting deferred tax liabilities	166		166				122
Total deferred tax assets	**359**	**2**	**361**				**344**
Deferred tax liabilities related to:							
Investments	160	-1	158	1	-53	-2	104
Property and equipment	4		4				4
Loans and advances customers	5		5	-5		3	3
Provisions excluding pensions commitments				-4		4	
Deferred policy acquisition costs	1		1			-1	
Deferred expense and accrued income	-1		-1			1	
Other	6		6	-1	4	8	16
Total deferred tax liabilities before offsetting	**175**	**-1**	**173**	**-9**	**-49**	**13**	**128**
Offsetting deferred tax assets	166		166				122
Total deferred tax liabilities	**9**	**-1**	**7**				**6**
Net deferred tax	**350**	**3**	**354**				**338**
Deferred tax through income statement and equity				**44**	**-28**		

(in millions)	As at 1 January 2017	Income statement	Equity	Other	As at 31 December 2017
Deferred tax assets:					
Assets held for trading and derivatives	286	-1	25		310
Investments (available-for-sale)	26	-16		-1	9
Property and equipment	9	4			13
Intangible assets (excluding goodwill)	2	-2			
Insurance policy and claim reserves	-1	2			1
Loans and advances customers	3	1			4
Impairments on loans	57	8		-5	60
Provisions for pensions and post-retirement benefits	24	12	2		38
Accrued expenses and deferred income	53	14		1	68
Unused tax losses and unused tax credits	22	-1	1	-2	20
Other	37	-34	1	-2	3
Total deferred tax assets before offsetting	**517**	**-12**	**29**	**-9**	**525**
Offsetting deferred tax liabilities	209				166
Total deferred tax assets	**307**				**359**
Deferred tax liabilities related to:					
Investments (available-for-sale)	189	-2	-27	-1	160
Property and equipment	3	1	1	-2	4
Intangible assets (excluding goodwill)	2	-2			
Loans and advances customers	6	-1			5
Deferred policy acquisition costs	1				1
Deferred expense and accrued income		-2		1	-1
Other	19	-8		-4	6
Total deferred tax liabilities before offsetting	**220**	**-13**	**-26**	**-5**	**175**
Offsetting deferred tax assets	209				166
Total deferred tax liabilities	**11**				**9**
Net deferred tax	**297**				**350**
Deferred tax through income statement and equity		**-1**	**-56**		

Deferred tax assets
Deferred tax assets are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Recognition is based on estimates of sufficient taxable income by jurisdiction in which ABN AMRO operates and the period over which deferred tax assets are recoverable. In the event that actual results differ from these estimates in future periods changes to the recognition of deferred tax assets could be required and these could impact on our financial position and net profit.

Tax losses
The total accumulated losses available for carry-forward at 31 December 2018 amounted to EUR 1,413 million (31 December 2017: EUR 1,448 million), of which EUR 55 million (31 December 2017: EUR 74 million) could be recognised for future tax benefits. The recorded deferred tax asset for tax losses carried forward amounted to EUR 14 million (31 December 2017: EUR 20 million).

Unrecognised tax assets
Deferred tax assets of EUR 42 million (31 December 2017: EUR 22 million) have not been recognised in respect of gross deductible temporary differences of EUR 144 million (31 December 2017: EUR 76 million) and EUR 231 million (31 December 2017: EUR 247 million) have not been recognised in respect of gross tax losses of EUR 1,358 million (31 December 2017: EUR 1,374 million) because future taxable profits are not considered probable. These deferred tax assets are mainly related to positions outside the Netherlands.

Tax credits and unrecognised tax credits
ABN AMRO does not have any carry-forward tax credits at 31 December 2018.

The following table shows when the operating losses as at 31 December 2018 expire:

(in millions)	2018	2019	2020	2021	2022	2023	After 5 years	No expiration	Total
2018									
Loss carry-forward recognised				9	7	1	4	34	55
Loss carry-forward not recognised		2	6	3		7	3	1,336	1,358
Total tax losses carry-forward (gross)		**2**	**6**	**12**	**7**	**8**	**7**	**1,370**	**1,413**
2017									
Loss carry-forward recognised				5	7		23	38	74
Loss carry-forward not recognised	4	4	10	5	1		25	1,327	1,374
Total tax losses carry-forward (gross)	**4**	**4**	**10**	**10**	**8**		**48**	**1,365**	**1,448**

ABN AMRO does not recognise deferred tax in respect of ABN AMRO investments in subsidiaries, branches, associates and interests in joint arrangements when ABN AMRO is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. It is not practicable to determine the amount of income tax payable were such temporary differences to be reversed.

Of the total amount of recognised net deferred assets, EUR 37 million (31 December 2017: EUR 29 million) is related to entities that suffered a loss either in the current or preceding year. The recognition of these deferred tax assets is based on a projection of future taxable income.

Tax related to each component of other comprehensive income and tax related to equity can be found in the Consolidated statement of comprehensive income and in the Consolidated statements of changes in equity.

Income tax consequences of dividend

The Executive Board proposes, subject to approval by the Supervisory Board, a final dividend of EUR 752 million on the ordinary shares. The dividend will, in principle, be subject to 15% withholding tax.

Country-by-country reporting

The following table provides an overview of total assets, total operating income, average number of FTE, operating profit/(loss) before taxation and income tax expense, as well as the principal subsidiary and main activity, for each country. The full list of participating interests as referred to in Article 414, Book 2 of the Dutch Civil Code has been filed with the Trade Register.

			31 December 2018				
	Principal subsidiary	Main activity	Total assets	Total operating income (in millions)	Average number of FTE	Operating profit/(loss) before taxation (in millions)	Income tax expense (in millions)
Netherlands	ABN AMRO Bank N.V.	Retail Banking	337,308	7,558	15,711	2,749	666
- of which international activities			3,224	94	14	-22	-8
France	Banque Neuflize OBC S.A.	Private Banking	6,099	324	893	80	25
Germany	Bethmann Bank AG	Private Banking	4,436	268	710	53	1
Belgium	ABN AMRO Bank N.V. Branch Belgium	Private Banking	1,113	92	233	-32	2
United Kingdom	ABN AMRO Asset based Finance N.V., UK branche	Commercial Banking	2,193	90	344	45	8
Luxembourg	ABN AMRO Bank (Luxembourg) S.A.	Private Banking		61	110	30	8
Norway	ABN AMRO Bank N.V. Oslo Branch	Corporate & Institutional Banking	2,794	61	31	-41	-8
Denmark	ABN AMRO Securities Holdings (Denmark) ApS	Corporate & Institutional Banking	-119				
Jersey	ABN AMRO Bank N.V. Jersey Branch	Private Banking	-8				
Guernsey	ABN AMRO (Guernsey) Ltd.	Private Banking	389	43	130	21	2
United States	ABN AMRO Clearing Chicago LLC	Corporate & Institutional Banking	15,699	319	439	109	46
Brazil	ABN AMRO Brasil Participações	Corporate & Institutional Banking	392	18	88	10	5
Singapore	ABN AMRO Bank N.V. Branch Singapore	Corporate & Institutional Banking	8,131	139	280	68	8
Hong Kong	ABN AMRO Bank N.V. Branch Hong Kong	Private Banking	2,322	86	124	-12	-4
Japan	ABN AMRO Clearing Tokyo Co. Ltd.	Corporate & Institutional Banking	107	16	16	6	1
United Arab Emirates	ABN AMRO Bank N.V. Branch UAE/DIFC	Private Banking	-4	1	17	1	
Australia	ABN AMRO Clearing Sydney Pty Ltd.	Corporate & Institutional Banking	370	14	54	3	2
Other			72	2	22	-3	
Total			**381,295**	**9,093**	**19,203**	**3,086**	**762**

							31 December 2017
	Principal subsidiary	Main activity	Total assets	Total operating income (in millions)	Average number of FTE	Operating profit/(loss) before taxation (in millions)	Income tax expense (in millions)
Netherlands	ABN AMRO Bank N.V.	Retail Banking	341,202	7,417	16,899	3,246	847
- of which international activities			5,888	224	23	117	26
France	Banque Neuflize OBC S.A.	Private Banking	5,833	332	972	24	
Germany	Bethmann Bank AG	Private Banking	4,384	275	753	8	20
Belgium	ABN AMRO Bank N.V. Branch Belgium	Private Banking	1,252	85	249	-37	9
United Kingdom	ABN AMRO Commercial Finance Plc	Commercial Banking	1,723	66	361	25	7
Luxembourg	ABN AMRO Bank (Luxembourg) S.A.	Private Banking	2,962	44	162	4	1
Norway	ABN AMRO Bank N.V. Oslo Branch	Corporate & Institutional Banking	2,803	67	31	39	10
Denmark	ABN AMRO Securities Holdings (Denmark) ApS	Corporate & Institutional Banking	-119	50		50	
Jersey	ABN AMRO Bank N.V. Jersey Branch	Private Banking	-8				
Guernsey	ABN AMRO (Guernsey) Ltd.	Private Banking	519	43	131	21	2
United States	ABN AMRO Clearing Chicago LLC	Corporate & Institutional Banking	20,009	301	428	38	61
Brazil	ABN AMRO Brasil Participações	Corporate & Institutional Banking	353	23	87	15	7
Singapore	ABN AMRO Bank N.V. Branch Singapore	Corporate & Institutional Banking	9,780	264	382	153	9
Hong Kong	ABN AMRO Bank N.V. Branch Hong Kong	Private Banking	2,734	248	194	156	3
Japan	ABN AMRO Clearing Tokyo Co. Ltd.	Corporate & Institutional Banking	105	14	15	4	
United Arab Emirates	ABN AMRO Bank N.V. Branch UAE/DIFC	Private Banking	2	36	54	21	
Australia	ABN AMRO Clearing Sydney Pty Ltd.	Corporate & Institutional Banking	202	16	51	5	1
Other			-565	9	10	-1	
Total			**393,171**	**9,290**	**20,779**	**3,771**	**979**

ABN AMRO received government grants for its TLTRO II programme in 2018 and 2017. This programme has a maturity of four years and will end in 2021.

11 Earnings per share

The following table shows the composition of basic earnings per share at 31 December.

			2018			2017
(in millions)	Profit/(loss) for the period[1]	Number of shares	Earnings per share (in euros)	Profit/(loss) for the period[1]	Number of shares	Earnings per share (in euros)
Basic earnings	2,207	940	2.35	2,721	940	2.89

Basic earnings per ordinary share is calculated by profit attributable to owners of the parent company divided by the weighted average number of ordinary shares outstanding. ABN AMRO has no instruments outstanding that could potentially dilute the current number of ordinary shares.

The earnings per share in 2018 amounted to EUR 2.35 (2017: EUR 2.89). This is a decrease of EUR 0.54, or 19%. A final dividend of EUR 0.80 per share is proposed for 2018 (2017: EUR 0.80). Including the interim dividend paid on 3 September 2018 (EUR 611 million), the total dividend proposed is EUR 1.45 per share (2017: EUR 1.45).

12 Cash and balances at central banks

Accounting policy for cash and balances at central banks

Cash and balances at central banks are held at amortised cost. This item includes cash on hand and available demand balances with central banks in countries in which the bank has a presence. Mandatory reserve deposits are disclosed in note 18 Loans and advances – banks.

(in millions)	31 December 2018	31 December 2017
Assets		
Cash on hand and other cash equivalents	314	371
Balances with central banks readily convertible in cash other than mandatory reserve deposits	34,057	29,412
Total cash and balances at central banks	**34,371**	**29,783**

Cash and balances at central banks increased by EUR 4.6 billion to EUR 34.4 billion at 31 December 2018, mainly due to higher outstanding overnight positions placed at the Dutch central bank and other central banks in Europe.

13 Financial assets and liabilities held for trading

Accounting policy for financial assets and liabilities held for trading

In accordance with IFRS 9, all assets and liabilities held for trading are measured at fair value through profit or loss, with gains and losses in the changes of the fair value taken to net trading income in the income statement.

Financial assets held for trading

The following table shows the composition of assets held for trading.

(in millions)	31 December 2018	31 December 2017
Trading securities:		
Government bonds	273	1,071
Corporate debt securities	202	401
Equity securities	19	111
Total trading securities	**494**	**1,584**
Trading book loans	1	16
Total assets held for trading	**495**	**1,600**

Financial assets held for trading decreased by EUR 1.1 billion to EUR 0.5 billion at 31 December 2018 (31 December 2017: EUR 1.6 billion).

Government bonds decreased by EUR 0.8 billion, mostly related to changes in Dutch, French and Belgian bond positions. These portfolios are mainly a result of the primary dealership in these countries and are held for the purpose of client facilitation. Most of these contracts are hedged with short positions in corporate debt securities, government bonds and futures.

The decrease in corporate debt securities by EUR 0.2 billion is a result of movements in various bonds and countries, and mainly attributable to Dutch positions.

Equity securities decreased by EUR 0.1 billion, driven by a decrease in derivative contracts used for client facilitation and in stock positions.

Financial liabilities held for trading

The following table shows the composition of liabilities held for trading.

(in millions)	31 December 2018	31 December 2017
Bonds	131	850
Equity securities	4	65
Total short security positions	**135**	**915**
Other liabilities held for trading	117	167
Total liabilities held for trading	**253**	**1,082**

Financial liabilities held for trading decreased by EUR 0.8 billion to EUR 0.3 billion at 31 December 2018 (31 December 2017: EUR 1.1 billion).

The decrease resulted from lower short positions in bonds, primarily in Dutch and, to a lesser extent, French and Belgium government bonds, and corporate debt securities.

The fair value of assets pledged as securities is shown in note 33.

14 Derivatives

Accounting policy for derivatives

Derivatives comprise derivatives held for trading and derivatives held for risk management purposes. Derivatives held for trading are closely related to facilitating the needs of our clients. A significant part of the derivatives in the trading portfolio is related to serving clients in their risk management to hedge, for example, currency or interest rate exposures. ABN AMRO also offers products that are traded on the financial markets to institutional and individual clients and governments.

Derivatives held for risk management purposes include derivatives qualifying for hedge accounting and those used for economic hedges. A hedging instrument, for hedge accounting purposes, is a designated derivative whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

Derivative assets and liabilities subject to master netting arrangements are presented net only when they satisfy the eligibility requirements for netting under IAS 32. ABN AMRO did not have any netted derivative positions in the statement of financial position in either 2018 or 2017.

As derivative transactions and the related cash collateral held at a CCP are settled on a daily basis, the carrying amount of these positions in the statement of financial position is nil.

From a risk perspective, the gross amount of trading assets must be associated with the gross amount of trading liabilities, which are presented separately in the statement of financial position.

31 December 2018

(in millions)	Derivatives held for trading Interest rate	Currency	Other	Economic hedges Interest rate	Currency	Other	Hedge accounting Interest rate	Total derivatives
Exchange traded								
Fair value assets	1		143			14		158
Fair value liabilities	4		8			4		16
Notionals	55	43	173			436		706
Over-the-counter								
Central counterparties								
Fair value assets								
Fair value liabilities								
Notionals	962,063			540			127,294	1,089,897
Other bilateral								
Fair value assets	3,484	769	443	91	280	23	943	6,033
Fair value liabilities	3,383	1,063	545	105	610	4	1,432	7,143
Notionals	131,702	92,186	1,971	971	29,520	723	10,952	268,025
Total								
Fair value assets	3,485	769	585	91	280	37	943	6,191
Fair value liabilities	3,387	1,063	553	105	610	9	1,432	7,159
Notionals	1,093,820	92,229	2,144	1,511	29,520	1,159	138,246	1,358,629

31 December 2017

(in millions)	Derivatives held for trading Interest rate	Currency	Other	Economic hedges Interest rate	Currency	Other	Hedge accounting Interest rate	Total derivatives
Exchange traded								
Fair value assets	27		6			5		38
Fair value liabilities	23		17			132		172
Notionals	62	97	189			1,522		1,869
Over-the-counter								
Central counterparties								
Fair value assets								
Fair value liabilities								
Notionals	784,438			501			139,506	924,445
Other bilateral								
Fair value assets	5,860	1,946	326	107	336	136	1,076	9,786
Fair value liabilities	4,098	1,477	297	53	577	21	1,672	8,195
Notionals	133,341	140,914	3,053	1,034	28,483	1,738	11,609	320,173
Total								
Fair value assets	5,888	1,946	332	107	336	141	1,076	9,825
Fair value liabilities	4,121	1,477	314	53	577	153	1,672	8,367
Notionals	917,841	141,011	3,241	1,535	28,483	3,260	151,115	1,246,486

The notional amount of interest rate derivatives held for trading at 31 December 2018 amounted to EUR 1,093.8 billion (31 December 2017: EUR 917.8 billion), representing an increase of EUR 176 billion. This increase was mainly due to higher client activity of Financial Institutions as a result of clearing through central counterparties.

The notional amount of currency derivatives held for trading at 31 December 2018 amounted to EUR 92.2 billion (31 December 2017: EUR 141.0 billion), representing a decrease of EUR 48.8 billion. This decrease was mainly due to lower client activity caused by the increased volatility of the foreign exchange market compared with 2017.

The notional amount of interest rate derivatives held for hedge accounting at 31 December 2018 amounted to EUR 138.2 billion (31 December 2017: EUR 151.1 billion), representing a decrease of EUR 12.9 billion. ABN AMRO managed the interest rate risk in 2018 by unwinding approximately EUR 21 billion of interest rate swaps and entering into EUR 9 billion of new interest rate swaps, mainly related to the increase in issued debt.

The hedging strategies are explained in greater detail in note 15.

15 Hedge accounting

Accounting policy for hedge accounting

ABN AMRO enters into various derivative and non-derivative instrument transactions with external parties to hedge risks on assets, liabilities, forecasted cash flows and net investments. The accounting treatment of the hedged item and the hedging instrument depends on whether the hedge relationship qualifies for hedge accounting.

Qualifying hedges may be designated as fair value hedges, cash flow hedges or hedges of net investments. A non-derivative financial asset or liability may be designated as a hedging instrument for hedge accounting purposes only if it hedges the risk of changes in foreign currency exchange rates.

The hedged item can be an asset, liability, highly probable forecasted transaction or net investment in a foreign operation that (a) exposes the entity to the risk of changes in fair value or future cash flows, and (b) is designated as being hedged. The risks being hedged (the hedged risks) are typically changes in interest rates or foreign currency rates. ABN AMRO may also enter into credit risk derivatives (sometimes referred to as credit default swaps) for managing portfolio credit risk. However, these are not generally included in hedge accounting relationships. ABN AMRO did not use credit derivatives in hedge accounting relationships in 2017 or 2018.

Both at the inception of the hedge and on an ongoing basis, ABN AMRO assesses whether the derivatives designated in each hedging relationship are expected to be and have been highly effective in offsetting changes in the fair value or cash flows of the hedged item (prospectively and retrospectively), using a regression analysis.
Under the Group's policy, ABN AMRO applies the following criteria to assess whether the hedging relationship is effective:
- A regression co-efficient (R squared), which measures the correlation between the variables in the regression; and
- A slope of the regression line is within a 0.80-1.25 range.

Hedge ineffectiveness and gains and losses on components of a derivative that are excluded from the assessment of hedge effectiveness are recorded directly in result from financial transactions as part of other operating income. ABN AMRO discontinues hedge accounting when the hedge relationship has ceased to be effective or is no longer expected to be effective, or when the derivative or hedged item is sold or otherwise terminated.

Adoption of EU carved-out version IAS 39

Micro fair value hedges are hedging of separate hedged items, which can be assets or liabilities. For micro fair value hedging, ABN AMRO uses the carved-out version of IAS 39, as adopted by the European Union, which means that negative credit spreads are excluded in the hedge relationship for micro fair value hedging.

Macro fair value hedging implies that a group of financial assets is reviewed in combination and jointly designated as the hedged item. However, the portfolio may, for risk management purposes, include assets and liabilities. In this context, the starting difference between the fair value and the carrying value of the hedged item at the designation of the hedging relationship is amortised over the remaining life of the hedged item. For macro fair value hedging, ABN AMRO uses the carved-out version of IAS 39, as adopted by the European Union, which removes some of the limitations on fair value hedges and the strict requirements on the effectiveness of those hedges. In this context, the impact of changes in the estimates of the repricing dates is considered ineffective only if it leads to over-hedging.

Fair value hedges

ABN AMRO applies fair value hedge accounting on individual hedged items (micro fair value hedging), as well as on a portfolio of hedged items (macro fair value hedging).

Where a derivative financial instrument hedges the exposure to changes in the fair value of the hedged item, the hedged item is adjusted in relation to the risk being hedged. Gains or losses on re-measurement of both the hedging instrument and the hedged item are recognised in the income statement within result from financial transactions as part of other operating income. Hedge effectiveness for fair value hedges is measured as the amount by which the changes in the fair value of the hedging instrument are different from the changes in the fair value of the hedged item. When a fair value hedge of interest rate risk is terminated, any value adjustment to the carrying amount of the hedged item is amortised to profit or loss over the original designated hedging period, or taken directly to income if the hedged item is derecognised.

Micro fair value hedge accounting

Hedging instruments designated in individual fair value hedge relationships principally consist of interest rate swaps, interest rate options and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate assets and fixed-rate liabilities due to changes in market interest rates.

For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the hedged item for the risk being hedged are recognised in the income statement.

The main sources of hedge ineffectiveness in fair value hedges are:

- The effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap that is not reflected in the fair value of the hedged item, which is only attributable to the change in the interest rate;
- The difference in discounting between the hedged item and the hedging instrument; and
- Potential differences in maturities of the interest rate swap and the loans or notes.

There are no other sources of ineffectiveness in these hedge relationships.

Macro fair value hedge accounting

ABN AMRO manages the interest rate risk arising from fixed-rate mortgages by entering into interest rate swaps. The exposure from this portfolio frequently changes due to new loans originated, contractual repayments and prepayments made by customers in each period. More than one group (or portfolio) of mortgages can be identified as the hedged item within the fixed-rate mortgage portfolio. To ensure an effective matching of hedged items and hedging instruments, ABN AMRO applies a dynamic strategy in which hedged items are de-designated and re-designated on a monthly basis. The hedge accounting relationship is reviewed and re-designated on a monthly basis.

As a result of the macro fair value hedge, changes in the hedged item's fair value due to changes in the appropriate benchmark interest rate are booked to the income statement and are offset by changes in the fair value of the hedging derivative financial instrument. This therefore reduces the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps alone.

Hedged mortgages are fixed-rate mortgages with the following features:

- denominated in local currency (euro);
- fixed term to maturity or repricing;
- pre-payable amortising or fixed principal amounts;
- fixed interest payment dates;
- no interest rate options;
- accounted for on an amortised cost basis.

At each designation, the mortgage cash flows are allocated to monthly time buckets, based on the expected maturity dates. ABN AMRO models the maturity dates of mortgages, taking into account the modelled prepayments applied to the contractual cash flows and the maturity dates of the mortgage portfolio. If the swap notional exceeds the expected mortgage notional in any given month, taking into account the uncertainty of the expected mortgage notional by applying a haircut, mortgages that mature in adjacent buckets are designated to the swaps.

Changes in the fair value of the mortgages that are attributable to the hedged interest rate risk are recorded under fair value adjustments from hedge accounting in order to adjust the carrying amount of the mortgages. The recognised fair value changes in the mortgages reduce the profit or loss volatility that would otherwise arise from changes in the fair value of the interest rate swaps.

The difference between the fair value attributable to the hedged interest rate risk and the carrying value of the hedged mortgages at de-designation of the hedge relationship is amortised over the remaining life of the hedged item.

In addition to the above sources of ineffectiveness for micro fair value hedges, the sources of ineffectiveness specifically for macro hedges are:

- The difference between the expected and actual volume of prepayments for the mortgage portfolio to the extent the difference would lead to over-hedging; and
- The difference in payment frequency between the fixed leg of the hedging instrument and the payment frequency of the hedged item (mortgages).

Cash flow hedges

ABN AMRO applies macro cash flow hedge accounting by which it designates interest rate swaps as hedging instruments and future cash flows on non-trading assets and liabilities as hedged items. The hedge accounting relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated or re-designated, if necessary, to maintain an effective hedge accounting relationship.

When a derivative financial instrument hedges the exposure to variability in the cash flows from a hedged item, the effective part of any gain or loss on re-measurement of the hedging instrument is recognised directly in other comprehensive income. Hedge effectiveness for cash flow hedges is measured as the amount by which the changes in the fair value of the derivative are in excess of changes in the fair value of the expected cash flow in the cash flow hedge. Any ineffective part of the cash flow hedge is recognised in other operating income immediately. When a cash flow hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gains or losses are recognised in other comprehensive income.

The cumulative gains or losses recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects net profit or loss and is included in the same line item as the hedged transaction. In the exceptional case that the hedged transaction is no longer expected to occur, the cumulative gains or losses recognised in other comprehensive income are recognised in the income statement immediately.

The main sources of hedge ineffectiveness for cash flow hedges are:

- The effect of the counterparty and the Group's own credit risk on the fair value of the interest rate swap that is not reflected in the fair value of the hedged item, which is only attributable to the change in the interest rate; and
- Potential differences in maturities of the interest rate swap and the loans or notes.

There are no other sources of ineffectiveness in these hedge relationships.

The hedged items in the macro cash flow hedge are future cash flows, which are derived from the projected balance sheet. This projected balance sheet takes the contractual terms and conditions of financial assets and liabilities and combines these with estimated prepayments, volume growth rates and interest scenarios.

Within the projected balance sheet, assets and liabilities are grouped on the basis of the specific interest rate index on which they reprice (e.g. one month, three months, six months, one year). For each repricing index, all assets and liabilities are allocated to monthly clusters in which they reprice up until their maturity.

The notional amounts of pay- or receive-floating swaps are designated to repricing all or a portion of current and forecasted assets and liabilities, respectively, in the clusters described above. These swap transactions are designated for hedge accounting purposes as a hedge of a gross position of a cluster of projected cash flows. In addition, the swap will only hedge the applicable floating swap rate portion of the interest repricing and reinvestment risk of the cluster. The availability of projected cash flows in the clusters is not constant over time and is therefore evaluated on a monthly basis. Changes in cash flow projections may lead to a revision of the designation. Back-testing is performed on the interest rate risk sensitivity models. Historical data is used to review the assumptions applied.

Forecasted transactions

When the hedging instrument effectively hedges a forecasted transaction or firm commitment, the changes in fair value of the hedging instrument are recognised in other comprehensive income. Amounts deferred in other comprehensive income are transferred to the income statement and classified as profit or loss in the periods during which the hedged firm commitment or forecasted transaction affects the income statement. If the hedge no longer meets the criteria for hedge accounting or is otherwise discontinued while the hedged forecasted transactions or firm commitments are still expected to occur, hedge accounting is discontinued prospectively.

In 2018 and 2017, there were no forecasted transactions for which hedge accounting had been applied ineffectively.

Hedging of net investments in foreign operations

ABN AMRO may enter into foreign currency derivatives and currency borrowings to hedge various net investments in foreign operations. For such hedges, currency translation differences arising on translation of the currency of these instruments to euros are recognised directly in the currency translation reserve in other comprehensive income, insofar as they are effective. The cumulative gains or losses recognised in other comprehensive income are transferred to the income statement on the disposal of the foreign operation.

In previous years (before 2017), ABN AMRO hedged its currency exposure to certain investments in foreign operations by hedging its net investment in these foreign operations with forward contracts. ABN AMRO currently still holds some currency translation reserve for these respective positions, but no longer applies net investment hedge accounting.

Hedges not qualifying for hedge accounting

The fair value changes of derivative transactions used to hedge against economic risk exposures that do not qualify for hedge accounting, or for which it is not cost-beneficial to apply hedge accounting, are recognised directly in profit or loss.

Effect on financial position and performance – hedging instruments

(in millions)	Notional amount	Carrying amount		Line item in the statement of financial position	Changes in fair value used for calculation hedge ineffectiveness for the year
		Assets	Liabilities		
31 December 2018					
Cash flow hedges – macro					
Interest rate	19,613	1		Derivatives	-180
Fair value hedges – macro					
Interest rate	18,136		35	Derivatives	100
Fair value hedges – micro					
Interest rate	100,496	942	1,397	Derivatives	204
Economic hedges					
Total economic hedges	32,190	408	724	Derivatives	n/a
31 December 2017					
Cash flow hedges – macro					
Interest rate	29,126			Derivatives	-253
Fair value hedges – macro					
Interest rate	29,848	133	458	Derivatives	879
Fair value hedges – micro					
Interest rate	92,141	942	1,213	Derivatives	-58
Economic hedges					
Total economic hedges	33,278	584	784	Derivatives	n/a

The notional amount of the cash flow hedges decreased by EUR 9.5 billion to EUR 19.6 billion at 31 December 2018 (31 December 2017: EUR 29.1 billion). The notional amount of the macro fair value hedges decreased by EUR 11.7 billion to EUR 18.1 billion at 31 December 2018 (31 December 2017: EUR 29.9 billion). The decline in the notional amount of the swaps in the macro cash flow hedge and macro fair value hedge is a result of unwinding swaps as part of the bank's strategy to manage the duration and interest rate risk in line with the bank's risk appetite.

The micro fair value hedges increased by EUR 8.4 billion to EUR 100.5 billion at 31 December 2018 (31 December 2017: EUR 92.1 billion). The increase in issued debt and financial investments resulted in a higher notional amount of the micro fair value hedges. The changes in market values for assets and liabilities are driven by changes in interest rate curves observed in the market.

The economic hedges were affected by multiple market elements as the economic hedges include hedges on interest rate, commodity, foreign currency and equity positions.

Effect on financial position and performance – hedged item

(in millions)	Carrying amount of the hedged item – Assets	Carrying amount of the hedged item – Liabilities	Accumulated amount of fair value hedge adjustments on the hedged item – Assets	Accumulated amount of fair value hedge adjustments on the hedged item – Liabilities	Line item in the statement of financial position	Change in value used for calculating hedge ineffectiveness for the year	Cash flow hedge reserve/Foreign currency translation reserve – Continuing hedges	Cash flow hedge reserve/Foreign currency translation reserve – Discontinued hedges
31 December 2018								
Cash flow hedges – macro								
Interest rate						185	-601	-850
Fair value hedges – macro								
Interest rate	20,238		2,101		Mortgages	-87		
Fair value hedges – micro								
Interest rate – Financial instruments	37,967		1,931		Financial investments	-242		
Interest rate – Financial assets at AC	3,030		1,084		Corporate & Government loans	-281		
Interest rate – Liabilities		66,026		2,032	Issued debt & Subordinated liabilities	289		
Net investment hedges								
Currency								-19
31 December 2017								
Cash flow hedges – macro								
Interest rate						246	176	-1,402
Fair value hedges – macro								
Interest rate	32,112		2,264		Mortgages	-810		
Fair value hedges – micro								
Interest rate – Financial instruments	34,806		2,213		Financial investments	-754		
Interest rate – Financial assets at AC	3,768		1,365		Corporate & Government loans	-303		
Interest rate – Liabilities		59,288		2,334	Issued debt & Subordinated liabilities	1,094		
Net investment hedges								
Currency								-18

The cash flow hedge reserve for continuing hedges decreased from EUR 176 million in 2017 to EUR 601 million negative in 2018. The cash flow hedge reserve for discontinued hedges increased from EUR 1,402 million negative in 2017 to EUR 850 million negative in 2018. This was mainly driven by the unwinding of swaps in the macro cash flow hedge, which triggered a shift from continuing hedges to discontinued hedges. The overall cash flow hedge reserve was also impacted by changes in the market values of continuing hedges and amortisations from discontinued hedges.

The carrying value of the macro fair value hedge decreased from EUR 32.1 billion in 2017 to EUR 20.2 billion in 2018, mainly driven by hedged items and hedging instruments that matured during 2018. The fair value of hedged items in the macro hedge portfolio decreased by approximately EUR 162 million, mainly triggered by changes in interest rates observed in the market.

The carrying value of the financial investments in hedge relation increased by EUR 3,161 million. The impact of interest rate movement resulted in a fair value decrease of EUR 242 million. The carrying value of the financial assets at amortised cost in hedge relation decreased by EUR 738 million, mainly as a result of a reduction in the portfolio of financial assets.

The total nominal value of issued debt in hedge relation increased by EUR 6.7 billion to EUR 66.0 billion. The interest rate risk of the issued debt is hedged through the hedge relation with the interest rate risk derivatives. The fair value of hedged items increased by EUR 289 million as a result of changes in market interest rates. The fair value movement was offset by the unwinding of hedging activities.

Effect on financial position and performance – hedge ineffectiveness and hedging gains or losses

Hedge ineffectiveness in all hedge accounting models is driven by changes in interest rate curves. In the case of the macro cash flow and macro fair value hedge, the ineffectiveness in 2018 was less than in 2017 owing to the decrease in the size of the portfolios and smaller changes in interest rate curves than in 2017. On an aggregated level, the micro fair value hedges showed a larger change in fair value and greater ineffectiveness than in 2017. In the case of the underlying assets and liabilities, the changes in market values were less than in 2017.

(in millions)	Changes in fair value used for calculation hedge ineffectiveness for the year - hedge item	Change in value used for calculating hedge ineffectiveness for the year - hedge instrument	Hedge ineffectivenes recognised in profit or loss	Line item in profit or loss (that includes hedge ineffectiveness)	Change in the value of the hedging instrument recognised in OCI	Amount reclassified from the Cash flow hedge reserve to profit or loss - hedges item affected profit or loss	Amount reclassified from the Foreign currency translation reserve to profit or loss	Line item affected in profit or loss because of the reclassification
31 December 2018								
Cash flow hedges – macro								
Interest rate	185	-180	1	Other operating income	-352	127		Net interest income
Fair value hedges – macro								
Interest rate	-87	100	13	Other operating income				
Fair value hedges – micro								
Interest rate	-234	204	-30	Other operating income				
Net investment hedges								
Currency							-1	Other operating income
31 December 2017								
Cash flow hedges – macro								
Interest rate	246	-253	4	Other operating income	-274	172	n/a	Net interest income
Fair value hedges – macro								
Interest rate	-810	879	69	Other operating income				
Fair value hedges – micro								
Interest rate	36	-58	-22	Other operating income				
Net investment hedges								
Currency							6	Other operating income

The accumulated amount of fair value hedge adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses amounted to EUR 260 million at 31 December 2018 (2017: EUR 360 million).

Amount, timing and uncertainty of future cash flows – hedging instruments

(in millions, nominal amounts)	Within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years	Total
31 December 2018						
Fair value hedges – micro						
Payers – Interest rate	289	2,179	16,949	14,635	3,641	37,693
Receivers – Interest rate	3,653	3,185	30,043	9,933	15,988	62,803
31 December 2017						
Fair value hedges – micro						
Payers – Interest rate	461	1,912	12,386	14,867	4,961	34,587
Receivers – Interest rate	372	3,055	27,513	13,965	12,649	57,554

The micro fair value hedge portfolio mainly comprises derivatives that hedge the interest rate risk on fixed-rate bonds in the liquidity buffer and fixed-rate issued debt. The weighted average fixed rate in the micro fair value hedge portfolio varies between 1.6% and 2.4%, depending on the origination date, currency, product type and original maturity.

Effect on financial position and performance – reconciliation

The macro cash flow hedges are designed to mitigate the risk of changes in interest rates. The cash flow hedge reserve recognised in OCI (see the Consolidated statement of changes in equity) reconciles the change in the value of the hedging instruments in the macro cash flow hedges and the amount reclassified from the cash flow hedge reserve to profit or loss (see the 'Effect on financial position and performance – hedge ineffectiveness and hedging gains or losses' table).

The change in the value of the hedging instruments in the macro cash flow hedges during 2018 was EUR 352 million (2017: EUR 274 million). The amount reclassified from the cash flow hedge reserve to profit or loss during 2018 was EUR 127 million (2017: 172 million). The cash flow hedge reserve (net of tax) at 31 December 2018 was EUR 1,144 million (31 December 2017: 945 million).

16 Financial investments

Accounting policy for financial investments

Financial investments include instruments measured at fair value through other comprehensive income (FVOCI) and instruments measured at fair value through profit or loss (FVTPL).

Accounting policy for instruments measured at fair value through other comprehensive income

Unrealised gains and losses on FVOCI assets are recognised directly in other comprehensive income, net of applicable taxes. Interest earned, premiums, discounts and qualifying transaction costs of interest-earning FVOCI assets are amortised to income on an effective interest rate basis. When FVOCI debt instruments are sold, collected or impaired, the cumulative gain or loss recognised in other comprehensive income is transferred to other operating income in the income statement. Fair value changes in equity instruments that are irrevocably designated as FVOCI upon initial recognition are recognised in other comprehensive income and not subsequently reclassified to the income statement, including when such assets are sold. ABN AMRO has currently chosen not to use the FVOCI option for equity securities.

Accounting policy for financial instruments measured at fair value through profit and loss

Financial investments can be designated at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch). ABN AMRO also has financial investments that are mandatorily measured at fair value because they do not meet the SPPI test.

(in millions)	31 December 2018	31 December 2017
Financial investments:		
Debt securities held at fair value through other comprehensive income	41,180	
Equity securities held at fair value through other comprehensive income		
Available-for-sale		40,285
Held at fair value through profit or loss	1,004	679
Total financial investments	**42,184**	**40,964**

Financial investments were impacted by the fact that IFRS 9 has become effective (see note 1 for more information). At transition date, the available for sale portfolio in equity instruments was reclassed to held at fair value through profit or loss, resulting in an increase in investments held at fair value through profit or loss. These investments increased by EUR 1.2 billion to EUR 42.2 billion at 31 December 2018 (31 December 2017: EUR 41.0 billion). The increase, which was mainly attributable to investments in US Treasury and US government bonds (EUR 4.2 billion) and driven by a rise in the USD liquidity buffer, was partly offset by decreases in other government bonds (EUR 1.3 billion) and corporate debt securities (EUR 1.4 billion).

Investments measured at fair value through other comprehensive income

The fair value of investments measured at FVOCI (including gross unrealised gains and losses) is specified as follows:

(in millions)	31 December 2018	31 December 2017
Interest-earning securities:		
Dutch government	4,704	6,197
US Treasury and US government	6,919	2,698
Other OECD government	18,500	19,275
Non OECD government	905	896
International bonds issued by the European Union	1,575	1,714
European Stability Mechanism	2,810	2,585
Mortgage- and other asset-backed securities	3,195	2,551
Financial institutions	2,444	3,949
Non-financial institutions	129	6
Subtotal	**41,180**	**39,870**
Equity instruments		415
Total investments held at fair value through other comprehensive income/available-for-sale	**41,180**	**40,285**

Most of these instruments are part of the liquidity buffer and are held for liquidity contingency purposes. More information on the composition of the liquidity buffer is provided in the Risk, funding & capital section.

Government bonds by country of origin

	31 December 2018			31 December 2017		
(in millions)	Gross unrealised gains/(losses) and fair value hedges gains/(losses)	Impairments	Fair value	Gross unrealised gains/(losses) and fair value hedges gains/(losses)	Impairments	Fair value
Dutch national government	585		4,704	687		6,197
French national government	177		3,034	231		3,559
German national government	474		5,594	491		4,549
Belgian national government	217		3,064	281		3,292
Finnish national government	160		2,276	192		2,334
Austrian national government	257		1,905	280		1,888
USA national government	-84		6,919	-19		2,698
Japanese national government			456			1,450
European Union bonds (excl. European Stability Mechanism)	103		1,575	137		1,714
Italian national government				34		322
Spanish national government						
Polish national government	126		419	134		427
Swedish national government			30	4		235
Great Britain national government	88		256	93		262
Danish national government	1		182			130
Hong Kong			298			287
Luxembourg national government	19		582	15		187
Brazil national government	2	-1	114			137
Singapore national government			492			472
Canadian national government	25		703	22		640
Total government bonds	**2,152**	**-1**	**32,603**	**2,580**		**30,779**

No material impairments were recorded on government bonds. More information on the country risk positions is provided in the Risk, funding & capital section.

Critical accounting estimates and judgements

Interest-bearing debt securities classified as FVOCI investments are assessed at each reporting date to establish whether there are any expected credit losses. ABN AMRO has developed models to determine such credit losses. These are explained in more detail in the Risk, funding & capital section. Impairment charges on FVOCI instruments are recorded in (un)realised gains/(losses) fair value through OCI in the statement of comprehensive income.

Investments measured at fair value through profit or loss

The following table provides information about the investments held at fair value at 31 December and for which unrealised gains or losses are recorded through profit or loss.

(in millions)	31 December 2018	31 December 2017
Government bonds		
Corporate debt securities	6	7
Investments designated held at fair value through profit or loss	**6**	**7**
Private equities and venture capital	419	609
Equity securities	579	63
Investments mandatorily held at fair value through profit or loss	**998**	**673**
Total investments held at fair value through profit or loss	**1,004**	**679**

Due to IFRS 9, the available-for-sale portfolio in other participating interests, equity securities and participation in investment pools was reclassified as held at fair value through profit or loss (see note 1 for more information).

17 Securities financing

Accounting policy for securities financing

Securities financing is measured at amortised cost. Securities financing consists of securities borrowing and lending and sale and repurchase transactions. Securities borrowing and securities lending transactions are generally entered into on a collateralised basis, with securities usually advanced or received as collateral. The transfer of the securities themselves is not reflected in the statement of financial position unless the risks and rewards of ownership are also transferred. If cash is advanced or received, securities borrowing and lending activities are recorded at the amount of cash advanced (included in loans and advances) or received (due to banks or customers). The market value of the securities borrowed or lent is monitored on a daily basis, and the collateral levels are adjusted in accordance with the underlying transactions. Fees and interest received or paid are recognised on an effective interest rate basis and recorded as interest income or interest expense.

Sale and repurchase transactions involve purchases (or sales) of investments with agreements to resell (or repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans and advances to either banks or customers and are shown as collateralised by the underlying security.

Investments sold under repurchase agreements continue to be recognised in the statement of financial position. Proceeds from the sale of the investments are reported as liabilities to either banks or customers. The difference between the sale and repurchase price is recognised over the period of the transaction and recorded as interest income or interest expense, using the effective interest rate method. If borrowed securities are sold to third parties, the proceeds from the sale and a liability for the obligation to return the collateral are recorded at fair value.

(in millions)	31 December 2018		31 December 2017	
	Banks	Customers	Banks[1]	Customers[1]
Assets				
Reverse repurchase agreements	2,412	5,119	1,324	10,181
Securities borrowing transactions	2,205	2,639	2,574	1,606
Total	**4,617**	**7,758**	**3,899**	**11,787**
Liabilities				
Repurchase agreements	694	4,725	913	8,404
Securities lending transactions	549	1,439	773	1,321
Total	**1,243**	**6,164**	**1,686**	**9,726**

[1] ABN AMRO classified all unsettled securities transactions as other assets and other liabilities, previously these were included in securities financing. Comparative figures have been adjusted.

Securities financing transactions include balances relating to reverse repurchase activities, repurchase activities and cash collateral on securities borrowed and lent. ABN AMRO controls the credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and, when necessary, requiring additional collateral to be deposited with or returned to ABN AMRO.

The movements of securities financing assets and liabilities with banks and customers were a result of the cyclicality of the business since clients build up their positions around the dividend season, reaching a high point primarily in the second and third quarters, and a low point around the year-end. The pattern in 2018 was similar to that in previous years. The decline at year-end was more significant compared to 2017 due to a decrease in repurchase agreements and reverse repurchase agreements with several large clients.

ABN AMRO has reclassified all unsettled securities transactions as other assets and other liabilities. These were previously included in securities financing. The comparative figures have been adjusted accordingly.

Items of securities financing transactions which ABN AMRO can repledge or resell are included in note 33 Transferred, pledged, encumbered and restricted assets.

18 Fair value of financial instruments carried at fair value

Accounting policy for fair value of financial instruments

The fair value is defined as the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants at the measurement date.

For financial instruments that are actively traded and for which quoted market prices or market parameters are readily available, the fair value is determined in a highly objective manner. However, when observable market prices and parameters do not exist, management judgement is necessary to estimate fair value.

For financial instruments where no active liquid market exists, or quoted prices are unobtainable, recent market transactions are used or the fair value is estimated using a variety of valuation techniques – including reference to similar instruments for which market prices do exist, or to valuation models such as discounted cash flow calculation or option pricing models (e.g. Black Scholes).

When portfolios of financial assets and liabilities are measured on the basis of the net exposure to the credit risk of a particular counterparty, any existing arrangements that mitigate the credit risk exposure (e.g. master netting agreements with the counterparty) are taken into account.

Unobservable inputs are estimated using a combination of management judgement, historical data, market practice and benchmarking to other relevant observable market data. The difference between the transaction price and the internal valuation at inception, calculated using a model, is reserved and amortised to profit or loss at appropriate points over the life of the instrument, typically taking account of the ability to obtain reliable external data, the passage of time and the use of offsetting transactions. Where inputs to the valuation of a new transaction cannot be reliably determined, the transaction is initially recognised at its transaction price. Subsequent changes in fair value as calculated by the valuation model are reported as profit or loss or in equity.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information derived from the above sources. These adjustments reflect management's assessment of factors that market participants would consider in setting a price, to the extent that these factors have not already been included in the information from the above sources. The main valuation adjustments required to arrive at a fair value are as follows:

- Credit and debit valuation adjustments. In addition to credit valuation for loans measured at fair value through profit or loss, credit valuation adjustments and debit valuation adjustments are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and how counterparties consider ABN AMRO's creditworthiness respectively;
- Funding valuation adjustment. The funding valuation adjustment incorporates the incremental cost of funding into the valuation of uncollateralised and partially collateralised derivatives;
- Own credit adjustment. An own credit risk adjustment is applied to financial liabilities where it is believed that counterparties will consider ABN AMRO's creditworthiness when pricing such instruments;
- Model valuation adjustments for any known limitations. Management assesses the appropriateness of any model used on an ongoing basis. To the extent that the price provided by internal models does not represent the fair value of the instrument, for instance in highly stressed market conditions, management makes adjustments to the model valuation to calibrate to other available pricing sources.

We believe our estimates of the fair value are adequate. However, the use of different models or assumptions could result in changes to our reported results.

Internal controls over fair value

ABN AMRO has designated controls and processes for determining the fair value of financial instruments. A process has been designed to ensure there are formalised review protocols for independent review and validation of fair values separate from those businesses entering into the transactions. This includes specific controls to ensure consistent pricing policies and procedures, incorporating disciplined price verification for both market and counterparty risk trades.

The business entering into the transaction is responsible for the initial determination and recording of the fair value of the transaction. There are daily controls of the profit or loss recorded by trading and treasury front-office staff.

A key element of the control environment, segregated from the recording of the transaction's valuation, is the independent price-verification process. Valuations are first calculated by the business. Such valuations may be current bid or offer prices in an active market, or may be derived using a model and variable model inputs. These valuations are reviewed and, if necessary, amended by the independent price-verification process. This process involves a team, independent of those trading the financial instruments, performing a review of valuations in the light of available pricing evidence. Independent price verification is frequently performed by matching the business valuations with independent data sources. For liquid instruments. the process is performed daily. The minimum frequency of review is monthly, both for trading positions and non-trading positions. The independent price-verification control includes formalised reporting and escalation to management of any valuation differences in breach of defined thresholds. When models are used to value products, those models are subject to a model review process. This process requires different levels of model documentation, testing and review, depending on the complexity of the model and the size of our exposure to the model.

Valuation techniques

A number of methodologies are used to determine the fair value of financial instruments for which observable prices in active markets for identical instruments are not available. Values between and beyond available data points are obtained by interpolation and/or extrapolation. When using valuation techniques, the fair value can be significantly impacted by the choice of valuation model and underlying assumptions made concerning factors such as the amount and timing of cash flows, discount rates and credit risk.

Interest rate derivatives

This category includes interest rate swaps, cross-currency swaps, options and forward rate agreements. These products are valued by estimating future cash flows and discounting those cash flows using appropriate interest rate curves. The exception is interest option contracts, which are valued using market standard option pricing models. The inputs for the discounting cash flow models are principally observable benchmark interest rates in active markets such as the interbank rates and quoted interest rates in the swap, bond and futures markets. The inputs for credit spreads – where available – are derived from prices of credit default swaps or other credit-based instruments, such as debt securities. In other cases, credit spreads are obtained from pricing services. The additional inputs for the option pricing models are price volatilities and correlations, which are obtained from broker quotations or pricing services or derived from option prices. Because of the observability of the inputs used in the valuation models, the majority of the interest rate derivative contracts are classified as level 2. If adjustments to interest rate curves, credit spreads, correlations or volatilities are based on significant unobservable inputs, the contracts are classified as level 3. Exchange traded options and futures are valued using quoted market prices and are hence classified as level 1.

Foreign exchange contracts

Foreign exchange contracts include foreign exchange forward contracts, foreign exchange options and foreign exchange swaps. The majority of the foreign exchange contracts at ABN AMRO are traded as over-the-counter derivatives. These instruments are valued using foreign currency exchange rates. There are observable markets both for spot and forward contracts and for futures in the world's major currencies. Therefore the over-the-counter foreign exchange contracts are classified as level 2.

Government debt securities

Government debt securities consist of government bonds and bills with fixed or floating rate interest payments issued by sovereign governments. These instruments are generally traded in active markets and prices can be derived directly from those markets. Therefore the instruments are classified as level 1. Highly liquid bonds are valued using exchange-traded prices. Less liquid bonds are valued using observable market prices, which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. For a minority of the government debt securities, active market prices are not available. In these cases ABN AMRO uses discounted cash flow valuation techniques that incorporate observable market data for similar government instruments. The main inputs are interest rate curves, liquidity spreads and credit spreads. The instruments for which this method applies are classified as level 2. If adjustments to any of the main inputs are made based on significant unobservable inputs, the instrument is classified as level 3.

Corporate debt securities

Corporate debt securities primarily consist of corporate bonds and other debt securities issued by corporate entities. Most of these instruments are standard fixed or floating rate securities. Corporate debt securities are generally valued using observable market prices, which are sourced from broker quotes, inter-dealer prices or other reliable pricing services. These instruments are classified as level 1. If observable market prices are not available, ABN AMRO uses discounted cash flow valuation techniques, based on inputs derived from comparable instruments and credit default swap data of the issuer, to estimate credit spreads. These instruments are classified as level 2.

Equity instruments

Equity instruments that are actively traded on public stock exchanges are valued using the readily available quoted prices and are therefore classified as level 1. Investments in private equity funds are initially recognised at their transaction price and re-measured to the extent reliable information is available on a case-by-case basis and are classified as level 3.

Unit-linked investments

Unit-linked investments allow life insurance policyholders to invest indirectly, through a life insurance contract, in a pool of assets. The policyholders are exposed to all the risks and rewards associated with the underlying asset pool.
The amounts due to policyholders equal the fair value of the underlying asset pool and are represented by the financial liability. The fair values of life insurance contract liabilities are determined by reference to the fair value of the underlying assets. Actively traded unit-linked investments are valued using publicly and daily quoted prices and hence classified as level 1. Unit-linked investments for which there are no observable market prices are classified as level 2. Their value is determined by adjusting quoted prices for credit and/ or liquidity risk.

Loans and advances at fair value through profit or loss
Loans and advances at fair value through profit or loss primarily consist of contracts with corporate clients of which the contractual cash flows do not meet the SPPI requirements. The return on these contracts with embedded derivatives is based on the price of underlying commodity contracts or loans with a floating interest rate. Discounted cash flow models are used to value these contracts. The main inputs are interest rate curves, quoted commodity prices, liquidity spreads and credit spreads. The instruments are classified as level 2. If adjustments to interest rate curves, liquidity spreads and credit spreads are based on significant unobservable inputs, the instruments are classified as level 3.

Issued debt
Issued debt securities are valued using discounted cash flow models, based on current interest rate curves that incorporate observable inputs. These instruments are classified as level 2. When there are no, or only limited, publicly quoted prices available for these instruments and unobservable inputs have a significant effect on the fair value calculation, these instruments are classified as level 3.

ABN AMRO refines and modifies its valuation techniques as markets and products develop and as the pricing for individual products becomes more or less readily available. While ABN AMRO believes its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions could result in different estimates of the fair value at the reporting date.

Fair value hierarchy
ABN AMRO analyses financial instruments held at fair value in the three categories described below.

Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 financial instruments are those valued using techniques based primarily on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets that are not considered to be active, or using valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3 financial instruments are those valued using a valuation technique where at least one input with a significant effect on the instrument's valuation is not based on observable market data. The effect of fair value adjustments on the instrument's valuation is included in the assessment.

ABN AMRO recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

The following table presents the valuation methods used in determining the fair values of financial instruments carried at fair value.

	31 December 2018				31 December 2017			
(in millions)	Quoted market prices in active markets	Valuation techniques - observ-able inputs	Valuation techniques - significant unobserv-able inputs	Total fair value	Quoted market prices in active markets	Valuation techniques - observ-able inputs	Valuation techniques - significant unobserv-able inputs	Total fair value
Assets								
Government debt securities	272			273	1,071			1,071
Corporate debt securities	173	29		202	386	15		401
Equity securities	19			19	111			111
Other financial assets held for trading		1		1		16		16
Financial assets held for trading	**465**	**31**		**495**	**1,569**	**31**		**1,600**
Interest rate derivatives	1	4,439	79	4,519	27	6,847	89	6,963
Foreign exchange contracts		751	18	769		1,929	17	1,946
Other derivatives	157	746		903	11	904		915
Derivatives	**158**	**5,936**	**97**	**6,191**	**38**	**9,681**	**106**	**9,825**
Equity instruments	254	186	557	998	63		610	673
Other	6			6	7			7
Financial investments at fair value through profit or loss	**260**	**186**	**557**	**1,004**	**70**		**610**	**679**
Government debt securities	34,994		419	35,413				
Corporate debt securities	2,405	129	39	2,573				
Equity instruments								
Other debt securities	3,174	20		3,195				
Financial assets held at fair value through other comprehensive income	**40,573**	**150**	**458**	**41,180**				
Government debt securities					32,938		427	33,364
Corporate debt securities					3,210	702	43	3,955
Equity instruments					189	66	160	415
Other debt securities					2,551			2,551
Financial assets available-for-sale					**38,888**	**769**	**629**	**40,285**
Unit-linked investments[1]					1,813	914		2,728
Loans and advances at fair value through profit or loss		787		787				
Total financial assets	**41,456**	**7,090**	**1,112**	**49,658**	**42,378**	**11,394**	**1,344**	**55,117**
Liabilities								
Short positions in government debt securities	53			53	495			495
Corporate debt securities	63	16		78	345	10		356
Equity securities	4			4	65			65
Other financial liabilities held for trading		117		117		167		167
Financial liabilities held for trading	**120**	**133**		**253**	**905**	**177**		**1,082**
Interest rate derivatives	4	4,920		4,924	23	5,770		5,793
Foreign exchange contracts		1,673		1,673		1,477		1,477
Other derivatives	17	545		561	149	949		1,098
Derivatives	**20**	**7,138**		**7,159**	**172**	**8,195**		**8,367**
Issued debt		889	156	1,045		1,014	168	1,182
Unit-linked for policyholders					1,814	914		2,728
Total financial liabilities	**140**	**8,161**	**156**	**8,457**	**2,890**	**10,300**	**168**	**13,359**

[1] In 2017 these instruments were classified as held for sale and therefore included in note 24 of the Annual Financial Statements 2017, Non-current assets and disposal groups held for sale.

Transfers between levels 1 and 2

There were no material transfers between levels 1 and 2.

Transfers from levels 1 and 2 to 3

There were no material transfers between levels 1 and 2 into level 3.

Other transfers

In 2018 there was a transfer of EUR 120 million of equity instruments from level 3 to level 2. This amount relates to the minority investment retained in the Capital A Funds which is valued using the observable transaction price. See also note 22 Group structure.

Movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of level 3 financial assets that are recorded at fair value.

	Assets					Liabilities	
(in millions)	Financial investments available-for-sale	Financial assets held at fair value through other comprehensive income	Financial investments at fair value through profit or loss	Derivatives held for trading	Derivatives not held for trading	Derivatives not held for trading	Issued debt
Balance at 1 January 2017 (IAS 39)	**1,358**		**731**	**93**	**14**	**14**	**241**
Purchases	1		64				
Sales	-12		-62				
Redemptions	-717		-21				
Gains/(losses) recorded in profit and loss[1]			8		-1	-1	
Unrealised gains/(losses)[2]			10	-4	-13	-13	-73
Transfer between levels	-1			16			
Other movements			-120				
Balance at 31 December 2017 (IAS 39)	**629**		**610**	**106**			**168**
Balance at 1 January 2018		**469**	**770**	**106**			**168**
Purchases			63				
Sales			-309				
Redemptions							
Gains/(losses) recorded in profit and loss[1]			233				
Unrealised gains/(losses)[2]		-12	125	-17			-12
Transfer between levels			-120	8			
Other movements			-205				
Balance at 31 December 2018		**458**	**557**	**97**			**156**

[1] Included in other operating income.
[2] Unrealised gains/(losses) on instruments measured at FVOCI are included in Other comprehensive income.

Level 3 sensitivity information

Government bonds – Corporate debt securities

ABN AMRO has a position in a Polish bond, denominated in euros (in note 16 Financial investments, and part of Other OECD governments), for which the market is relatively illiquid. This bond is valued using a discounted cash flow model. The main inputs are the interest rate curve, liquidity spread and credit spread. The valuation spread is determined using an internal model. The sensitivity analysis is performed using a range of reasonable valuation spreads.

Other

Preferred shares are shares for which the dividend is fixed for a period of ten years, after which the dividend is redetermined, and the shares can also be redeemed. The position is valued using a discounted cash flow model for which the relevant inputs are the interest curve, liquidity spread and credit spread. The liquidity spread and credit spread are unobservable inputs and are derived from similar securities. The sensitivity of the preferred shares is determined by using a range of reasonable spreads and by considering the call option that is held by the issuer.

Equity shares – preferred shares

Equities measured at fair value through profit and loss and classified as level 3 mainly comprise private equity investments.

Private equity shares are measured at fair value, with two calculation techniques being applied:

- Using comparable pricing in accordance with the European Private Equity and Venture Capitalist Association (EVCA) guidelines. This valuation technique is based on earnings multiples of comparable listed and unlisted companies. The fair value calculation of an investment is strongly linked with movements on the public equity markets;
- Net Asset Value (NAV) for fund investments and asset-backed investments. This is determined by using audited and unaudited company financial statements and any other information available, publicly or otherwise. As a consequence, the net asset value calculation of an investment is strongly linked to movements in the quarterly performance of the company and can be used as an indicator of fair value. Net Asset Value is used as an indicator of fair value only after a materiality assessment has been made.

New investments are initially valued at fair value and subsequently at cost for the first year of investment. Thereafter, the fair value technique, either EVCA technique or NAV calculation, will be applied for direct investments.

The sensitivity for using comparable pricing is determined by stressing the earnings multiples in a positive and negative market scenario, whereas sensitivity testing for the NAV calculation based upon the quarterly performance cannot be applied.

Derivatives

Securitisation swaps linked to the RMBS transactions are valued using a discounted cash flow model, for which the behaviour of the underlying mortgage portfolio is also relevant. The inputs used to determine fair value are the interest rate curve and prepayment rate. The latter is the significant unobservable input that classifies these instruments as level 3.

The sensitivity analysis is performed by stressing the prepayment rate. Interest rate swaps related to RMBS transactions are valued based on assumptions about the behaviour of the underlying mortgage portfolio and the characteristics of the transaction. Cash flows are forecast and discounted using appropriate forward and discount curves.

A credit valuation adjustment (CVA) reflects counterparty credit risk in the fair value measurement of uncollateralised and partially collateralised OTC derivatives. For counterparties that do not have an observable credit spread, ABN AMRO applies a proxied credit spread extracted from counterparties of comparable credit quality that do have an observable credit spread. ABN AMRO performs a probability of default assessment for each counterparty and allocates an appropriate internal credit risk measure known as a Uniform Counterparty Rating (UCR). This UCR, which is significant to the entire fair value measurement of the derivative contracts included in the following table of level 3 sensitivity information, is internally generated and is therefore an unobservable input.

(in millions)	Valuation technique	Unobservable data	Carrying value	Possible alternative assumptions		Unobservable data range		Unobservable data base
				Applying minimum	Applying maximum	Applying minimum	Applying maximum	
31 December 2018								
Equity shares	Private equity valuation	EBITDA multiples	59	-7	9	6.0	6.0	6.0
Equity shares	Private equity valuation	Net asset value	498	-24	24			
Interest-earning securities – Government bonds	Discounted cash flow	Liquidity and credit spread	419	-26	13	36	124	65
Interest-earning securities – other	Discounted cash flow	Liquidity and credit spread	39		2	408	515	496
Derivatives held for trading	Discounted cash flow	Probability of default	97	-5	10	0.2%	100.0%	27.3%
Issued debt	Discounted cash flow	Credit spread	156	-1	1	100	124	109
31 December 2017 (IAS 39)								
Equity shares	Private equity valuation	EBITDA multiples	286	-38	40	4.7	8.3	6.7
Equity shares	Private equity valuation	Net asset value	483	-18	15			
Interest-earning securities – Government bonds	Discounted cash flow	Liquidity and credit spread	427	-27	15	17	105	47
Interest-earning securities – other	Discounted cash flow	Liquidity and credit spread	43	-9	2	211	774	298
Derivatives held for trading	Discounted cash flow	Probability of default	106	-5	8	0.2%	100.0%	16.7%
Derivatives not held for trading – assets/liabilities (net)	Discounted cash flow	Prepayment rate						
Issued debt	Discounted cash flow	Credit spread	168	-1	8	97	130	111

19 Loans and advances banks

Accounting policy for loans and advances from banks and customers

Loans and advances from banks and customers are held in a hold-to-collect business model. Loans and advances where the contractual cash flows are solely payments of principal and interest (SPPI) are measured at amortised cost, i.e. fair value at initial recognition adjusted for repayment and amortisation of coupon, fees and expenses to represent the effective interest rate of the asset. Loans and advances that do not pass the SPPI test are measured at fair value through profit or loss.

(in millions)	31 December 2018	31 December 2017
Interest-bearing deposits	3,489	4,914
Loans and advances	2,870	2,871
Mandatory reserve deposits with central banks	284	251
Other	1,490	2,635
Subtotal	**8,133**	**10,671**
Less: loan impairment allowance	9	7
Loans and advances banks	**8,124**	**10,665**

Loans and advances banks decreased by EUR 2.5 billion to EUR 8.1 billion at 31 December 2018, mainly as a result of a decrease in interest-bearing deposits and other.

Interest-bearing deposits decreased by EUR 1.4 billion to EUR 3.5 billion at 31 December 2018, mainly as a result of a decrease in interbank deposits.

Other loans decreased by EUR 1.1 billion to EUR 1.5 billion at 31 December 2018, mainly due to a decrease in trade bills.

Mandatory reserve deposits are held with local central banks in accordance with statutory requirements. These deposits are not available to finance ABN AMRO's day-to-day operations.

20 Loans and advances customers

Accounting policy for loans and advances – customers
The accounting policy for loans and advances – customers is included in loans & advances – banks (note 19).

(in millions)	31 December 2018	31 December 2017
Residential mortgages (excluding fair value adjustment)	148,791	150,562
Fair value adjustment from hedge accounting on residential mortgages	2,101	2,264
Residential mortgages, gross	**150,892**	**152,825**
Less: loan impairment allowances – residential mortgage loans	108	134
Residential mortgages	**150,784**	**152,691**
Consumer loans, gross	12,263	12,426
Less: loan impairment allowances – consumer loans	318	304
Consumer loans	**11,945**	**12,122**
Corporate loans	92,533	94,220
Fair value adjustment from hedge accounting on corporate loans	1,071	1,425
Financial lease receivables	5,112	4,530
Factoring	3,519	2,962
Corporate loans, gross	**102,234**	**103,138**
Less: loan impairment allowances – corporate loans	1,825	2,020
Corporate loans at amortised cost	**100,408**	**101,118**
Corporate loans at fair value through P&L	783	
Corporate loans	**101,191**	**101,118**
Government and official institutions	1,371	1,595
Other loans	5,586	7,371
Fair value adjustment from hedge accounting on other loans	13	11
Other loans and advances customers, gross	**6,970**	**8,977**
Less: loan impairment allowances – other	9	2
Other loans at amortised cost	**6,961**	**8,975**
Other loans at fair value through P&L	5	
Other loans and advances customers	**6,966**	**8,975**
Loans and advances customers	**270,886**	**274,906**

Loans and advances – customers decreased by EUR 4.0 billion to EUR 270.9 billion at 31 December 2018.

Residential mortgages (excluding fair value adjustments) decreased by EUR 1.8 billion to EUR 148.8 billion at 31 December 2018. The outflow of mortgage redemptions and voluntary repayments exceeded the inflow of new residential mortgages.

Consumer loans (gross) showed a slight decrease of EUR 0.2 billion to EUR 12.3 billion at 31 December 2018.

Corporate loans (gross) decreased by EUR 0.9 billion to EUR 102.2 billion, mainly related to the decrease in financing client activities.

Corporate loans measured at fair value through profit or loss increased by EUR 0.8 billion at 31 December 2018. At the IFRS 9 transition date, EUR 2.0 billion of other loans were reclassified to corporate loans measured at FVTPL (see IFRS 9 transitional disclosure under note 1), partly offset by redemptions of EUR 1.2 billion in 2018.

Other loans and advances – customers decreased by EUR 2.0 billion to EUR 7.0 billion, mainly due to reclassifications to corporate loans under IFRS 9.

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21 Fair value of financial instruments not carried at fair value

Accounting policy for fair value of financial instruments not carried at fair value

The categorisation and valuation of financial instruments not carried at fair value is determined in accordance with the accounting policies set out in note 18.

Valuation methodologies

The methods and assumptions described below have been applied to estimate the fair value of financial instruments not carried at fair value. These fair values were calculated for disclosure purposes only. Note that the fair value can be significantly impacted by the choice of valuation model and underlying assumptions concerning factors such as the amount and timing of cash flows, discount rates, credit risk and liquidity risk.

Short-term financial instruments

The carrying amounts (net of impairment allowances) of financial instruments maturing within a period of less than three months or that have no contractual maturity are assumed to be a reasonable approximation of their fair value. For certain instruments, behavioural maturities are applied.

Short-term financial instruments are classified as level 2 as unobservable inputs (such as inputs to determine credit risk, prepayment risk and liquidity risk) do not have a significant influence in determining the fair value.

Cash and balances at central banks

Cash and balances at central banks are classified as level 1 as these instruments have a short-term nature, prices from an active market are available and no fair value adjustments are made to the carrying amounts.

Securities financing

Securities financing includes repurchase and reverse repurchase agreements and securities borrowing and lending transactions. Due to the short-term characteristics of these instruments and the value and liquidity of available collateral, the carrying amounts (net of impairment allowances) are considered to approximate the fair value. Securities financing amounts are classified as level 2.

Loans and advances – banks and customers

The fair value of loans and advances – banks and customers is estimated by a discounted cash flow model based on contractual cash flows, using actual yields and discounting by risk-free interest rates. Adjustments to reflect changes in liquidity spreads are applied and prepayment options are included in the estimated fair value. The calculations are adjusted for credit risk by incorporating the expected credit losses over the estimated lifetime of the loan, based on parameters including probability of default, loss given default and exposure at default. The loans and advances are classified as level 3 on the basis that unobservable inputs significantly influence the approximated fair values. The loans and advances for which unobservable inputs do not significantly influence the approximated fair values are classified as level 2. Behavioural maturities instead of contractual maturities are used to determine the level classification of a small part of the portfolio.

Cash collateral paid to counterparties in relation to Credit Support Annexes (CSA) is included in loans and advances – banks and customers. Due to the short-term characteristics of these instruments, fair value is considered to approximate the carrying amounts. The related amounts are classified as level 2.

Due to banks and customers

The fair value of instruments such as deposits and borrowings included in due to banks and customers is estimated by a discounted cash flow model based on risk-free interest rates. Adjustments to reflect changes in liquidity spreads are applied. Amounts due to banks and customers are classified as level 3 on the basis that unobservable inputs significantly influence the approximated fair values. The financial instruments for which unobservable inputs do not significantly influence the approximated fair values are classified as level 2. For the majority of the portfolio, behavioural maturities are used to determine the level classification.

Cash collateral liabilities in relation to Credit Support Annexes (CSA) are included in due to banks and customers. Due to the short-term characteristics of these instruments, fair value is considered to approximate the carrying amounts. The related amounts are classified as level 2.

Issued debt and subordinated liabilities

The fair value of issued debt securities and subordinated liabilities is based on quoted prices. If these are not available, the fair value is based on a market approach in which independent quotes from market participants are used for the debt issuance spreads above the average interbank offered rates (over a range of tenors) that the market would demand when purchasing new senior or subordinated debt from ABN AMRO. Where necessary, these quotes are interpolated, using a curve shape derived from CDS prices.

						31 December 2018
	Carrying value				Total fair value	Difference
(in millions)		Quoted market prices in active markets	Valuation techniques -observable inputs	Valuation techniques -significant unobservable inputs		
Assets						
Cash and balances at central banks	34,371	34,371			34,371	
Securities financing	12,375		12,375		12,375	
Loans and advances banks	8,124		6,296	1,835	8,132	8
Loans and advances customers	270,099		13,284	258,656	271,940	1,841
Total	**324,969**	**34,371**	**31,955**	**260,492**	**326,818**	**1,849**
Liabilities						
Securities financing	7,407		7,407		7,407	
Due to banks	13,437		1,472	11,914	13,386	51
Due to customers	236,123		59,332	172,702	232,034	4,089
Issued debt	79,739	47,882	33,730		81,612	-1,873
Subordinated liabilities	9,805	9,547	803		10,350	-545
Total	**346,510**	**57,429**	**102,743**	**184,617**	**344,788**	**1,722**

						31 December 2017
	Carrying value				Total fair value	Difference
(in millions)		Quoted market prices in active markets	Valuation techniques -observable inputs	Valuation techniques -significant unobservable inputs		
Assets						
Cash and balances at central banks	29,783	29,783			29,783	
Securities financing	15,686		15,686		15,686	
Loans and advances banks	10,665		9,671	990	10,661	-3
Loans and advances customers	274,906		19,454	263,914	283,369	8,462
Total	**331,039**	**29,783**	**44,811**	**264,905**	**339,499**	**8,459**
Liabilities						
Securities financing	11,412		11,412		11,412	
Due to banks	16,462		7,531	8,917	16,447	15
Due to customers	236,699		88,095	147,501	235,596	1,103
Issued debt	75,429	42,752	33,725		76,477	-1,047
Subordinated liabilities	9,720	8,922	1,595		10,517	-797
Total	**349,722**	**51,673**	**142,358**	**156,417**	**350,448**	**-726**

22 ABN AMRO group structure

Accounting policy for business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. All items of consideration, including contingent consideration, transferred by ABN AMRO are measured and recognised at fair value at the acquisition date. Transaction costs incurred by ABN AMRO in connection with the business combination, other than those associated with the issuance of debt and equity securities, do not form part of the cost of the business combination transaction but are expensed as incurred. The excess of the purchase consideration over ABN AMRO's share of the fair value of the identifiable net assets acquired (including certain contingent liabilities) is recorded as goodwill. ABN AMRO measures the identifiable assets acquired and the liabilities assumed at the fair value at the acquisition date.

In a step acquisition, where a business combination occurs in stages and control of the business is obtained in stages, the identifiable assets and liabilities of the acquiree are recognised at fair value when control is obtained. A gain or loss is recognised in profit or loss as the difference between the fair value of the previously held equity interest in the acquiree and its carrying amount. Changes in interests in subsidiaries that do not result in a change of control are treated as transactions between equity holders and are reported in equity.

Accounting policy for subsidiaries

ABN AMRO Group's subsidiaries are those entities which it directly or indirectly controls. Control over an entity is evidenced by ABN AMRO's ability to exercise its power in order to affect the variable returns that ABN AMRO is exposed to through its involvement in the entity. The existence and effect of potential voting rights that are currently exercisable are taken into account when assessing whether control exists.

The assessment of control is based on consideration of all facts and circumstances. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control (power, exposure to variability in returns, and a link between the two).

ABN AMRO sponsors entities, including certain special purpose entities, which may or may not be directly owned, for the purpose of asset securitisation transactions and other specific and well-defined objectives. Particularly in the case of securitisations, these entities may acquire assets from ABN AMRO companies. Some of these entities hold assets that are not available to meet the claims of creditors of ABN AMRO or its subsidiaries. These entities are consolidated in ABN AMRO's financial statements when the substance of the relationship between ABN AMRO and the entity indicates that control is held by ABN AMRO.

ABN AMRO is mainly involved in securitisations of own originated assets, such as various consumer and commercial financial assets. This process generally necessitates a sale of these assets to a special purpose entity (SPE), which in turn issues securities to investors. ABN AMRO's interests in securitised assets may be retained in the form of senior or subordinated tranches, issued guarantees, interest-only strips or other residual interests, together referred to as retained interests. In many cases, these retained interests convey control, such that the SPE is consolidated and the securitised assets continue to be recognised in the consolidated statement of financial position.

The financial statements of subsidiaries and special purpose entities are included in the Consolidated Annual Financial Statements from the date on which control commences until the date on which control ceases.

Accounting policy for associates and joint ventures

Associates are those entities in which ABN AMRO has significant influence on, but no control or joint control over, the operating and financial policies. Significant influence is generally presumed when ABN AMRO holds between 20% and 50% of the voting rights. Potential voting rights that are currently exercisable are considered in assessing whether ABN AMRO has significant influence. Among other factors, representation on the board of directors, participation in the policy-making process and material transactions between the entity and the investee are considered to determine significant influence.

A joint venture is an investment in which two or more parties have contractually agreed to share control over the investment. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The activities conducted through joint ventures include cash transfers, insurance, finance and leasing.

Investments in associates and joint ventures, including strategic investments, are accounted for using the equity method. Under this method, the investment is initially recorded at cost and subsequently increased (or decreased) for post-acquisition net income (or loss), other movements impacting on the equity of the investee and any adjustments required for impairment. ABN AMRO's share of the profit or loss of the investee is recognised in other operating income in the income statement. If ABN AMRO's share of losses exceeds the carrying amount of the investment, the carrying amount is reduced to zero, including any other unsecured receivables, and recognition of further losses is discontinued except if ABN AMRO has incurred obligations or made payments on behalf of the investee.

Equity investments held without significant influence and which are not held for trading are measured at fair value through profit or loss as ABN AMRO does not apply the option to measure such investments at fair value through other comprehensive income.

Assets and liabilities of acquisitions and divestments

The following table provides details of the assets and liabilities resulting from the acquisition or disposal of subsidiaries and equity accounted investments at the date of acquisition or disposal.

	31 December 2018		31 December 2017	
(in millions)	Acquisitions	Divestments	Acquisitions	Divestments
Assets and liabilities of acquisitions and divestments				
Cash and balances at central banks		-246		
Derivatives		-1		-16
Financial investments		-35		-28
Loans and advances banks		-2,225		-12
Loans and advances customers		-274		-3,186
Equity accounted investments	129	-123	12	-57
Other assets		-2,435		-1
Derivatives		1		4
Due to banks		99		
Due to customers		2,115		4,641
Provisions		57		39
Tax liabilities		8		
Other liabilities		2,690		1
Other non-controlling interests				
Net assets acquired/Net assets divested	**129**	**-368**	**12**	**1,384**
Result on divestments, gross		42		327
Cash used for acquisitions/received from divestments:				
Total purchase consideration/Proceeds from sale	-129	410	-12	-1,057
Cash and cash equivalents acquired/divested		-86		-6
Cash used for acquisitions/received from divestments	**-129**	**324**	**-12**	**-1,063**

Acquisitions in 2018

Acquisitions include investments in several equity accounted investments in 2018.

Divestments in 2018

On 16 November 2018, ABN AMRO announced its plan to sell part of its stake in the investment funds of ABN AMRO Participaties Fund III, V, VI and VII. The transaction was subsequently closed on 14 December 2018. ABN AMRO has retained a minority interest of approximately 47% in these funds. These interests are recorded at fair value. The portion of gain attributable to measuring the investment retained in the Capital A funds at its fair value at the date when control was lost amounted to EUR 7 million.

On 20 February 2018, BGL BNP Paribas and ABN AMRO Bank N.V. announced an agreement concerning the acquisition by BGL BNP Paribas of all outstanding shares in ABN AMRO Bank (Luxembourg) S.A. and its wholly owned subsidiary ABN AMRO Life S.A. After approval by the regulatory authorities, the transaction was completed on 3 September 2018. As part of this transaction, the activities of ABN AMRO Life S.A. were taken over by Cardif Lux Vie.

Acquisitions in 2017
No major assets and liabilities were acquired in 2017.

Divestments in 2017
The divestments in 2017 related to the sale of ABN AMRO's Private Banking operations in Asia and the Middle East to LGT Group, which was completed on 30 April 2017.

Composition of the group
The following table provides an overview of the most significant investments in associates and joint ventures at 31 December.

	31 December 2018				31 December 2017	
(in millions)	Principle place of business	Business line	Carrying amount	Equity interest (in %)	Carrying amount	Equity interest (in %)
Joint ventures:						
Neuflize Vie S.A.	France	Private Banking	210	60%	218	60%
Richmond Preferente Aandelen C. B.V.	The Netherlands	Corporate & Institutional Banking	25	50%	25	50%
Associates:						
Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V.[1]	The Netherlands	Retail Banking	104	49%	177	49%
Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden N.V.	The Netherlands	Group Functions	2	20%	117	20%
European Merchant Services B.V.	The Netherlands	Commercial Banking	24	49%	25	49%
Private Equity Investments[2]			105		102	
Other			52		49	
Total equity accounted investments			**522**		**714**	

[1] In 2018 Delta Lloyd ABN AMRO Verzekeringen Holding B.V. changed its name into Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V.
[2] As of 2018 Compagnie Maritime Monegasque OSV B.V. has been reclassified to Private equity investments.

Neuflize Vie S.A. is a joint venture, where the power to govern the financial and operating policies of the economic activity is subject to joint control.

The total amount of the investments in equity associates and joint ventures amounted to EUR 0.5 billion at 31 December 2018, representing a decrease of EUR 0.2 billion compared with 31 December 2017. This decrease in the total carrying amount was mainly the result of the sale of part of the stake in the investment funds of ABN AMRO Participaties in December 2018, a change in the carrying value of Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden N.V. relating to an accounting change to better reflect the economic reality, and a dividend distribution by Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V.

Other investments in equity associates and joint ventures comprise a large number of equity associates and joint ventures with individual carrying amounts of less than EUR 15 million.

(in millions)	31 December 2018 Associates	Joint ventures	Total	31 December 2017 Associates	Joint ventures	Total
Assets						
Financial assets held for trading	1,128		1,128	1,403		1,403
Financial investments	400	6,562	6,961	426	7,122	7,548
Loans and advances banks and customers	2,518	237	2,755	2,502	155	2,657
Property and equipment	108	191	299	100	232	332
Other assets	265	59	324	369	60	429
Total assets	**4,419**	**7,049**	**11,468**	**4,799**	**7,570**	**12,369**
Liabilities						
Financial liabilities held for trading				5		5
Due to banks and customers	1,384	151	1,535	1,313	138	1,451
Provisions	2,117	3,346	5,463	2,288	3,469	5,757
Other Liabilities	112	3,285	3,397	298	3,711	4,009
Total liabilities	**3,614**	**6,782**	**10,396**	**3,904**	**7,318**	**11,222**
			2018			2017
Total operating income	453	47	500	376	46	422
Operating expenses	337	25	362	288	30	318
Operating profit/(loss)	**115**	**22**	**138**	**89**	**16**	**104**
Income tax expense	27	7	34	17	4	22
Profit/(loss) for the period	**88**	**16**	**104**	**71**	**12**	**83**

Assets related to equity associates are mainly held by Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V. (EUR 2.3 billion at 31 December 2018, compared with EUR 2.5 billion at 31 December 2017) and Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden N.V. (EUR 1.6 billion at 31 December 2018, compared with EUR 1.7 billion at 31 December 2017).

Neuflize Vie holds the majority of assets under joint ventures (EUR 7.0 billion at 31 December 2018, compared with EUR 7.5 billion at 31 December 2017).

The increase in the total profit for the period is mainly due to the results of the above-mentioned associate and joint venture.

Impairments on equity accounted investments

The following table shows the changes in impairments on equity accounted investments.

(in millions)	2018	2017
Balance as at 1 January	**6**	4
Increase in impairments	2	3
Release of impairments		-12
Reversal of impairment allowances	-3	
Other		12
Balance as at 31 December	**5**	**6**

The impairments on equity accounted investments decreased by EUR 1 million to EUR 5 million at 31 December 2018. The increase in impaired assets related mainly to the variance in the carrying value of the primary assets of an equity associate, compared with its fair value. The reversal of impairment allowances related to the exit of an equity accounted investment.

Structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

A structured entity has some or all of the following features or attributes:
- restricted activities;
- narrow and well-defined objectives;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support;

- the provision of financing – in the form of multiple, contractually linked instruments – to investors that creates concentrations of credit or other risks;
- relevant activities directed by contractual arrangements.

Consolidated structured entities

The total amount of notes sold to external parties amounted to EUR 0.5 billion at 31 December 2018, a decrease of EUR 0.8 billion compared with EUR 1.3 billion at 31 December 2017. The decrease was due to the calling of several securitisation transactions.

The securitisation transactions are primarily used for funding and liquidity purposes. There was no RWA relief at 31 December 2018 (31 December 2017: no relief).

In 2018, the bank had only true sale (i.e. traditional) securitisation transactions outstanding. In such transactions, a foundation (stichting) incorporates a bankruptcy-remote, structured entity, to which the legal title of a portfolio of receivables is sold. As ABN AMRO continues to recognise the assets after the legal title has been sold, no derecognition takes place. The structured entity issues notes to fund the purchase. ABN AMRO performs key ancillary roles in all its securitisation transactions, including swap counterparty.

Risks associated with the roles in the securitisation process

Credit risk

Credit risk relates to the risk of credit losses on securitised assets. ABN AMRO retains part of the credit risk by retaining notes and other securitisation positions such as liquidity facilities, swaps and first loss tranches. Regulatory capital is held for all retained securitisation positions in accordance with the applicable regulation.

Liquidity risk

Liquidity risk relates to the risk that ABN AMRO may incur additional cash outflows. Any potential future cash outflows relating to these positions, including collateral requirements, are taken into account within stress tests and are integrated into the liquidity ratios, where required. This includes the potential impact of the liquidity facilities or swap agreements that form part of certain securitisation transactions, most of which relate to transactions where ABN AMRO is the originator of the underlying assets.

Approaches to calculating risk exposure amount

ABN AMRO does not achieve significant risk transfers for any of the mortgage securitisations. Therefore, the look-through approach is used and RWA reduction is not applied.

Monitoring process

ABN AMRO periodically monitors changes in credit risk relating to securitisation exposures. The significance of the amount of credit risk transferred to third parties by securitisation of own originated assets is assessed on a monthly basis in accordance with the regulatory significant risk transfer test. For investments in third-party securitisations, the risk is monitored by reviewing the investor reports of these transactions. Additionally, third-party securitisation positions are included in the firm-wide comprehensive stress tests in which the downgrade and default risks under stressed market conditions are assessed.

Overview of securitisation positions and securitised assets

The total amount of assets securitised in true sale securitisations decreased to EUR 21.6 billion at 31 December 2018 (31 December 2017: EUR 32.8 billion). No securitisation transactions for the purpose of capital relief were originated in 2018.

Securitisation overview of own originated assets (overall pool size)

	31 December 2018			31 December 2017		
	True sale securitisations		Total	True sale securitisations		Total
(in millions)	Mortgage loans	SME loans		Mortgage loans	SME loans	
Total assets securitised reported under the CRD framework						
Total assets securitised not reported under the CRD framework	21,643		21,643	32,797		32,797
Total assets securitised	**21,643**		**21,643**	**32,797**		**32,797**

Details of retained and purchased securitisation positions

The tables in the following sections contain details of securitisation positions in which ABN AMRO acts as originator and/or investor. Amounts reported are based on the regulatory exposure values calculated in accordance with the regulatory guidelines. Note that this not only includes the notes issued under the securitisation, but also the credit equivalent of interest rate swaps and first loss positions. The following table outlines the total amount of ABN AMRO's exposure value on securitisation positions in which ABN AMRO acts as originator and/or investor. The total securitisation position increased to EUR 421 million at 31 December 2018 (31 December 2017: EUR 4 million).

Overview of retained, transferred and purchased securitisation positions

	31 December 2018				31 December 2017		
	True sale securitisations			Total	True sale securitisations		Total
(in millions, Exposure at Default)	Mortgage loans	Leasing	Consumer loans		Mortgage loans	SME loans	
Securitisation position in purchased securitisations	1	346	75	421	4		4

Of the EUR 421 million purchased securitisation positions at 31 December 2018, the full position is risk-weighted at 7%. Of the EUR 4 million purchased securitisation positions at 31 December 2017, the full position is risk-weighted at 7%.

Details of total notes outstanding per structured entity

The following table provides details of the outstanding notes issued by consolidated structured entities which were established by ABN AMRO for securitisation purposes, exceeding 0.1% of the bank's total assets.

	31 December 2018		31 December 2017	
(in millions)	Total notes issued	% of total assets	Total notes issued	% of total assets
Category				
Dolphin Master Issuer B.V.	22,033	5.8%	26,483	6.7%
Goldfish Master Issuer B.V.			6,635	1.7%
Total	**22,033**		**33,118**	

[1] Securitisation structured entity in the CRD securitisation framework.

Support to consolidated structured entities

ABN AMRO did not provide support, financial or otherwise, to a consolidated structured entity, including when ABN AMRO was not contractually obliged to do so, and nor does ABN AMRO intend to do so in the future.

Unconsolidated structured entities

Non-consolidated structured entities are entities over which ABN AMRO has no control or significant influence. ABN AMRO is involved with structured entities through securitisation of financial assets and investments in structured entities. Structured entities generally finance the purchase of assets by issuing debt and equity securities that are collateralised by the assets held by the structured entities. The debt and equity securities issued by the structured entities may include tranches with varying levels of subordination. The interest in non-consolidated structured entities increased with EUR 1.1 billion to EUR 3.6 billion at year-end 2018 (2017: EUR 2.6 billion). The interests consist mainly of debt securities in corporate loans of EUR 421 million (2017: EUR 4 million) and mortgage- and other asset-backed securities recognised under financial investments of 3.2 billion (2017: EUR 2.6 billion). The maximum exposure to losses from these interests is equal to the total carrying amount.

Sponsoring of unconsolidated structured entities.

An entity is considered a sponsor of an unconsolidated structured entity if it had a key role in establishing that entity so that the transaction, which is the purpose of the entity, could occur. No material sponsoring occurred in 2018.

23 Property and equipment, goodwill and other intangible assets

Accounting policy for property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment amount. At each balance sheet date, an assessment is performed to determine whether there is any indication of impairment. Subsequent costs are capitalised if these result in an enhancement to the asset. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property and equipment, and of major components that are accounted for separately. ABN AMRO generally uses the following useful lives in calculating depreciation:

- Land: not depreciated;
- Buildings: 30 years;
- Leasehold improvements: 5 years;
- Equipment: 5 years;
- Installations (durable): 10 years;
- Computer installations: 2 to 5 years.

Impairment losses are recognised in the income statement as a component of depreciation and amortisation expense. Impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had previously been recognised.

Depreciation rates and residual values are reviewed at least periodically to take into account any change in circumstances. Capitalised leasehold improvements are depreciated in a manner that takes into account the term and renewal conditions of the related lease.

Assets for which the bank acts as a lessor in an operational lease contract are included in property and equipment. The asset is depreciated on a straight-line basis, over its useful life, to its estimated residual value.

Accounting policy for intangible assets

Goodwill

Goodwill is capitalised and stated at cost, being the excess of the consideration paid over the fair value of ABN AMRO's share of the acquired entity's net identifiable assets at the acquisition date, less any accumulated impairment losses. For the purpose of calculating goodwill, the fair values of acquired assets, liabilities and contingent liabilities are determined by reference to market values or by discounting expected future cash flows to present value. Goodwill is not amortised, but is reviewed annually for impairment, or more frequently if there are indications that impairment may have occurred. In the test, the carrying amount of goodwill is compared with the higher of the fair value less costs to sell and the value in use, being the present value of the cash flows discounted at a pre-tax discount rate that reflects the risk of the cash-generating unit to which the goodwill relates. Impairment losses are recognised in the income statement as depreciation and amortisation expense and are irreversible.

Software and other intangible assets

The accounting policy for software and other intangible assets is determined by IAS 38 Intangible assets. Software is amortised over a period of three years, unless the software is classified as core application software, which is depreciated over its estimated useful life, set at a maximum of seven years. Only the development phase is capitalised for own-developed software.

Other intangible assets include separately identifiable items arising from acquisitions of subsidiaries, such as customer relationships, and certain purchased trademarks and similar items. In general, the estimated useful life does not exceed ten years. Amortisation rates and residual values are reviewed at least annually to take into account any change in circumstances.

(in millions)	31 December 2018	31 December 2017
Land and buildings held for own use	616	648
Leasehold improvements	46	49
Equipment	844	761
Other		1
Total property and equipment	**1,506**	**1,458**

Total property and equipment increased by EUR 48 million to EUR 1,506 million at 31 December 2018 (31 December 2017: EUR 1,458 million). The increase was mainly due to investments in operational leasing activities.

(in millions)	31 December 2018	31 December 2017
Goodwill	103	104
Purchased software	30	38
Internally developed software	5	8
Other	27	33
Total goodwill and other intangible assets	**164**	**184**

Total goodwill and other intangible assets decreased by EUR 20 million to EUR 164 million at 31 December 2018 (31 December 2017: EUR 184 million). The decrease was mainly due to amortisation of software and other intangible assets.

								2018
(in millions)	Land and Buildings held for own use	Leasehold improvements	Equipment	Other property and equipment	Total property and equipment	Goodwill	Other intangible assets	Total goodwill and other intangible assets
Acquisition costs as at 1 January	**1,559**	**242**	**1,749**	**1**	**3,551**	**183**	**917**	**1,100**
Acquisitions/divestments of subsidiaries			-8		-8		-16	-16
Additions	37	10	347		394		20	20
Reversal of cost due to disposals	-72	-5	-243		-321		-2	-2
Transfer from (to) investment property								
Foreign exchange differences		1	-2		-1	-1		-1
Other	2		-3		-1		-75	-75
Acquisition costs as at 31 December	**1,526**	**247**	**1,839**		**3,613**	**182**	**845**	**1,027**
Accumulated depreciation/ amortisation as at 1 January	**-900**	**-192**	**-988**		**-2,080**		**-813**	**-813**
Acquisitions/divestments of subsidiaries			7		7		15	15
Additions								
Depreciation/amortisation	-45	-16	-213		-274		-34	-34
Reversal of depreciation/amortisation due to disposals	42	5	192		239		2	2
Foreign exchange differences								
Other		4	9		13		58	58
Accumulated depreciation/ amortisation as at 31 December	**-904**	**-200**	**-993**		**-2,096**		**-773**	**-773**
Impairments as at 1 January	**-11**	**-1**			**-12**	**-79**	**-24**	**-103**
Acquisitions/divestments of subsidiaries								
Increase of impairments charged to the income statement	-1	-1	-1		-4			
Reversal of impairments credited to the income statement								
Reversal of impairments due to disposals	3				3			
Foreign exchange differences								
Other	2	1	-1		2		14	14
Impairments as at 31 December	**-7**	**-1**	**-3**		**-11**	**-79**	**-11**	**-89**
Total as at 31 December	**616**	**46**	**844**		**1,506**	**103**	**61**	**164**

(in millions)	Land and Buildings held for own use	Leasehold improve-ments	Equip-ment	Other property and equipment	Total property and equipment	Goodwill	Other intangible assets	Total goodwill and other intangible assets
								2017
Acquisition costs as at 1 January	1,602	235	1,579	1	3,416	190	939	1,129
Acquisitions/divestments of subsidiaries								
Additions	39	17	326		382		15	15
Reversal of cost due to disposals	-74	-10	-155		-240	-3	-28	-31
Foreign exchange differences		-4	-13		-16	-3	-2	-6
Other	-8	4	13		9		-7	-7
Acquisition costs as at 31 December	**1,559**	**242**	**1,749**	**1**	**3,551**	**183**	**917**	**1,100**
Accumulated depreciation/ amortisation as at 1 January	-888	-188	-913		-1,989		-810	-810
Depreciation/amortisation	-46	-15	-216		-277		-38	-38
Reversal of depreciation/amortisation due to disposals	41	9	126		176		28	28
Foreign exchange differences		2	7		9		2	2
Other	-8		9		1		5	5
Accumulated depreciation/amortisation as at 31 December	**-900**	**-192**	**-988**		**-2,080**		**-813**	**-813**
Impairments as at 1 January	-8		-1		-9	-46	-22	-68
Increase of impairments charged to the income statement	-4	-2	-1		-8	-38	-5	-43
Reversal of impairments credited to the income statement			1		1		2	2
Reversal of impairments due to disposals	7	1	2		9	3		3
Foreign exchange differences						2		2
Other	-5				-5		1	1
Impairments as at 31 December	**-11**	**-1**			**-12**	**-79**	**-24**	**-103**
Total as at 31 December	**648**	**49**	**761**	**1**	**1,458**	**104**	**80**	**184**

The fair value of land and buildings held for own use was estimated at EUR 1,005 million at 31 December 2018 (2017: EUR 1,014 million). Of this fair value, 98% was based on external valuations performed in 2018, 2017 or 2016, while 2% was based on Dutch local government property tax valuations with a discount of 0% to reflect the current market situation. Some properties have a lower fair value than the carrying value. No impairment is recorded because these properties are considered corporate assets. The value in use for the cash-generating units within ABN AMRO Group is sufficient to cover the total value of all these assets.

Lessor

In its capacity as lessor, ABN AMRO leases out various assets, included in equipment, under operating leases. Future minimum lease receipts under non-cancellable operating leases totalled EUR 702 million at 31 December 2018 (31 December 2017: EUR 593 million), of which EUR 542 million (31 December 2017: EUR 417 million) matures within five years.

Impairment of goodwill

No impairment charges were recorded in 2018.

(in millions)	Segment	Method used for recoverable amount	Discount rate	Long-term growth rate	Impairment charges	Goodwill	Goodwill
						31 December 2018	31 December 2017
Entity							
Bethmann Bank	Private Banking	Value in use	10.0%	1.0%		63	63
ABN AMRO (Guernsey)	Private Banking	Value in use	10.0%	1.0%		22	22
ABN AMRO Commercial Finance UK	Commercial Banking	Value in use	10.0%	2.0%		9	9
Banque Neuflize	Private Banking	Value in use	10.0%	0.0%		6	6
Banco ABN AMRO S.A.	Corporate & Instutional Banking	Value in use	10.0%	2.5%		3	3
Total goodwill and impairment charges						**103**	**104**

(in millions)	2018	2017
Depreciation on tangible assets		
Land and buildings held for own use	45	46
Leasehold improvements	16	15
Equipment	73	97
Amortisation on intangible assets		
Purchased software	25	27
Internally developed software	3	4
Other intangible assets	6	7
Impairment losses on tangible assets		
Land and buildings held for own use (incl. held for sale)	1	4
Leasehold improvements	1	2
Equipment	1	1
Other		
Impairment losses on intangible assets		
Goodwill		38
Purchased software		4
Total depreciation and amortisation	**173**	**245**

24 Non-current assets and disposal groups held for sale

Accounting policy for non-current assets and disposal groups held for sale

Non-current assets and/or businesses are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction planned to occur within 12 months, rather than through continuing use. Assets held for sale (other than financial instruments) are not depreciated and are measured at the lower of their carrying amount and fair value, less costs to sell. Assets and liabilities of a business held for sale are presented separately in the consolidated statement of financial position.

(in millions)	31 December 2018	31 December 2017
Assets		
Financial assets held for trading		
Financial investments		7
Loans and advances banks	4	67
Residential mortgages		14
Consumer Loans		70
Corporate Loans	1	234
Property and equipment	20	31
Tax assets		3
Other assets	30	2,739
Assets of businesses held for sale	**56**	**3,165**
Liabilities		
Financial liabilities held for trading		
Derivatives		1
Securities financing		10
Demand Deposits		1,502
Saving Deposits		336
Time Deposits		244
Current accounts		
Provisions	4	1
Tax liabilities	4	3
Other liabilities	33	2,746
Liabilities of businesses held for sale	**41**	**4,843**

The sale of ABN AMRO Bank (Luxembourg) S.A. and its wholly owned subsidiary ABN AMRO Life S.A. was finalised in 2018 and completed on 3 September 2018. A total of EUR 3.2 billion in assets and EUR 4.8 billion in liabilities was divested. The sale resulted in gross sale proceeds of EUR 246 million.

Stater N.V. was reclassified in 2018 as held for sale. The reclassification of this subsidiary resulted in a movement of assets of EUR 42 million and a movement of liabilities of EUR 41 million.

Other movements in assets held for sale related to property held for sale. Property classified as held for sale amounted to EUR 14 million.

25 Other assets

The following table shows the components of other assets at 31 December.

ABN AMRO offers several products that relate to the financing of commodities. Some of these products are recognised as loans with commodities as collateral, others as loans with embedded derivatives, and others as commodity inventory. The classification is dependent mainly on the transfer of the commodity risk and rewards from the client to ABN AMRO. The commodity inventory is valued at the lower of cost or net realisable value.

(in millions)	31 December 2018	31 December 2017
Accrued other income	542	457
Prepaid expenses	29	28
Unsettled securities transactions	945	959
Trade and other receivables	1,506	1,895
Other commodities	415	
Other	467	450
Total other assets	**3,904**	**3,790**

Other assets increased by EUR 0.1 billion to EUR 3.9 billion at 31 December 2018, mainly as a result of an increase in other commodities of EUR 0.4 billion, offset by a decrease in trade and other receivables of EUR 0.4 billion.

Unsettled securities transactions are reversed repurchase agreements and securities borrowing transactions that are delivered but not settled.

Trade and other receivables include receivables purchased by ABN AMRO (the factor) from its clients under non-recourse factoring contracts.

Other commodities contain a commodity inventory valued at the lower of cost or net realisable value. As commodity prices decreased during the year, ABN AMRO has valued the commodity inventory at net realisable value. This value is based on a delivery contract with an external party. ABN AMRO had no commodity inventory in 2017.

Other assets in 2017 and 2018 include a net receivable of EUR 0.2 billion related to the bankruptcy of DSB Bank.

26 Due to banks

Accounting policy for due to banks and due to customers
Amounts due to banks and customers are held at amortised cost. That is, at fair value upon initial recognition, adjusted for repayment and amortisation of coupon, fees and expenses to represent the effective interest rate of the instrument.

(in millions)	31 December 2018	31 December 2017[1]
Deposits from banks:		
Current accounts	1,670	2,588
Demand deposits	18	31
Time deposits	11,254	11,147
Cash collateral on securities lent	478	2,673
Other	16	23
Total due to banks	**13,437**	**16,462**

[1] The comparative figures have been restated. For additional information, refer to note 1.

Due to banks decreased by EUR 3.0 billion to EUR 13.4 billion at 31 December 2018, mainly due to a decrease in cash collateral on securities lent and current accounts. Current accounts decreased by EUR 0.9 billion to EUR 1.7 billion at 31 December 2018, mainly due to periodic current account balances with credit institutions. Cash collateral on securities lent decreased by EUR 2.2 billion to EUR 0.5 billion, mainly as a result of a decrease in cash collateral on securities lent by several central banks and credit institutions. Time deposits consist mainly of funding obtained under the TLTRO II programme. This programme has a maturity of four years, and interest payments will be settled in arrears. The interest rate, which is fixed for the entire maturity of TLTRO II, will be set in March 2021.

27 Due to customers

Accounting policy for due to customers
The accounting policy for due to customers is included in note 26.

(in millions)	31 December 2018	31 December 2017[1]
Current accounts	84,192	83,627
Demand deposits	124,020	125,995
Time deposits	27,101	26,536
Other	810	541
Total due to customers	**236,123**	**236,699**

[1] The comparative figures have been restated. For additional information, refer to note 1.

Due to customers decreased by EUR 0.6 billion to EUR 236.1 billion at 31 December 2018, mainly as a result of the decrease in demand deposits (EUR 2.0 billion), partly offset by an increase in current accounts (EUR 0.6 billion), time deposits (EUR 0.6 billion) and other (EUR 0.3 billion).

Current accounts increased by EUR 0.6 billion to EUR 84.2 billion at 31 December 2018, mainly due to higher outstanding positions held by non-financial corporations.

Demand deposits decreased by EUR 2.0 billion to EUR 124.0 billion at 31 December 2018. This was due to lower volumes, mainly caused by the savings interest rate.

Time deposits increased by EUR 0.6 billion to EUR 27.1 billion at 31 December 2018. The main driver for this increase was the change in client agreements from non-term to term contracts.

Other increased by EUR 0.3 billion to EUR 0.8 billion at 31 December 2018, mainly due to an increase in cash collateral in Corporate & Institutional Banking.

28 Issued debt and subordinated liabilities

Accounting policy for issued debt and subordinated liabilities

Issued debt securities and subordinated liabilities are recorded at amortised cost using the effective interest rate method. Hybrid or structured financial liabilities are irrevocably designated upon initial recognition to be measured at fair value through profit or loss. The latter is applied when the instruments are held to reduce an accounting mismatch, are managed on the basis of their fair value or include terms that qualify as an embedded derivative that cannot be separated.

ABN AMRO applies IAS 32 Financial Instruments: Presentation to determine whether funding is a financial liability or equity. Issued financial instruments or their components are classified as financial liabilities where the substance of the contractual arrangement results in ABN AMRO having a present obligation to deliver either cash or another financial asset or to satisfy the obligation other than by the exchange of a fixed number of equity shares. Preference shares that carry a non-discretionary coupon or are redeemable on a specific date or at the option of the holder are classified as liabilities. Dividends and fees on preference shares classified as a liability are recognised as interest expense.

Issued liabilities qualify as subordinated debt if claims by the holders are subordinated to all other current and future liabilities of ABN AMRO and its subsidiaries.

The valuation of liabilities measured at fair value includes the effect of changes in own credit spreads. The change in fair value applies to those financial liabilities designated at fair value where own credit risk would be considered by market participants. The cumulative amount of changes in fair value attributable to credit risk of issued debt is presented as liability own credit risk reserve in equity. Exchange-traded own debt measured at fair value through profit or loss is valued against market prices.

Fair value changes are calculated based on a yield curve generated from observed external pricing for funding and quoted CDS spreads.

The following table shows the types of debt certificates issued by ABN AMRO and the amounts outstanding at 31 December. Movements in these debt instruments involve a continual process of redemption and issuance of long-term and short-term funding.

Issued debt

(in millions)	31 December 2018	31 December 2017
Bonds and notes issued	63,932	59,527
Certificates of deposit and commercial paper	15,801	15,896
Saving certificates	6	6
Total at amortised cost	**79,739**	**75,429**
Designated at fair value through profit or loss	1,045	1,182
Total issued debt	**80,784**	**76,612**
- of which matures within one year	27,181	23,790

(in millions)	2018 Carrying amount	2017 Carrying amount
Balance as at 1 January	**76,612**	**81,278**
Cash flows		
Issuance	40,196	33,604
Redemption	-36,396	-34,179
Non cash changes		
Effect obtaining/losing control subsidiaries or other businesses		
Foreign exchange differences	587	-3,164
Fair value changes	-28	-15
Other	-186	-912
Balance as at 31 December	**80,784**	**76,612**

Total issued debt increased by EUR 4.2 billion to EUR 80.8 billion at 31 December 2018. This increase was mainly driven by growth in long-term mortgages resulting in a rise in the long-term covered bond portfolio. Corporate loan growth led to an increase in unsecured medium-term notes. The increase in long-term issued debt was partly offset by a decrease in certificates of deposit and commercial paper within our targeted bandwidth for short-term funding.

The amounts of debt issued and redeemed during the period are shown in the condensed consolidated statement of cash flows. Further details of the funding programmes are provided in the Risk, funding & capital section.

Financial liabilities designated at fair value through profit or loss

(in millions)	31 December 2018	31 December 2017
Cumulative change in fair value of the structured notes attributable to changes in credit risk	57	85
Change during the year in fair value of the structured notes attributable to changes in credit risk	-28	-15
Difference between amount contractually required to pay at maturity and the carrying amount	18	77

A loss of EUR 18 million (2017: no gain or loss) relating to derecognition is recognised in the 2018 income statement.

The change in the fair value of the structured notes attributable to changes in credit risk is determined using the credit spread implicit in the fair value of similar bonds traded in active markets and issued by ABN AMRO.

Subordinated liabilities

The following table shows the outstanding subordinated liabilities at 31 December.

(in millions)	31 December 2018	31 December 2017
Subordinated liabilities	9,805	9,720

	2018	2017
(in millions)	Carrying amount	Carrying amount
Balance as at 1 January	**9,720**	**11,171**
Cash flows		
Issuance	19	1,407
Redemption	-25	-1,988
Non cash changes		
Effect obtaining/losing control subsidiaries or other businesses		
Foreign exchange differences	177	-752
Other	-86	-120
Balance as at 31 December	**9,805**	**9,720**

Subordinated liabilities increased to EUR 9.8 billion at 31 December 2018, mainly due to foreign exchange differences. No perpetual loans were recorded at the reporting date. Issued and outstanding loans qualifying as subordinated liabilities are subordinated to all other current and future liabilities.

29 Provisions

Accounting policy for provisions

A provision is recognised in the balance sheet when ABN AMRO has a legal or constructive obligation as a result of a past event, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect of time value is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market rates and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when an obligation exists. An obligation exists when ABN AMRO has approved a detailed plan and has raised a valid expectation in those affected by the plan by starting to implement the plan or by announcing its main features. Future operating costs are not provided for. Provisions for insurance risks are determined by actuarial methods, which include the use of statistics, interest rate data and settlement cost expectations.

Provisions are established for certain guarantee contracts for which ABN AMRO is responsible to pay upon default of payment. Expected credit loss allowances of loan commitments and financial guarantees are recognised as provisions under IFRS 9.

The following table shows the breakdown of provisions at 31 December.

(in millions)	31 December 2018	31 December 2017
Insurance fund liabilities	11	62
Provision for pension commitments	66	76
Restructuring provision	294	404
Other staff provision	117	122
Legal provisions	475	692
Credit commitments provisions	63	6
Other provisions	178	167
Total provisions	**1,204**	**1,529**

Insurance fund liabilities

Insurance fund liabilities include the insurance companies' actuarial reserves, premium and claims reserves. The expected cash outflow for 2019 is approximately EUR 2 million and approximately EUR 17 million for the 2020-2023 period. The insurance fund liabilities decreased significantly by EUR 51 million to EUR 11 million at 31 December 2018, mainly due to the sale of ABN AMRO Life Capital Belgium N.V.

Provision for pension commitments

Provision for pension commitments includes early retirement benefits payable to non-active employees. Further details are provided in note 30.

Restructuring

Restructuring provisions cover the costs of the restructuring plans for which implementation has been formally announced. The decrease in the restructuring provisions was caused mainly by their use for the initiatives that are the result of further digitalisation and process optimisation. The new restructuring provisions relate mainly to the refocusing of the Commercial Banking and Corporate & Institutional Banking strategy, combined with initiatives resulting from further digitalisation and process optimisation activities. Implementation of the 2018 restructuring plans will start within one year. The estimated costs are based on the ABN AMRO Social Plan. Settlement may take up to five years.

Other staff provisions

Other staff provisions relate mainly to disability and other post-employee benefits.

Legal provisions

Legal provisions are based on best estimates available at the year-end and taking into account the opinion of legal specialists. The timing of the outflow of cash related to these provisions is by nature uncertain, given the unpredictability of the outcome and the time required to conclude litigation. Any provision recognised does not constitute an admission of wrongdoing or legal liability. Legal provisions decreased by EUR 0.2 billion to EUR 0.5 billion at 31 December 2018, mainly due to payments related to the provision for interest rate derivatives to SME clients.

Interest rate derivatives for SME clients

In 2015 ABN AMRO started a review, at the request of the Netherlands Authority for the Financial Markets (AFM) and the Dutch Ministry of Finance, to determine whether the bank had acted in accordance with its duty of care obligations in respect of the sale of interest rate derivatives to SME clients. In the second quarter of 2015, ABN AMRO first recognised a provision for compensating clients who had been disadvantaged in this respect and suffered loss or damage.

ABN AMRO has set up its own client reassessment process and the related checks and balances with respect to the Uniform Recovery Framework devised by a committee of independent experts ('the Committee') appointed by the Dutch Minister of Finance. On 31 December 2018, 80% of the clients received a letter containing the outcome of the reassessment. It is envisaged that the remaining clients will receive the outcome of the reassessment in the first quarter of 2019. At various points in the process, the reassessments will be checked by an independent external file reviewer (in ABN AMRO's case, by the audit firm PwC), supervised by the AFM. The total provision for SME derivatives-related issues amounted to EUR 0.3 billion at 31 December 2018. This comprised the total amount of client compensation (EUR 0.5 billion) and project costs (EUR 0.2 billion), after payments already made for both elements (EUR 0.5 billion).

Euribor-based mortgages

ABN AMRO has sold mortgage loans with floating, often Euribor-based, interest rates to consumers. These rates include a margin charge. Under the applicable terms and conditions, ABN AMRO has the right to unilaterally adjust the margin charge. ABN AMRO's decision to increase the margin charge in 2012 resulted in two class actions, on top of multiple individual cases, being instigated. The central question in these cases is whether ABN AMRO's right in the terms and condition to unilaterally adjust the margin charge is an unfair contractual clause.

After losing the class action in two instances, ABN AMRO decided to appeal at the Dutch Supreme Court. The final documents in the appeal process were filed in late August 2018. The Procurator General of the Supreme Court is expected to issue advice towards the end of the first quarter of 2019. The Supreme Court's verdict is expected approximately three months after this advice; in other words, by the end of the second quarter of 2019. ABN AMRO has recognised a provision for this matter.

ICS redress scheme

International Card Services B.V. (ICS), the credit card business of ABN AMRO, has identified certain issues from its past in respect of the granting of credit to consumers, as a result of which certain clients were provided with loans above their lending capacity. This was reported to the AFM. In March 2017, ICS drafted a redress scheme setting out remedial measures for clients who have been affected and including financial compensation for certain clients. ABN AMRO has recognised a provision in respect of this scheme. The recovery framework has now been implemented and the final compensation payments are expected to be made in early 2019.

Credit Commitment provisions

Credit commitment provisions increased by EUR 57 million to EUR 63 million at 31 December 2018 due to the transition to IFRS 9. More information can be found in the transition disclosure in Accounting Policies.

Other provisions

Other provisions include provisions for tax purposes. The tax provisions are based on best estimates available at the year-end and taking into account the opinion of tax specialists. The timing of the outflow of cash related to these provisions is by nature uncertain, given the unpredictability of the outcome and the time involved.

Banks have a responsibility to help protect the financial services sector. We take this responsibility very seriously. ABN AMRO invests significant resources in combating financial crime. We work closely with regulators, governments, other banks and the police. ABN AMRO has decided, based on existing shortcomings and input from the Dutch Central Bank, to accelerate its Customer Due Diligence (CDD) programme in order to be compliant with anti-money laundering and terrorist financing legislation. We've already carried out a review of our Corporate & Institutional Banking business; a review of our Private Banking clients is now nearly complete. ABN AMRO has developed remediation programmes to speed up remediation actions in relation to International Card Services (ICS) and Commercial Banking and has shared these with the Dutch Central Bank and committed to their execution. For the incremental external costs involved, we've taken a provision in 2018 of EUR 85 million – for ICS and Commercial Banking. The amount is based on, among other items, the total number of files, the time needed to review each file and the percentage that will be reviewed using external resources. Over the past year, a number of European banks have been the object of money laundering investigations. We recognise that, with financial crime, we have to be vigilant. We're constantly looking for ways to strengthen our systems and raise awareness of potential risks within the bank.

Changes in provisions during the year were as follows:

(in millions)	Insurance fund liabilities	Provision for pension commitments	Restructuring provision	Other staff provision	Legal provisions	Credit commitments	Other	Total
At 1 January 2017	**127**	**86**	**417**	**117**	**731**	**8**	**186**	**1,672**
Acquisition and divestment of subsidiaries	-39							-39
Increase of provisions			222		257	1	20	499
Reversal of unused provisions	-10		-17		-21	-1	-34	-84
Utilised during the year			-218		-281		-4	-503
Accretion of interest					4		2	6
Foreign exchange differences							-1	-2
Other	-16	-10		5	2		-1	-20
At 31 December 2017	**62**	**76**	**404**	**122**	**692**	**6**	**167**	**1,529**
Impact of adopting IFRS 9						61		61
At 1 January 2018	**62**	**76**	**404**	**122**	**692**	**67**	**167**	**1,590**
Acquisition and divestment of subsidiaries	-55						-1	-57
Increase of provisions			147		89	25	98	358
Reversal of unused provisions			-18		-14	-23	-19	-73
Utilised during the year			-227		-293		-71	-591
Accretion of interest					2			2
Foreign exchange differences			1					1
Other	4	-9	-13	-5	-1	-6	4	-26
At 31 December 2018	**11**	**66**	**294**	**117**	**475**	**63**	**178**	**1,204**

30 Pension and other post-retirement benefits

Accounting policy for pension and other post-retirement benefits

ABN AMRO sponsors a number of pension schemes in the Netherlands and abroad. These schemes are mainly defined contribution plans. The majority of the beneficiaries of the plans are located in the Netherlands.

Defined contribution plans

For defined contribution plans, ABN AMRO pays annual contributions that have been determined by a fixed method and has no legal or constructive obligation to pay any further contributions. Contributions are recognised directly in the income statement in the year to which they relate. Actuarial and investment risk are for the account of the participants in the plan.

Defined benefit plans

For defined benefit plans, the net obligation of each plan is the difference between the present value of the defined benefit obligations and the fair value of the plan's assets.

The actuarial assumptions used for calculating the present value of the defined benefit obligation include discount rates based on high-quality corporate bonds, the inflation rate, future salary increases, employee contributions, mortality assumptions and rates of employee turnover. The assumptions are based on available market data and management expectations at the end of the reporting period.

Plan assets are measured at fair value at the balance sheet date and are netted against the defined benefit obligations.

Pension costs recognised in the income statement for defined benefit plans consist of:
- service costs;
- net interest costs determined by multiplying the net defined benefit liability (asset) by the discount rate, both as at the start of the annual reporting period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments; and
- curtailments or plan amendments.

Differences between pension costs and pension contributions payable are accounted for as provisions or prepayments.

Remeasurement

Remeasurements of the net defined benefit liability (asset) are actuarial gains and losses resulting from changes in actuarial assumptions and experience adjustments (i.e. unexpectedly high or low rates of employee turnover). They are recognised in other comprehensive income and are not recycled to profit or loss in later periods. The actual return on plan assets is determined after deduction of costs of managing the plan assets and any tax payable by the plan itself.

Other post-retirement benefits

Some group companies provide post-retirement benefits to their retirees such as long-term service benefits and discounts on banking products. Entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. These obligations are calculated annually.

Plans in all countries comply with applicable local regulations concerning investments and minimum funding levels.

Pension and other post-retirement benefits

Amounts recognised in the income statement for pensions and other post-retirement benefits

			2018			2017
(in millions)	Pensions	Other post retirement employee benefits	Total	Pensions	Other post retirement employee benefits	Total
Current service cost	4	16	20	4	10	14
Interest cost	4	1	5	2	1	3
Interest income	-3		-3	-1		-1
Amortisation of unrecognised past service cost				-6		-6
Assumption changes in demographics through P&L					10	10
Other	-1	-1	-2			
Total defined benefit expenses in actuarial report	**4**	**16**	**20**	**-1**	**21**	**20**
Other expenses	-2	-11	-13	1	-7	-7
Total defined benefit expenses	**2**	**5**	**7**		**13**	**13**
Defined contribution plans	338		338	369		369
Total Pension expenses and other post retirement employee benefits	**340**	**5**	**345**	**369**	**13**	**382**

Total pension and other post-retirement employee benefits expenses decreased by EUR 37 million to EUR 345 million in 2018, compared with EUR 382 million in 2017. The decrease in defined contribution plans of EUR 31 million is mainly due to the decrease in contribution costs that resulted from the decrease in FTEs. Pension expenses for defined contribution plans consist mainly of the cash contributions to the Dutch Collective Defined Contribution plan.

The remaining other post-employee benefits relating to defined plans consist mainly of several minor defined benefit plans. Other post-employee benefits decreased by EUR 6 million which is due to the revised withdrawal rate of the jubilee plan.

Dutch defined contribution plan

The Dutch defined contribution plan is a Collective Defined Contribution plan, based on an average salary plan. The normal retirement age is set at 68 years. The contribution payable by pension fund participants is 5.5% (2017: 5.5%).

Plan participants' contributions to the defined benefit plan in 2018 amounted to EUR 40 million (2017: EUR 43 million) and are included in pension expenses.

Reconciliation to the statement of financial position and other comprehensive income

(in millions)	2018 Pensions	2018 Other post retirement employee benefits	2018 Total	2017 Pensions	2017 Other post retirement employee benefits	2017 Total
Present value of defined benefit obligations – funded with plan assets	228		228	247		247
Fair value of plan assets	172		172	182		182
	56		**56**	**65**		**65**
Present value of defined benefit obligations – unfunded	9	155	164	10	170	181
Unrecognised past service costs						
Net liabilities/(assets) actuarial report at 31 December	**66**	**155**	**221**	**75**	**170**	**246**
Other	1	1	1			
Net liabilities/(assets) balance sheet at 31 December	**66**	**156**	**222**	**76**	**170**	**246**
- of which assets						
- of which liabilities	66	156	222	76	171	246
Experience adjustments	1	9	10		-12	-12
Remeasurements arising from changes in demographic assumptions DBO	3		3	1	-1	
Remeasurements arising from changes in financial assumptions DBO	3	5	8	-2	1	-1
Remeasurements arising from changes in financial assumptions Plan assets	-1		-1			
Remeasurements in respect of irrevocable surplus due to asset ceiling						
Remeasurements in Other comprehensive income	**6**	**14**	**20**		**-12**	**-12**

Change in defined benefit obligation (DBO)

(in millions)	2018 Pensions	2018 Other post retirement employee benefits	2018 Total	2017 Pensions	2017 Other post retirement employee benefits	2017 Total
Defined benefit obligation as at 1 January	257	170	427	173	161	334
Current service cost	4	16	20	4	10	14
Interest cost	4	1	5	2	1	3
Past service cost						
General an administrative expenses						
Losses/(gains) on settlements and curtailment	-1		-1	-7		-7
Participants' contributions						
Benefits paid	-14		-14	-15	-9	-24
Benefits paid in from employer	-1	-7	-8		-6	-6
Remeasurements arising from changes in demographic assumptions	-3		-3	-1	-1	-2
Experience adjustments	-1	-9	-10		9	9
Remeasurements arising from changes in financial assumptions	-3	-5	-8	2	3	5
Acquisitions and disposals of subsidiaries					1	1
Foreign exchange differences				-1		-1
Other	-4	-12	-15	101	2	103
Defined benefit obligation as at 31 December	**237**	**155**	**393**	**257**	**170**	**427**

The net defined benefit liabilities/(assets) balance as at December 2018 consisted of pensioners with a profit share, the indexation of benefits insured with an insurance company and several small defined benefit plans outside the Netherlands.

Change in fair value of plan assets

	2018			2017		
(in millions)	Pensions	Other post retirement employee benefits	Total	Pensions	Other post retirement employee benefits	Total
Fair value of plan assets as at 1 January	182		182	87		87
Interest income	3		3	1		1
Remeasurements arising from changes in financial assumptions	-1		-1			
Employer's contributions	7		7	1		1
Benefits paid	-14		-14	-7		-7
Foreign exchange differences				-1		-1
Other	-3		-3	100		100
Fair value of plan assets as at 31 December	**172**		**172**	**182**		**182**

Principal actuarial assumptions

	2018	2017
Discount rate	1.7%	1.4%
Indexation rate	1.7%	1.6%
Future salary increases	2.1%	1.8%

The above assumptions are weighted by defined benefit obligations. The discount rate consists of a risk-free rate and a credit spread on AA-rated corporate bonds.

31 Other liabilities

The following table shows the components of accrued expenses and other liabilities at 31 December 2018.

(in millions)	31 December 2018	31 December 2017
Accrued other expenses	1,023	983
Unsettled securities transactions	796	1,464
Sundry liabilities and other payables	1,867	2,560
Total other liabilities	**3,686**	**5,006**

ABN AMRO has reclassified all unsettled securities transactions as other assets and other liabilities. These were previously included in securities financing. The comparative figures have been adjusted accordingly.

Other liabilities decreased by EUR 1.3 billion to EUR 3.7 billion at 31 December 2018 (2017: EUR 5.0 billion) due to a decrease in unsettled securities transactions and lower sundry liabilities and other payables.

The movements in unsettled securities financing transactions were a result of the cyclicality of the securities financing activities. The decrease in sundry liabilities and other payables was partly the result of the settlement of savings from savings mortgages with ABN AMRO Verzekeringen.

32 Equity

Share capital and other components of equity

Ordinary shares and depositary receipts for ordinary shares

As at 31 December 2018, all shares in the capital of ABN AMRO Group were held by two foundations: NLFI and STAK AAG. For more information about STAK AAG and the depositary receipts, please refer to the Leadership & governance section of this report.

Compound financial instruments

Components of compound financial instruments (liability and equity parts) are classified in their respective areas of the statement of financial position.

Currency translation reserve

The currency translation reserve represents the cumulative gains and losses on the translation of the net investment in foreign operations, net of the effect of hedging.

Available-for-sale reserve

Under IAS 39, this component includes the gains and losses, net of taxes, arising from a change in the fair value of available-for-sale assets, excluding impairment losses recognised in the income statement and gains and losses on hedged financial instruments. When the relevant assets are sold or otherwise disposed of, the related cumulative gain or loss recognised in equity is recycled to the income statement.

Fair value reserve

Under IFRS 9, the fair value reserve includes the gains and losses, net of tax, resulting from a change in the fair value of debt instruments measured at FVOCI. When the instruments are sold or otherwise disposed of, the related cumulative gain or loss recognised in equity is recycled to the income statement.

Cash flow hedging reserve

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of taxes, that are recycled to the income statement if the hedged transactions have an impact on profit or loss.

Net investment hedging reserve

The net investment hedging reserve comprises the currency translation differences arising when the currency of these instruments are translated to euros, to the extent they are effective.

Liability own credit risk reserve

Under IFRS 9, the changes in fair value attributable to changes in the own credit risk of financial liabilities designated at FVTPL are presented in other comprehensive income. The cumulative amount of changes in fair value attributable to credit risk of such liabilities is presented as liability own credit risk reserve in equity.

Other reserves

Other reserves mainly comprise retained earnings and profit for the period.

Dividends

Dividends on ordinary shares and preference shares classified as equity are recognised as a distribution of equity in the period in which they are approved by shareholders.

Capital securities

Undated, deeply subordinated, resettable, callable capital securities are classified as additional tier 1 (AT1) capital, under total equity. ABN AMRO Bank has the European Central Bank's permission to carry out limited repurchases from investors and to sell back in the market.

(in millions)	31 December 2018	31 December 2017
Share capital	940	940
Share premium	12,970	12,970
Other reserves (incl. retained earnings/profit for the period)	6,346	5,724
Other components of equity	-906	-331
Equity attributable to owners of the parent company	**19,349**	**19,303**
AT1 Capital securities	2,008	2,007
Equity attributable to other non-controlling interests	2	20
Total equity	**21,360**	**21,330**

At 31 December 2018, the authorised share capital of ABN AMRO Group N.V. amounted to EUR 4.7 billion, distributed over 4,500,000,000 ordinary shares and 200,000,000 class B ordinary shares. All shares have a nominal value of EUR 1.00 each and each share entitles the shareholder to one vote. At 31 December 2018, capital issued by ABN AMRO Group N.V. and paid-up consisted of 940,000,001 ordinary shares (EUR 940 million). In 2018, a final dividend for 2017 of EUR 752 million was paid out to ordinary shareholders, bringing the total dividend for 2017 to EUR 1,363 million. An interim dividend of EUR 611 million for 2018 (2017: EUR 611 million) was paid to ordinary shareholders.

	31 December 2018		31 December 2017	
	Class A ordinary shares	Class B ordinary shares	Class A ordinary shares	Class B ordinary shares
Number of shares				
Authorised share capital	4,500,000,000	200,000,000	4,500,000,000	200,000,000
Unissued share capital	3,559,999,999	200,000,000	3,559,999,999	200,000,000
Issued share capital	940,000,001		940,000,001	
Amount of shares				
Authorised share capital	4,500,000,000	200,000,000	4,500,000,000	200,000,000
Unissued share capital	3,559,999,999	200,000,000	3,559,999,999	200,000,000
Issued share capital	940,000,001		940,000,001	
Par value	1.00	1.00	1.00	1.00

33 Transferred, pledged, encumbered and restricted assets

Accounting policy for transferred, pledged, encumbered and restricted assets

Transferred financial assets are arrangements/transactions for which ABN AMRO has:
- transferred the contractual rights to receive the cash flows of the financial asset to a third party, or;
- retained the contractual rights to receive the cash flows of that financial asset, but has assumed a contractual obligation to pay the cash flows to a third party; or
- transferred a financial asset when the counterparty has the right to repledge or to resell the asset.

Depending on the circumstances, these transfers may either result in financial assets that are not derecognised in their entirety or in assets that are derecognised in their entirety. More detailed information on our recognition and derecognition policy is provided in the paragraph on significant accounting policies under note 1 Accounting policies.

Pledged assets are assets pledged as collateral for liabilities or contingent liabilities and the terms and conditions relating to the pledge. Encumbered assets are those that are pledged or other assets which we believe to be restricted in order to secure, credit-enhance or collateralise a transaction.

In principle, pledged assets are encumbered assets. The following differences apply to ABN AMRO:
- Encumbered assets include mandatory reserve requirements with central banks and unit-linked investments;
- Encumbered assets exclude assets pledged for unused credit facilities with central banks at the statement of financial position date, i.e. mainly retained mortgage-backed securities.

Significant restrictions on assets may arise from statutory, contractual or regulatory requirements such as:
- those that restrict the ability of the parent or its subsidiaries to transfer cash or other financial assets to or from other entities within the Group;

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- guarantees or other requirements that may restrict dividends and other capital distributions being paid, or loans and advances being made or repaid to other entities within the Group;
- protective rights of other non-controlling interests that may restrict the ability of the Group to access and transfer assets freely to or from other entities within the Group and to settle liabilities of the Group.

Transferred financial assets

This disclosure provides insight into the relationship between these transferred financial assets and associated financial liabilities in order to show the risks the bank is exposed to when the assets are transferred. If transferred financial assets continue to be recognised in the balance sheet, ABN AMRO Group is still exposed to changes in the fair value of the assets.

Transferred financial assets not derecognised in their entirety

The following table shows transferred financial assets that are not derecognised in their entirety.

	31 December 2018			31 December 2017		
(in millions)	Loans and advances (at amortised cost)	Financial assets held for trading (at fair value through profit and loss)	Total	Loans and advances (at amortised cost)	Financial assets held for trading (at fair value through profit and loss)	Total
Securitisations						
Carrying amount Transferred assets	497		497	1,240		1,240
Carrying amount Associated liabilities	500		500	1,250		1,250
For those liabilities that have recourse only to the transferred assets						
Fair value of assets	536		536	1,329		1,329
Fair value of associated liabilities	501		501	1,257		1,257
Net position	**35**		**35**	**71**		**71**
Other						
Carrying amount Transferred assets		63	63		146	146
Carrying amount Associated liabilities		63	63		208	208
Fair value of assets		63	63		146	146
Fair value of associated liabilities		63	63		208	208
Net position					**-62**	**-62**
Totals						
Carrying amount Transferred assets	497	63	560	1,240	146	1,386
Carrying amount Associated liabilities	500	63	563	1,250	208	1,458
Fair value of assets	536	63	599	1,329	146	1,475
Fair value of associated liabilities	501	63	564	1,257	208	1,465
Net position	**35**		**35**	**71**	**-62**	**10**

Securitisations

The bank uses securitisations as a source of funding, whereby the Special Purpose Entity (SPE) issues debt securities. In a securitisation transaction utilising true sale mechanics, the bank transfers the title of the assets to SPEs. When the cash flows are transferred to investors in the notes issued by consolidated securitisation vehicles, the assets (mainly residential mortgage loans) are considered to be transferred.

Securities financing

Securities financing transactions are entered into on a collateralised basis for mitigating the bank's credit risk exposure. In repurchase agreements and securities lending transactions, ABN AMRO gets the securities returned at maturity. The counterparty in the transactions holds the securities as collateral, but has no recourse to other assets of ABN AMRO. ABN AMRO transfers the securities and if the counterparty has the right to resell or repledge them, the bank considers these assets to be transferred assets.

Continuing involvement in transferred financial assets derecognised in their entirety

The bank does not have any material transferred assets that are derecognised in their entirety, but where ABN AMRO has continuing involvement.

Pledged and encumbered assets

Pledged and encumbered assets are no longer readily available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. The following activities conducted by ABN AMRO give rise to pledged assets:

- cash and securities provided as collateral to secure trading and other liabilities, mainly derivatives;
- mortgages and SME loans pledged to secure funding transactions such as covered bonds and securitisations;
- securities lent as part of repurchase and securities lending transactions.

The following table provides an overview of assets pledged as security and encumbered assets.

(in millions)	31 December 2018	31 December 2017
Assets pledged		
Cash and balances at central banks	3	2
Financial assets held for trading	81	257
Financial assets at fair value through OCI – Debt securities		
Equity securities FVOCI		
Financial investments – fair value through profit or loss		
Financial investments FVOCI	1,086	1,796
Loans and advances banks:		
- Interest bearing deposits	1,772	1,951
Loans and advances customers:		
- Residential mortgages	80,870	70,692
- Commercial loans	7,187	7,419
Other financial assets	16	111
Total assets pledged as security	**91,014**	**82,228**
Differences between pledged and encumbered assets		
Financial investments available-for-sale		
Loans and advances – banks[1]	284	273
Loans and advances – customers[2]	-20,730	-19,508
Other assets[3]		2,728
Total differences between pledged and encumbered assets	**-20,445**	**-16,507**
Total encumbered assets	**70,569**	**65,721**
Total assets	**381,295**	393,171
Total encumbered assets as percentage of total assets	18.5%	16.7%

1 Includes mandatory reserve deposits.
2 Excludes mainly mortgage-backed securities.
3 Includes unit-linked investments.

Total encumbered assets increased by EUR 4.8 billion to EUR 70.6 billion at 31 December 2018 compared with 31 December 2017, mainly due to an increase in residential mortgages and which was partly offset by the sale of the activities in Luxembourg.

Off-balance sheet collateral held as security for assets

Mainly as part of professional securities transactions, ABN AMRO obtains securities on terms which permit it to repledge or resell the securities to others. These transactions are conducted under terms that are usual and customary in standard professional securities transactions.

ABN AMRO controls the credit risk associated with these activities by monitoring counterparty credit exposure and collateral value on a daily basis and, when necessary, requiring additional collateral to be deposited with or returned to the Group.

(in millions)	31 December 2018	31 December 2017
Fair value of securities received which can be sold or repledged	62,572	46,711
- of which: fair value of securities repledged/sold to others	46,100	37,892

ABN AMRO has the obligation to return securities accepted as collateral to its counterparties.

Significant restrictions on the ability to access or use the Group's assets

The purpose of disclosing assets with significant restrictions is to provide information that enables users of the Consolidated Annual Financial Statements to evaluate the nature and extent of any significant restrictions on the ability to access or use assets and settle liabilities.

Restricted financial assets consist of assets pledged as collateral against an existing or contingent liability and encumbered assets. Other restrictions impacting on the Group's ability to use assets include:

- Assets as a result of collateralising repurchase and borrowing agreements (31 December 2018: EUR 12.4 billion; 31 December 2017: EUR 15.7 billion);
- Assets held in certain jurisdictions to comply with local liquidity requirements and that are subject to restrictions in terms of their transferability within the Group (31 December 2018: EUR 2.4 billion; 31 December 2017: EUR 3.5 billion);
- ABN AMRO Group N.V. is in general not subject to any significant restrictions that would prevent the transfer of dividends and capital within the Group, except for regulated subsidiaries that are required to maintain capital in order to comply with local regulations (31 December 2018: EUR 1.0 billion; 31 December 2017: EUR 1.4 billion).

34 Commitments and contingent liabilities

Accounting policy for off-balance sheet items

Commitments

Loan commitments that allow for draw-down of a loan within the timeframe generally established by regulation or convention in the marketplace are not recognised as derivative financial instruments. Acceptances comprise undertakings by ABN AMRO to pay bills of exchange drawn on clients. ABN AMRO expects most acceptances to be settled simultaneously with the reimbursement from clients. Acceptances are not recognised in the balance sheet and are disclosed as commitments.

Financial guarantee contracts

A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs if a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Initial recognition of financial guarantee contracts is at their fair value. Subsequent measurement is at the higher of the amount of the expected credit loss and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in the income statement.

Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless the outflow of economic resources is remote.

Committed credit facilities

Commitments to provide credit take the form of approved but undrawn loans, revolving and underwriting facilities. New loan offers have a commitment period that does not extend beyond the normal underwriting and settlement period.

Guarantees and other commitments

ABN AMRO provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These transactions have fixed limits and generally extend for periods of up to 5 years. Expirations are not concentrated in any particular period. ABN AMRO also provides guarantees by acting as a settlement agent in securities borrowing and lending transactions.

Many of the contingent liabilities and commitments are expected to expire without being paid out in whole or in part. This means that the amounts stated do not represent expected future cash flows. Additionally, guarantees and letters of credit are supported by varying levels of collateral.

Furthermore, statements of liability within the meaning of Article 403 Book 2 of the Dutch Civil Code have been issued for a number of ABN AMRO's affiliated companies (see also the chapter on Other information).

The committed credit facilities, guarantees and other commitments at 31 December 2018 and 2017 are summarised in the following table. The amounts stated in the table for commitments assume that amounts are fully paid out. The amounts shown in the table for guarantees and letters of credit represent the maximum amount ABN AMRO is exposed to if the contract parties completely fail to perform as contracted.

	Payments due by period				
(in millions)	Less than one year	Between one and three years	Between three and five years	After five years	Total
31 December 2018					
Committed credit facilities	**35,987**	**9,256**	**11,786**	**4,137**	**61,166**
Guarantees and other commitments:					
Guarantees granted	329	191	60	1,894	2,473
Irrevocable letters of credit	4,041	1,324	239	342	5,946
Recourse risks arising from discounted bills	6,543	238	41	1	6,822
Total guarantees and other commitments	**10,913**	**1,753**	**340**	**2,236**	**15,241**
Total	**46,900**	**11,008**	**12,126**	**6,373**	**76,408**
31 December 2017					
Committed credit facilities	**36,785**	**6,701**	**9,520**	**2,289**	**55,295**
Guarantees and other commitments:					
Guarantees granted	311	267	51	1,880	2,509
Irrevocable letters of credit	4,477	1,367	420	263	6,526
Recourse risks arising from discounted bills	7,010	121			7,130
Total guarantees and other commitments	**11,797**	**1,754**	**471**	**2,143**	**16,165**
Total	**48,583**	**8,455**	**9,990**	**4,432**	**71,460**

The total of committed credit facilities, guarantees and other commitments increased by EUR 4.9 billion to EUR 76.4 billion at 31 December 2018 (31 December 2017: EUR 71.5 billion). This increase was due to a rise of EUR 5.9 billion in committed credit facilities, partly offset by a decrease of EUR 0.9 billion in guarantees and other commitments.

During the second half of 2018 ABN AMRO assessed the application of its definitions relating to committed and uncommitted credit facilities. This resulted in a restatement of committed credit facilities at 31 December 2017. More information on this restatement can be found in note 1. The increase in committed credit facilities by EUR 5.9 billion to EUR 61.2 billion at 31 December 2018 (31 December 2017: EUR 55.3 billion) was mainly related to an increase in credit lines granted to commercial clients, government and official institutions, partly offset by lower credit lines granted to consumers and lower outstanding credit offers on residential mortgages.

Leasing

ABN AMRO mainly enters into leases classified as operating leases (including property rentals). The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. If it is decided that an operating lease will be terminated or vacated before the lease period has expired, the lesser of any penalty payments required and the remaining payments due once vacated (less sub-leasing income) is recognised as an expense. If the lease agreement transfers substantially all the risks and rewards inherent to ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalised.

Operating lease commitments

ABN AMRO leases various offices and other premises under non-cancellable operating lease arrangements. The leases have various terms, escalation and renewal rights. No contingent rents are payable. ABN AMRO also leases equipment under non-cancellable lease arrangements. Total operating lease arrangements amounted to EUR 0.4 billion at 31 December 2018 (31 December 2017: EUR 0.4 billion), of which EUR 0.3 billion (31 December 2017: EUR 0.3 billion) is due within five years.

Other contingencies

ABN AMRO is involved in a number of legal proceedings in the ordinary course of business in various jurisdictions. In presenting consolidated financial information, management makes estimates regarding the outcome of legal, regulatory and arbitration matters, and takes provisions to the income statement when losses with respect to such matters are more likely than not.

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Provisions are not recognised for matters for which expected cash outflow cannot be reasonably estimated or that are not more likely than not to lead to a cash outflow. Some of these matters may be regarded as a contingency. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities. On the basis of information currently available, and having taken counsel with legal advisors, ABN AMRO is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position and the consolidated result of ABN AMRO. In particular the following matters are regarded as contingencies.

- Certain hedge funds initiated proceedings in Belgium and claimed the re-issue of certain Ageas Mandatory Convertible Securities and payment of a 8.75% coupon from 7 December 2010 until 7 December 2030 (EUR 0.2 billion per annum) or, alternatively, compensation in cash for the amount of EUR 1.75 billion from four issuers, among which ABN AMRO, in relation to the conversion of Ageas MCS. On 23 March 2012, the Commercial Court in Brussels (Belgium) rejected all the hedge funds' claims. This judgement was in line with the earlier judgement in the summary proceedings of November 2010. On 1 February 2019, the Court of Appeal in Brussels rejected all the claims of the hedge funds (and found in favour of Ageas and ABN AMRO). The hedge funds have until 1 May 2019 to file cassation proceedings.
- As previously reported, ABN AMRO, certain of its subsidiaries and some of their client funds had exposure to funds that suffered losses (in some cases, significant losses) as a result of the Madoff fraud. Provision of custodial services has resulted in a number of legal claims, including by the Bernard L. Madoff Investment Securities trustee in bankruptcy (Irving Picard) and liquidators of certain funds, who are pursuing legal action in an attempt to recover payments made as a result of the fraud and/or to compensate their alleged losses. Certain ABN AMRO subsidiaries are defendants in these proceedings. In view of the preliminary status of these claims, it is not possible to estimate the total amount of ABN AMRO's potential liability, if any.
- The Imtech Group was declared bankrupt in August 2015. ABN AMRO was one of the banks that extended financing to this group and participated in the second rights offering of October 2014. By letter of 20 January 2018, Stichting Imtechclaim and Imtech Shareholders Action Group B.V. held ING, Rabobank, Commerzbank and ABN AMRO liable for alleged misstatements in the prospectuses and for alleged *actio pauliana* (fraudulent preference). By letter of 28 March 2018 the VEB held parties including ABN AMRO liable for damage allegedly suffered by the Imtech investors. On 10 August 2018, ABN AMRO received formal notification from Imtech's trustees that they were seeking to nullify a large number of transactions and claim various damages. The letter aimed to interrupt limitation periods in view of the possible claims on Imtech's lenders, bondholders and underwriting banks. Two execution-only clients of ABN AMRO have commenced proceedings against ABN AMRO and are claiming an amount in excess of EUR 600,000. Their claim is based on alleged prospectus liability, together with an alleged breach of the duty of care.
- On 18 October 2018, Eurostar Diamond Traders N.V. (EDT) filed a civil law complaint against ABN AMRO in the Antwerp Court, claiming a provisional amount of USD 720 million. The composition and substantiation of the amount claimed are not totally clear, but would seem to include an unsubstantiated claim for damages of EUR 600 million on the ground that ABN AMRO allegedly caused EDT's demise deliberately. Damages of USD 73 million have also been claimed for the alleged sale of unsuitable derivatives over a long period of time. Provisional liquidators of Eurostar have since been appointed.
- On 16 August 2016, ABN AMRO received a writ of summons from a housing corporation, Stichting Havensteder (Havensteder), relating to two extendable loans ('the Loans') with a total principal of EUR 64 million. Havensteder claimed partial annulment of the extendable part of the Loans since, according to Havensteder, the Loans conflicted with the interest of public housing and public housing laws. Alternatively, Havensteder claimed that, as a result of unforeseen circumstances, the interest rates on the Loans should be reduced to approximately 2.45% or 3.0%. In the further alternative, Havensteder claimed partial annulment of the extendable part of the Loans in view of error, breach of duty of care and breach of information duties. The court hearing in this matter took place in September 2017. The District Court of Amsterdam is expected to announce its verdict in the first half of 2019.
- On 22 August 2016, ABN AMRO received a writ of summons from the indirect shareholders of its former clients, the Partner Logistics Group. The claimants alleged that the defendants, including ABN AMRO, had acted wrongfully in relation to the bankruptcy of the Partner Logistics Group. Based on this, they claimed damages of EUR 205 million. After all their claims were rejected on 28 October 2018, the claimants filed for appeal in late January 2019.
- Other contingencies include EUR 56 million related to an irrevocable payment commitment (IPC) to the Single Resolution Board (SRB) in Brussels. In April 2016, the SRB provided credit institutions with the option to fulfil part of their obligation to pay the annual ex-ante contributions to the Single Resolution Fund (SRF) through IPCs. To secure full and punctual payment, when called by the SRB, credit institutions needed to constitute cash collateral and fully transfer legal ownership to the SRB.

Duty of care matters
A number of proceedings have been initiated against ABN AMRO for alleged breach of its duty of care in transparency-related standards. Where applicable, provisions for these matters have been made.

There can be no assurance that additional proceedings will not be brought or that amounts demanded in claims brought to date will not rise. Current proceedings are pending and their outcome, as well as the outcome of any threatened proceedings, is uncertain, as is the timing of reaching any finality on these legal claims and proceedings. These uncertainties are likely to continue for some time. As a result, and although the consequences could be substantial for ABN AMRO and have a potentially material adverse effect on ABN AMRO's reputation, results of operations, financial condition and prospects, it is not possible to reliably estimate or quantify ABN AMRO's exposure at this time.

Interest rate derivatives sold to SME clients
A public debate has been ongoing in the Netherlands since 2014 on a bank's duty of care towards SMEs with respect to interest rate derivatives.

As explained in note 29 Provisions, ABN AMRO entered into interest rate derivatives, in combination with floating interest rate loans, with approximately 6,800 SME clients. These clients entered into an interest rate derivative with the purpose of fixing the interest rate risk on their floating rate loans. A combination of a floating interest rate loan and an interest rate swap was less expensive for these clients than the alternative of a loan with a fixed interest rate. As a result of the decline in interest rates, the interest rate swaps currently have a negative mark-to-market value. There are no negative consequences for clients as long as the loan is not repaid, in whole or in part, before its maturity date.

Individual or class action complaints and litigation
Some SME clients needed or wanted to repay their floating interest rate loans before their maturity date. As a consequence, the interest rate swap needed to be unwound in order to avoid creating an overhedge. In line with standard market practice in such situations, the SME clients had to pay the bank the negative mark-to-market value of the interest rate swap. Such payments may be compared to the penalty interest on a fixed rate loan. ABN AMRO received multiple complaints and some clients and/or interest groups instigated legal proceedings about the bank's alleged violation of its duty of care, claiming, for instance, that the bank had not properly informed them of the risks associated with interest rate swaps. In most of these cases, the client's claim was rejected, while in some other cases the bank paid compensation to the client.

In the case of litigation relating to SME derivatives, ABN AMRO does not recognise provisions for claims that do not meet the recognition and/or measurement criteria. There can be no assurance that additional proceedings will not be brought or that the amount demanded in claims brought to date will not rise. Current proceedings are pending and their outcome is uncertain. These uncertainties are likely to continue for some time.

Uniform Recovery Framework
In December 2015 the AFM concluded that some aspects of the reviews banks were conducting with respect to their SME client files containing interest rate derivatives would need to be amended. On 1 March 2016, the AFM published a press release and a letter addressed to the Dutch Minister of Finance, advising him to appoint a panel of independent experts to advise on the reassessment of SME and middle-market interest rate derivatives. The draft Uniform Recovery Framework prepared by this panel of independent experts was presented on 5 July 2016. ABN AMRO has committed to the Uniform Recovery Framework, which was finalised on 19 December 2016. It is currently unclear how the Uniform Recovery Framework will impact on pending and future litigation.

As this is a possible liability dependent on a future event, no provision for a possible outflow of resources has been made and it is therefore considered a contingency. Reference is made in this respect to note 29 Provisions.

Cross-liability

A legal demerger may give rise to 'cross-liabilities'. Under Section 2:334t of the Dutch Civil Code, the acquiring company or companies and the demerging company, if it continues to exist, are jointly and severally liable for the obligations of the demerging company at the time of the demerger. The acquiring companies and the continuing demerged company will remain fully liable for indivisible obligations. In the case of divisible obligations (e.g. monetary obligations), the acquiring company to whom the obligation transferred or, if the obligation remained where it was, the company that continued to exist is fully liable. However, if an obligation has not been transferred to a company or if it remained with a company, that company's liability for divisible obligations will be limited to the value of the assets acquired or retained in the demerger. A cross-liability is of a secondary nature. The company that did not acquire or retain the obligation is not required to perform until the company that acquired or retained the obligation fails to perform.

On 6 February 2010, the former ABN AMRO Bank N.V. demerged into two entities: RBS N.V. and ABN AMRO Bank N.V. (the '2010 Demerger'), giving rise to cross-liabilities similar to the cross-liabilities described above. If ABN AMRO Bank N.V. fails to perform its obligations existing at the time of the 2010 Demerger, RBS N.V. is liable for the performance; if RBS N.V. fails to perform its obligations existing at the time of the 2010 Demerger, ABN AMRO Bank N.V. is liable. RBS N.V.'s contingent liability for divisible obligations as a result of the 2010 Demerger is limited to EUR 4.0 billion, whereas ABN AMRO Bank N.V.'s contingent liability is limited to EUR 1.8 billion (which amount remained unchanged compared to 31 December 2017). ABN AMRO Bank N.V. has put in place arrangements to mitigate the risks of such contingent liability and received collateral from RBS Plc amounting to EUR 1.8 billion (2017: EUR 1.8 billion). ABN AMRO Bank N.V. did not post any collateral with RBS N.V. or RBS Plc.

On 7 August 2008, the EC Remedy part of ABN AMRO Bank N.V. was demerged to New HBU II N.V. (the '2008 Demerger'), giving rise to cross-liabilities similar to the cross-liabilities as described above. If ABN AMRO Bank N.V. fails to perform its obligations existing at the date of the 2008 Demerger, New HBU II N.V. is liable for the performance; if New HBU II N.V. fails to perform its obligations existing at the date of the 2008 Demerger, ABN AMRO Bank N.V. is liable.

On 1 April 2010, New HBU II N.V. was transferred to Deutsche Bank AG and renamed Deutsche Bank Nederland N.V. As a result of the cross-liabilities described above, if RBS N.V. or ABN AMRO Bank N.V. fails to perform its obligations existing at the date of the 2008 Demerger, Deutsche Bank Nederland N.V. is liable for the performance. Deutsche Bank Nederland N.V.'s contingent liability in this regard is limited to EUR 950 million. On 27 September 2014, pursuant to a put option exercised by Deutsche Bank AG, the assets and liabilities of Deutsche Bank Nederland N.V., apart from the cross-liabilities created as a result of the 2008 Demerger, were demerged into a newly incorporated subsidiary of Deutsche Bank AG (the '2014 Demerger'). Deutsche Bank Nederland N.V. was subsequently acquired by ABN AMRO Bank N.V. and renamed Sumsare N.V. As a consequence, Deutsche Bank Nederland N.V.'s contingent liability under the 2008 Demerger is now held by Sumsare N.V., a wholly owned subsidiary of ABN AMRO Bank N.V. Deutsche Bank AG indemnified Sumsare N.V. for any claims (including cross-liabilities) in connection with the 2014 Demerger.

Indemnity agreement with the Dutch State

On 1 April 2010 ABN AMRO signed an indemnity agreement with the Dutch State (currently represented by NLFI) for a shortfall in capital above a certain amount related to specific assets and liabilities of RFS Holdings B.V. In July 2015 ABN AMRO was informed by NLFI of a claim it had received from RBS relating to these assets and liabilities in RFS Holdings B.V. This gives NLFI the right to file a claim with ABN AMRO. As at the publication date of these Annual Financial Statements, ABN AMRO is not aware of any claim being filed by NLFI. This situation could change in the future.

35 Remuneration of Executive Board and Supervisory Board

Remuneration of Executive Board and former Managing Board

ABN AMRO's remuneration policy was formally approved by shareholders and adopted by the Supervisory Board.

In 2017, ABN AMRO changed its management structure. Management now consists of the Executive Committee, which includes the Executive Board.

The following statement summarises the income components for the individual Executive Board and former Managing Board members for the year 2018.

						2018
	Base salary	Variable remuneration[15]	Total pension related contributions[16]		Severance payments	Total[17]
(in thousands)			Post employee pension (16a)	Short-term allowances (16b)		
C. van Dijkhuizen	723	0	37	210	0	970
C. Abrahams[1]	614	0	37	173	0	824
C.M. Bornfeld[2]	512	0	31	144	0	687
T.J.A.M. Cuppen[3]	614	0	37	173	0	824
J. van Hall[4, 5]	456	0	25	147	157	785
Total	**2,919**	**0**	**167**	**847**	**157**	**4,090**
						2017
C. van Dijkhuizen	713	0	38	225	0	976
G. Zalm[6]	65	0	3	25	0	93
C. Abrahams[1, 7]	202	0	13	62	0	277
T.J.A.M. Cuppen[8]	151	0	10	46	0	207
J. van Hall[5]	620	0	38	235	0	893
W. Reehoorn[9, 10]	971	0	57	345	157	1,530
C.F.H.H. Vogelzang[11, 12]	461	0	26	156	0	643
J.G. Wijn[13, 14]	207	0	13	78	0	298
Total	**3,390**	**0**	**198**	**1,172**	**157**	**4,917**

1 C. Abrahams receives a compensation for housing costs (2018: EUR 94 thousand; 2017: EUR 31 thousand) and flight tickets (2018: EUR 28 thousand; 2017: EUR 8 thousand) to his home country as from 1 September 2017 which is not included in the base salary.
2 C.M. Bornfeld joined the Executive Board on 1 March 2018 and receives a compensation for housing costs (2018: EUR 121 thousand) which is not included in the base salary.
3 In addition to remuneration T.J.A.M. Cuppen received a benefit of EUR 3 thousand for the personal use of the company car in 2018 (2017: less than EUR 1 thousand).
4 The Executive Board membership for J. van Hall ended on 1 March 2018. As J. van Hall's employment agreement ended on 1 September 2018, his remuneration relates to the period up to 1 September 2018. The severance payment was awarded in 2018.
5 In addition to remuneration J. van Hall received EUR 1 thousand to compensate the mortgage interest rate expenses in 2018 (2017: EUR 1 thousand).
6 The Managing Board membership for G. Zalm ended on 1 January 2017. G. Zalm's employment agreement ended on 1 February 2017.
7 C. Abrahams joined the Executive Board on 1 September 2017.
8 T.J.A.M. Cuppen joined the Executive Board on 1 October 2017.
9 The Executive Board membership for W. Reehoorn ended on 1 November 2017. As W. Reehoorn's employment agreement ended on 1 July 2018, his remuneration relates to the period up to 1 July 2018. The remuneration for 2018 includes a 1.5% increase in accordance with the Dutch collective labour agreement for banks ('CAO Banken'). The severance payment was awarded in 2017.
10 In addition to remuneration W. Reehoorn received EUR 12 thousand to compensate the mortgage interest rate expenses in 2018 (2017: EUR 29 thousand).
11 C.F.H.H. Vogelzang stepped down as Managing Board member on 6 February 2017. The employment agreement of C.F.H.H. Vogelzang ended on 1 September 2017.
12 In addition to remuneration C.F.H.H. Vogelzang received EUR 10 thousand to compensate the mortgage interest rate expenses in 2017.
13 J.G. Wijn stepped down as Managing Board member on 18 January 2017. The employment agreement of J.G. Wijn ended on 1 May 2017.
14 In addition to remuneration J.G. Wijn received EUR 1 thousand to compensate the mortgage interest rate expenses in 2017.
15 As a consequence of the Bonus Prohibition Act, the Executive Board members are not entitled to receive variable compensation. This prohibition has applied since the performance year 2011.
16 The Executive Board members participate in ABN AMRO Group's pension plans for employees in the Netherlands. This participation is not mandatory for Mr C. Abrahams considering his current non Dutch tax resident status. Total pension related contributions as of 2017 refer to (16a) the employer contribution to the pension fund (for the CDC pension scheme for pensionable income up to EUR 105,075 (2017: EUR 103,317) and (16b) the arrangement in accordance with the ABN AMRO Collective Labour Agreement ('ABN AMRO CAO').
17 In addition to remuneration, Executive Board members are eligible for benefits such as the use of a company car. Only T.J.A.M. Cuppen uses this car for private purposes.

Loans from ABN AMRO to Executive Board and former Managing Board members

The following table summarises outstanding loans to members of the Executive Board and former Managing Board at 31 December.

	2018			2017		
(in thousands)	Outstanding 31 December	Redemptions	Interest rate	Outstanding 31 December	Redemptions	Interest rate
J. van Hall[1]	69		3.5%	69		3.5%
C.E. Princen[2]				747		3.3%
W. Reehoorn[3]				1,270	159	3.8%
C.F.H.H. Vogelzang[4]				1,390	12	1.4%
J.G. Wijn[5]				174	73	2.4%

1 Executive Board Membership for J. van Hall ended on 1 March 2018.
2 Managing Board Membership for C.E. Princen ended on 1 January 2017.
3 Executive Board Membership for W. Reehoorn ended on 1 November 2017.
4 C.F.H.H. Vogelzang stepped down as Managing Board Member on 6 February 2017.
5 J.G. Wijn stepped down as Managing Board Member on 18 January 2017.

Remuneration of the Supervisory Board

The following statement summarises the income components for the individual Supervisory Board members.

(in thousands)	2018[3]	2017[3]
T. de Swaan[1]	42	
O.L. Zoutendijk[2]	39	90
S. ten Have	67	63
A.C. Dorland	75	75
F.J. Leeflang	73	73
J.M. Roobeek	73	73
J.B.J. Stegmann	78	78
J.S.T. Tiemstra	78	78
Total	**525**	**530**

1 T. de Swaan was appointed as Chairman as of 12 July 2018.
2 O.L. Zoutendijk stepped down as Chairman as of 5 February 2018 and as member of the Supervisory board at 1 July 2018.
3 Remuneration amounts excluding VAT.

Loans from ABN AMRO to Supervisory Board members

The following table summarises the outstanding loans to members of the Supervisory Board.

	2018			2017		
(in thousands)	Outstanding 31 December	Redemptions	Interest rate	Outstanding 31 December	Redemptions	Interest rate
T. de Swaan[1]	1,407		2.8%			
J.B.J. Stegmann	900		0.1%	900		0.1%
J.M. Roobeek	1,600	100	3.0%	1,700		3.1%
S. ten Have		564		564	36	4.0%

1 T. de Swaan was appointed as Chairman as of 12 July 2018.

36 Related parties

Parties related to ABN AMRO include NLFI with control, the Dutch State with significant influence, associates, pension funds, joint ventures, the Executive Board, the Executive Committee, the Supervisory Board, close family members of any person referred to above, entities controlled or significantly influenced by any person referred to above and any other related entities. ABN AMRO has applied the partial exemption for government-related entities as described in IAS 24 paragraphs 25-27.

As part of its business operations, ABN AMRO frequently enters into transactions with related parties. Transactions conducted with the Dutch State are limited to normal banking transactions, taxation and other administrative relationships with the exception of items specifically disclosed in this note. Normal banking transactions relate to loans and deposits and are entered into under the same commercial and market terms that apply to non-related parties.

Loans and advances to the Executive Board, Executive Committee members and close family members, where applicable, consist mainly of residential mortgages granted under standard personnel conditions. For further information, see note 35 of the Consolidated Annual Financial Statements 2018.

Balances with joint ventures, associates and other

(in millions)	Joint ventures	Associates	Other	Total
31 December 2018				
Assets	10	493		503
Liabilities	39	481		519
Guarantees given		15		15
Guarantees received		2		2
Irrevocable facilities		22		22
2018				
Income received	32	29		61
Expenses paid	7	7	282	295
31 December 2017				
Assets	4	352		356
Liabilities	82	585		667
Guarantees given		15		15
Guarantees received		4		4
Irrevocable facilities		23		23
2017				
Income received	41	42		82
Expenses paid	13	7	315	335

Liabilities with joint ventures decreased by EUR 43 million at 31 December 2018 compared with 31 December 2017, mainly due to lower balances on demand deposits held by other financial corporations.

Assets with associates increased by EUR 141 million at 31 December 2018 compared with 31 December 2017, mainly due to higher balances on current accounts with other financial corporations.

Liabilities with associates decreased by EUR 104 million at 31 December 2018 compared with 31 December 2017, mainly due to lower balances on current accounts held by other financial corporations.

Expenses paid in the column Other reflect pension contributions paid to the ABN AMRO pension fund.

Balances with the Dutch State

(in millions)	31 December 2018	31 December 2017
Assets:		
Financial assets held for trading	183	480
Derivatives	714	1,076
Financial investments	4,704	6,197
Loans and advances customers	722	760
Other assets	9	9
Liabilities:		
Financial liabilities held for trading	53	98
Derivatives	1,362	1,753
Due to customers	832	882
Subordinated liabilities		
	2018	2017
Income statement:		
Interest income	109	130
Interest expense	38	38
Net trading income	-66	-3
Other income		10

Royal Bank of Scotland (RBS) is still the legal owner of specific consortium shared assets and liabilities. This means that these assets and liabilities are for the risk and reward of RBS, Santander and the Dutch State as the shareholder of RFS Holdings B.V. On 1 April 2010, ABN AMRO signed an indemnity agreement with the Dutch State for a shortfall in capital above a certain amount related to specific assets and liabilities of RFS Holdings.

Transactions conducted with the Dutch State are limited to normal banking transactions, taxation and other administrative relationships. Normal banking transactions relate to loans and deposits, financial assets held for trading and financial investments, and are entered into under the same commercial and market terms that apply to non-related parties.

Transactions and balances related to taxation, such as levies in the Netherlands, are excluded from the above table. Transactions and balances related to taxation are included in note 10 Income tax expense, tax assets and tax liabilities. Most of the tax items in this note consist of transactions and balances with the Dutch tax authorities.

The regulatory charges relating to the Dutch State are included in note 9 General and administrative expenses.

Financial assets held for trading decreased by EUR 0.3 billion to EUR 0.2 billion at 31 December 2018 compared with 31 December 2017, mainly due to lower Dutch government bonds as a result of primary dealership in the Netherlands and client facilitation. Most of these contracts are hedged with short positions in government bonds.

Financial investments decreased by EUR 1.5 billion to EUR 4.7 billion at 31 December 2018 compared with 31 December 2017, mainly due to regular purchases and sales of highly liquid government bonds.

Derivatives related to both assets and liabilities decreased by EUR 0.4 billion at 31 December 2018 compared with 31 December 2017, mainly due to lower lending positions with the Dutch State. Derivatives transactions with Dutch State are related to the normal course of business.

Net interest income decreased by EUR 21 million to EUR 109 million at 31 December (31 December 2017: EUR 130 million), mainly due to lower levels of financial investments during 2018.

Net trading income decreased by EUR 63 million to a loss of EUR 66 million at 31 December 2018 (31 December 2017: loss of EUR 3 million), mainly due to the sale of Dutch government bonds.

Introduction
Strategy and performance
Risk, funding & capital
Leadership & governance
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Other

Key management personnel compensation

Key management personnel consists of the Executive Board and Executive Committee, whereby members of the Executive Board are also members of the Executive Committee. Remuneration of the Executive Board is disclosed in note 35, as required by Part 9 Book 2 of the Dutch Civil Code.

(In thousands)	Base salary	Compensation for lease car expenses	Benefits from mortgage interest rate	Pre ExCo deferred remuneration[2]	Variable remuneration	Total pension related contributions[3] Post employee pension (3a)	Total pension related contributions[3] Short-term allowances (3b)	Severance payments	Total[4, 5]
2018									
F.M.R. van der Horst	597	34	22	70	0	37	167	0	926
D.C. de Kluis	561	34	17	51	0	37	155	0	855
G.J. Meppelink	536	34	11	41	0	37	146	0	805
P.H. van Mierlo	561	34	6	62	0	37	155	0	855
R.F. van Nouhuijs	597	34	12	76	0	37	167	0	922
Total	**2,851**	**168**	**68**	**300**	**0**	**186**	**791**	**0**	**4,363**
As from 1 March 2017									
F.M.R. van der Horst[1]	488	28	22	166	0	32	149	0	884
D.C. de Kluis[1]	458	28	14	99	0	32	138	0	769
G.J. Meppelink[1]	438	28	10	106	0	32	130	0	744
P.H. van Mierlo[1]	458	28	6	119	0	32	138	0	781
R.F. van Nouhuijs[1]	488	28	10	122	0	32	149	0	828
Total	**2,329**	**140**	**63**	**613**	**0**	**160**	**703**	**0**	**4,007**

[1] Appointed as from 1 March 2017 and the figures reflect the period from 1 March 2017 until 31 december 2017.
[2] Deferred remuneration related to variable remuneration of identified staff for the period before 1 March 2017, see also remuneration chapter.
[3] The Executive Committee members participate in ABN AMRO Group's pension plans as applicable to the employees in the Netherlands. Total pension related contributions as applicable as of 2018 refer to (3a) the employer contribution to the pension fund (for the CDC pension scheme for pensionable income up to EUR 105,075, 2017: EUR 103,317) and (3b) the arrangement in accordance with the ABN AMRO Collective Labour Agreement ('ABN AMRO CAO').
[4] Consistent with regular employees Other ExCo members are eligible for an employee mortgage discount.
[5] In addition to remuneration, other ExCo members are eligible for benefits such as the use of a company car.

In 2018 the table for remuneration of key management personnel has been adjusted. Non base-salary related items have been added to better reflect total compensation to key management personnel. Accordingly the 2017 amounts have been adjusted consistent with this change.

Key management loans and advances

The following table summarises outstanding loans and advances to members of the Executive Board and Executive Committee at 31 December.

(in thousands)	2018 Outstanding 31 December	2018 Redemptions	2018 Average interest rate	2017 Outstanding 31 December	2017 Redemptions	2017 Average interest rate
Executive Board	69		3.5%	3,650	244	2.7%
Other ExCo members	5,310	216	2.9%	3,960	235	3.1%

Compensation and loans and advances for Supervisory Board members are disclosed in note 35 Remuneration of Executive Board and Supervisory Board.

37 Post balance sheet events

On 13 February 2019, ABN AMRO announced its intention to simplify the group structure by executing a legal merger between ABN AMRO Bank N.V. (ABN AMRO Bank) and ABN AMRO Group N.V. (ABN AMRO Group). As a result of the proposed merger, ABN AMRO Group will cease to exist. Shareholders in ABN AMRO Group will consequently become shareholders in ABN AMRO Bank, while shares in ABN AMRO Bank will be represented by depositary receipts, through which the listing on Euronext Amsterdam will be retained. Holders of debt instruments will continue to hold instruments issued by ABN AMRO Bank. The legal merger has no material effect on equity. A legal merger is subject to approval by depositary receipt holders, shareholders and regulators, including DNB and ECB. Subject to all the necessary approvals, including regulatory approvals, the merger is expected to be executed during 2019.

On 28 February, ABN AMRO acquired 100% of the shares in Société Générale Private Banking NV in Belgium. Within this transaction approximately EUR 1.2 billion assets and EUR 1.1 billion liabilities are acquired. This subsidiary will be included in the Private Banking segment. By combining ABN AMRO's existing private banking activities in Belgium with those of Société Générale, ABN AMRO strengthens its market position in Belgium and its position in the Eurozone as a leading private bank. As of the date of these financial statements, ABN AMRO expects an amount of approximately EUR 40 million to be recorded as client relationship intangible asset and goodwill, which is subject to the finalisation of the purchase price allocation. Total client assets will increase by approximately EUR 6 billion as result of this acquisition.

In the first quarter of 2019, ABN AMRO completed the sale of part of its public sector loan portfolio to NWB Bank for a total notional amount of EUR 0.6 billion.

Company Financial Statements of ABN AMRO Group N.V.

Accounting policies

The Company Financial Statements of ABN AMRO Group N.V. have been prepared in accordance with the requirements of Title 9 Book 2 of the Dutch Civil Code. ABN AMRO Group N.V. prepares its Consolidated Annual Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS). ABN AMRO Group N.V. applies the option as included in section 2:362 paragraph 8. Participating interests in group companies are valued at net asset value using the same valuation principles used in the Consolidated Annual Financial Statements. The share in the results of participating interests in group companies is reported in accordance with the principles of valuation and profit determination that apply to the Consolidated Annual Financial Statements. Reference is made to the accounting policies section in the Consolidated Annual Financial Statements, the respective notes and Other information.

ABN AMRO Group N.V. is registered at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands (Chamber of Commerce number 34370515). The Annual Financial Statements were prepared by the Executive Board and authorised for issue by the Supervisory Board and Executive Board on 12 March 2019.

Basis of preparation

The financial statements are presented in euros, which is the presentation currency of the company, rounded to the nearest million (unless otherwise stated).

Income statement of ABN AMRO Group N.V.

(in millions)	2018	2017
Income:		
Share in result from participating interests	2,207	2,721
Income tax expense		
Profit/(loss) for the year	**2,207**	**2,721**

The share in the results of participating interests after taxation decreased by EUR 514 million to EUR 2.207 million (2017: an increase of EUR 958 million).

Statement of financial position of ABN AMRO Group N.V.

(before appropriation of profit)

(in millions)	31 December 2018	31 December 2017
Assets		
Participating interest in Group companies	19,349	19,303
Total assets	**19,349**	**19,303**
Equity		
Share capital	940	940
Share premium	12,970	12,970
Legal reserves	-217	-210
Other reserves (incl. retained earnings/profit for the period)	5,657	5,603
Total company equity ABN AMRO Group N.V.	**19,349**	**19,303**
Reconciliation to consolidated equity ABN AMRO Group N.V.		
AT1 Capital securities[1]	2,008	2,007
Equity attributable to other non-controlling interests	2	20
Total consolidated equity ABN AMRO Group N.V.	**21,360**	**21,330**

[1] This relates to capital securities issued by ABN AMRO Bank N.V.

Reconciliation to consolidated equity ABN AMRO Group N.V. relates to capital securities issued by ABN AMRO Bank N.V. which attribute to the economic value of the participation held by ABN AMRO Group N.V. and as such are incorporated in the total equity of ABN AMRO Group N.V.

Statement of changes in equity of ABN AMRO Group N.V.

(in millions)	Share capital	Share premium reserve	Legal reserves	Other reserves including retained earnings	Total company equity ABN AMRO Group N.V.	Reconciliation to consolidated equity ABN AMRO Group N.V.: AT1 Capital securities[1]	Reconciliation to consolidated equity ABN AMRO Group N.V.: Equity attributable to other non-controlling interests	Total
Balance at 1 January 2017	**940**	**12,970**	**77**	**3,941**	**17,928**	**1,004**	**5**	**18,937**
Total comprehensive income			-287	2,685	2,398	53	18	2,469
Dividend				-1,025	-1,025		-3	-1,028
Paid interest on AT1 capital securities						-43		-43
Increase/(decrease) of capital						993		993
Other changes in equity				2	2			2
Balance at 31 December 2017	**940**	**12,970**	**-210**	**5,603**	**19,303**	**2,007**	**20**	**21,330**
Impact of adopting IFRS 9				-319	-319			-319
Balance at 1 January 2018	**940**	**12,970**	**-210**	**5,284**	**18,984**	**2,007**	**20**	**21,011**
Total comprehensive income			-7	1,743	1,736	79	39	1,854
Dividend				-1,363	-1,363		-10	-1,373
Paid interest on AT1 capital securities						-78		-78
Increase of capital								
Other changes in equity				-8	-8		-47	-54
Balance at 31 December 2018	**940**	**12,970**	**-217**	**5,657**	**19,349**	**2,008**	**2**	**21,360**

[1] This relates to capital securities issued by ABN AMRO Bank N.V.

Legal reserves includes reserves such as the currency translation reserve, fair value reserve, non-distributable results from participating interests, cash flow hedge reserve and unrealised gains on FVTPL items for which no frequent market price is available, which are non-distributable reserves. Legal reserves also include revaluation reserves, which amount to EUR 372 million negative as at 31 December 2018 (2017: EUR 310 million negative).

Total comprehensive income includes EUR 2,207 million in profits from participating interests (2017: EUR 2,721 million profit).

Total dividend paid out in 2018 was EUR 1,363 million (2017: 1,025 million). This consisted of the final dividend for 2017 of EUR 752 million and the interim dividend for 2018 of EUR 611 million (2017: EUR 611 million).

Participating interests in group companies

ABN AMRO Group N.V. has one subsidiary, ABN AMRO Bank N.V.
ABN AMRO Group N.V. is the sole shareholder of ABN AMRO Bank N.V.

(in millions)		2018		2017
Balance as at 1 January		**19,303**		
Impact of adopting IFRS 9		-319		
Balance as at 1 January		**18,984**		17,928
Result from participating interests		2,207		2,721
Dividend upstream		-1,363		-1,025
Actuarial gains/(losses) on defined benefit pension plans	15		-8	
Currency translation	39		-198	
Available-for-sale			-67	
Fair value reserve	-164			
Cash flow hedge	-243		-76	
Share of OCI of associates and joint ventures	-137		28	
Liability own credit risk reserve	20			
Other comprehensive income		-471		-323
Other		-8		2
Balance as at 31 December		**19,349**		**19,303**

Issued capital and reserves

At 31 December 2018, the authorised share capital of ABN AMRO Group N.V. amounted to EUR 4.7 billion, distributed across 4,500,000,000 ordinary shares and 200,000,000 class B ordinary shares.

All shares have a nominal value of EUR 1.00 each and each share entitles the shareholder to one vote.

At 31 December 2018, capital issued by ABN AMRO Group N.V. and paid-up comprised 940,000,001 ordinary shares (EUR 940 million).

Issued guarantees

For a few group companies established in the Netherlands, general guarantees within the scope of Article 403, Book 2 of the Dutch Civil Code have been issued by ABN AMRO Group N.V. for an amount of EUR 183.8 billion (2017: EUR 189.0 billion).

Other information provides a list of the major subsidiaries and associated companies of ABN AMRO Group N.V. for which a general guarantee has been issued.

Profit appropriation

For more information, refer to note 11 Earnings per share and note 32 Equity attributable to shareholders of ABN AMRO Group N.V. in the Consolidated Annual Financial Statements.

Post balance sheet events

For more information, refer to note 37 Post balance sheet events in the Consolidated Annual Financial Statements.

Fiscal unity

ABN AMRO Group N.V. forms a fiscal unity with several Dutch subsidiaries for corporate income tax purposes. All the members of the fiscal unity are jointly and severally liable for the corporate income tax liabilities of the fiscal unity.

Authorisation of the Company Annual Financial Statements

12 March 2019

Supervisory Board

T. (Tom) de Swaan, Chairman
S. (Steven) ten Have, Vice-Chairman
A.C. (Arjen) Dorland
F.J. (Frederieke) Leeflang
J.M. (Annemieke) Roobeek
J.B.J. (Jurgen) Stegmann
J.S.T. (Tjalling) Tiemstra

Executive Board

C. (Kees) van Dijkhuizen, CEO and Chairman
C. (Clifford) Abrahams, CFO and Vice-Chairman
T.J.A.M. (Tanja) Cuppen, CRO
C.M. (Christian) Bornfeld, CI&TO

Other

Other gives an overview of definitions of important terms and abbreviations used in the Annual Report. Enquiries and the Cautionary statements are included in Other.

Independent auditor's report

To: the shareholders and supervisory board of ABN AMRO Group N.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

We have audited the financial statements 2018 of ABN AMRO Group N.V. (ABN AMRO or the Bank). The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:
- The accompanying consolidated financial statements give a true and fair view of the financial position of ABN AMRO Group N.V. as at 31 December 2018 and of its result and its cash flows for 2018 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of ABN AMRO Group N.V. as at 31 December 2018 and of its result for 2018 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated annual financial statements comprise:
- The consolidated statement of financial position as at 31 December 2018
- The following statements for 2018: the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company annual financial statements comprise:
- The company statement of financial position as at 31 December 2018
- The company income statement for 2018
- 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 ABN AMRO Group N.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	EUR 150 million (2017: EUR 150 million)
Benchmark applied	5% of operating profit before taxation
Explanation	A benchmark of 5% of operating profit before taxation is, based on our professional judgment, an appropriate quantitative indicator of materiality and it best reflects the financial performance of ABN AMRO Group N.V. In our planning phase we have set the initial planning materiality at EUR 150 million. We reassessed the materiality based on the 2018 operating profit before taxation and concluded the initial planning materiality to be appropriate for the purpose of the audit of the 2018 annual financial statements.

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 EUR 7.5 million, 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.

Scope of the group audit
ABN AMRO Group N.V. is at the head of a group of entities. The financial information of this group is included in the consolidated financial statements of ABN AMRO Group N.V.

Our group audit mainly focused on significant group entities in France, Germany, the Netherlands and the United States based on size and risk. We have performed full scope audit procedures, specific scope audit procedures or review scope audit procedures at those entities. We were responsible for the scope and direction of the audit procedures and issued group instructions to all components teams in scope. On a regular basis, we interacted with the component teams during the various stages of the audit. Based on our risk assessment, we visited component locations in France, Germany and the United States. We reviewed local working papers and conclusions and met with local management.

In total, the procedures above for entities in scope cover approximately 91% of the group's total assets and approximately 93% of operating profit before taxation, of which 87% respectively 82% for full scope entities. For the remaining components we performed, amongst other procedures, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within these components. All entities in scope for group reporting are audited by EY.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

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.

Estimation uncertainty with respect to impairment allowances for loans and receivables – customers	
Risk	ABN AMRO adopted IFRS 9 Financial Instruments (hereafter: IFRS 9) as at 1 January 2018 and has applied the principles of IFRS 9 retrospectively from 1 January 2018 onwards. The total net impact on equity as at 1 January 2018 amounts to EUR 319 million lower carrying value, of which EUR 166 million relates to classification and measurement and EUR 153 million relates to impairments. At 31 December 2018, the impairment allowance for loans and advances customers amounts to EUR 2.3 billion. Impairment allowances represent the bank's best estimate of expected credit losses on the loans and advances customers at balance sheet date. They are calculated based on the risk of default over different time horizons, depending on whether the credit risk of the borrower has increased significantly since the exposure was first recognized. The loss allowance for those exposures that have not increased significantly in credit risk ("stage 1" exposures) is based on 12-month expected credit losses (ECLs). The allowance for those exposures that have suffered a significant increase in credit risk ("stage 2" and "stage 3" exposures) is based on lifetime ECLs. The ECL of stage 1 loan portfolios, stage 2 loan portfolios and stage 3 loan portfolios of a similar nature and below a certain threshold are calculated collectively. The remaining stage 3 loan portfolios are calculated individually. ECL calculations are probability-weighted estimates of the present value of cash shortfalls using models, applying scenarios, and which approximate the impact of historical losses on the one hand and forward-looking developments on the other hand. There is a large increase in data inputs required for these models that have not been used previously for the preparation of accounting records, which increases the risk of data inaccuracy and data incompleteness. The inputs to these models are amongst others based on historical loss experience, macroeconomic variables, credit conditions of the loan and cash flow projections with judgment applied to determine the assumptions used to calculate the loan impairment allowance. Proxies and overlays are applied where data driven parameters or calculations are not considered representative of the risk or conditions of the portfolio. The bank's assessment of significant increase in credit risk, correct stage classification and the determination of the loan impairment allowance is part of the risk estimation process, and requires significant management judgment. As the loans and advances customers and the associated loan impairment allowance are material to the bank's balance sheet and income statement and given the related estimation uncertainty on loan impairment allowances, we consider this a key audit matter. The critical accounting estimates and judgments and loan impairment allowance amounts are disclosed in note 1 Accounting policies and note 20 Loans and advances customers to the annual financial statements. Related accounting policies and credit risk disclosures are included in the Risk, Funding and Capital section of the executive board report.
Our audit approach	As ABN AMRO adopted IFRS 9 Financial Instruments as at 1 January 2018, we performed audit procedures on the opening balances to gain assurance on the transition from IAS 39. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments and disclosures made on the transition. For the year-end loan impairment allowance, we have obtained an understanding of the loan origination process, the credit risk management process and the estimation process of determining impairment allowances for loans and advances customers, and tested the operating effectiveness of controls within these processes. Furthermore, we performed substantive and analytical procedures over data, models, impairment calculation and overlays. For collectively assessed loan impairment allowances, using models, we involved our modelling specialists to assess the modelling methodology, challenge the underlying assumptions and to independently reperform the calculation for material portfolios. The appropriateness of the bank's judgments was also assessed in respect of inputs and judgmental overlays. For macroeconomic variables, we compared data and assumptions used to external benchmarks, with the support of our internal specialists. To verify data quality, we tested the data used in the calculation by reconciling to source systems. On a risk basis, we selected individual loans and performed detailed credit file reviews and assessed whether the bank correctly applied its credit risk policy. In addition, we challenged the bank's criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9, tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage, assessed the scenarios applied and recalculated the impairment amounts recorded. For certain areas, assisted by our specialists, we assessed the assumptions, such as estimated future cash flows and collateral valuations, underlying the loan impairment calculation. Calculations based on a discounted cash flow model within our sample were re-performed. Finally, we assessed whether the disclosures are in compliance with EU-IFRS requirements.
Key observations	Based on our procedures performed we consider the impairment allowance for loans and advances customers to be reasonable. The IFRS 9 transitional disclosure and the disclosures on loans and advances customers and loan impairment allowance are considered adequate and appropriate and meet the requirements under EU-IFRS.

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Estimation uncertainty with respect to provisions for conduct, regulatory matters and restructuring	
Risk	At 31 December 2018, the total provisions amount to EUR 1.2 billion of which an amount of EUR 475 million relates to legal provisions covering conduct and regulatory matters. An amount of EUR 294 million is provided for restructuring. The continued increased regulatory scrutiny gives rise to a high level of judgment in determining appropriate provisions and disclosures. ABN AMRO has to comply with applicable laws and regulations, including those in relation to client acceptance and payment transactions. Included in the legal provisions are amongst others the provision for SME derivatives related issues amounting to EUR 275 million. As part of the other provisions of EUR 178 million, an amount of EUR 85 million is provided for in relation to the Know Your Client (KYC) and transaction monitoring remediation programs. The restructuring provision is recorded for programs that are planned and controlled by the bank due to material changes in the scope of certain business segments or the manner in which that business is conducted. These provisions are liabilities of uncertain timing or amount and require considerable judgment of the bank. Due to this high level of judgment and the significant amounts involved, we consider this a key audit matter. The critical accounting estimates and judgments and provision amounts are disclosed in note 1 Accounting policies and note 29 Provisions.
Our audit approach	For the provisions recognized we assessed whether these provisions are reasonable and meet the bank's accounting policies and other legal and regulatory requirements. We challenged the underlying assumptions and tested the data used. We have obtained an understanding of the entity level controls and the legal and regulatory framework of the bank. On a regular basis, we inquired with the Legal department and Compliance department of the bank to understand and discuss existing and potentially new constructive and legal obligations, and regulatory matters. We examined the relevant regulatory and legal correspondence to assess developments in regulatory findings and observations. We periodically met with the executive board members to understand the significant and potential obligations and challenged their views based on our audit procedures performed, knowledge of the bank and changes in the regulatory environment. We read the minutes of the executive board and supervisory board and attended the risk and capital committee meetings throughout the year. In addition, we held regular bilateral meetings with the chairs of the supervisory board, audit committee and risk and capital committee. Furthermore, we obtained legal letters from external lawyers to understand regulatory and legal matters. In line with auditing standard 250, we performed an analysis of the shortcomings as identified by the Dutch Central Bank in the KYC process and transaction monitoring process and the remediation thereon. We examined the level of provisioning, performed test of details and assessed the assumptions and judgments made by the bank. Especially in the area of being compliant to the Anti-Money Laundering and Counter Terrorism Financing Act, we involved our internal specialists. Possible outcomes were considered by us for material provisions to independently assess the reasonableness of the judgment applied by the bank. Finally, we assessed the completeness and accuracy of the disclosures related to provisions and whether these disclosures are in compliance with EU-IFRS requirements.
Key observations	Based on our procedures performed we consider the provisions to be reasonable. The disclosure on provisions is considered adequate and appropriate and meets the requirements under EU-IFRS.

Reliability and continuity of electronic data processing	
Risk	The bank is highly dependent on the reliability and the continuity of electronic data processing due to the significant number of transactions that are processed daily. External reporting and the increased granularity of financial and non-financial data are also important to stakeholders. An adequate IT infrastructure ensures the reliability and continuity of the bank's business processes and financial reporting. The bank continuously makes investments to further improve the IT environment and IT systems. The audit approach relies on automated controls and therefore on the effectiveness of controls over IT systems. We identified and reported that access management controls for certain applications in the financial reporting process requires improvement. The bank implemented several remediation activities to reduce the risk over access management in the financial reporting process. As the reliability and continuity of the IT systems may have an impact on automated data processing, and due to the pervasive nature of IT general controls, we consider this a key audit matter. A summary of technology and the IT environment is included in the Non-financial review section in the executive board report.
Our audit approach	IT general controls related to access management and change management and application controls were tested over automated data processing systems, operating systems and data bases, where we relied upon for financial reporting. In some areas we performed additional procedures on access management for the 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 to meet external reporting requirements. In addition, our audit procedures consisted of assessing the developments in the IT infrastructure and analyzing the impact on the IT organization. We assessed the reliability and continuity of automated data processing only to the extent necessary within the scope of the audit of the annual financial statements.
Key observations	For the audit of the annual financial statements we found the reliability and continuity of the automated data processing systems adequate.

In the 2017 auditor's report, "suspense accounts" was identified as key audit matter. We considered the impact lower compared to prior year, as such, we have no longer included this item as a key audit 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:

- The executive board report
- The report of the supervisory 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 executive board's 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 engaged by the supervisory board as auditor of ABN AMRO Group N.V. on 11 September 2015, as of the audit for the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities, with one exception.
During 2018, an EY tax team in the Netherlands, not involved in the audit of the financial statements 2018, conducted a non-audit services engagement at the request of, and for, a small entity newly acquired by ABN AMRO. The contractual fee was less than 0.06% of EY's audit fees for the consolidated financial statements 2018. As these non-audit services are non-permissible under the Dutch independence rules, we immediately terminated this engagement upon identification and consulted with the audit committee and reported the incident to the Dutch regulator. Due to the nature and limited size of the engagement we concluded that our independence was not compromised, to which the audit committee agreed with and the Dutch regulator has not objected.

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 EU-IFRS and 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 frameworks 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

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

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

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

From the matters communicated with the supervisory board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. 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, 12 March 2019

Ernst & Young Accountants LLP
signed by **W.J. Smit**

Other information

Major subsidiaries and participating interests

The following table shows the branches, major subsidiaries and participating interests at 31 December 2018.

Subsidiary	Percentage of interest	Location
ABN AMRO Bank N.V.		Amsterdam, The Netherlands
Retail Banking		
ABN AMRO Assuradeuren B.V.	49%	Zwolle, The Netherlands
ABN AMRO Digital Impact Fund B.V.		Amsterdam, The Netherlands
ABN AMRO Hypotheken Groep B.V.[1]		Amersfoort, The Netherlands
ABN AMRO Levensverzekering N.V.	49%	Zwolle, The Netherlands
ABN AMRO Pensioeninstelling N.V.		Amsterdam, The Netherlands
ABN AMRO Schadeverzekering N.V.	49%	Zwolle, The Netherlands
ABN AMRO Verzekeringen B.V.	49%	Zwolle, The Netherlands
Advance Finance B.V.[1]		Bunnik, The Netherlands
ALFAM Holding N.V.[1]		Bunnik, The Netherlands
Nationale-Nederlanden ABN AMRO Verzekeringen Holding B.V.	49%	Zwolle, The Netherlands
Alpha Credit Nederland B.V.[1]		Bunnik, The Netherlands
Credivance N.V.[1]		Bunnik, The Netherlands
DEFAM B.V.[1]		Bunnik, The Netherlands
International Card Services B.V.[1]		Diemen, The Netherlands
Moneyou B.V.[1]		Amsterdam, The Netherlands
Moneyou Kredieten B.V.[1]		Amsterdam, The Netherlands
Commercial Banking		
ABN AMRO Asset Based Finance N.V.[1,2]		Utrecht, The Netherlands
ABN AMRO Commercial Finance S.A.		Paris, France
ABN AMRO Groenbank B.V.[1]		Amsterdam, The Netherlands
European Merchant Services B.V.	49%	Amsterdam, The Netherlands
New10 B.V.		Amsterdam, The Netherlands
Private Banking		
ABN AMRO Social Impact Fund B.V.		Amsterdam, The Netherlands
ABN AMRO (Channel Islands) Ltd		St Peter Port, Guernsey, Channel Islands
ABN AMRO Investment Solutions S.A.	99.9%	Paris, France
Banque Neuflize OBC S.A.	99.9%	Paris, France
Bethmann Bank A.G.		Frankfurt am Main, Germany
Bethmann Liegenschafts K.G.	50%	Frankfurt am Main, Germany
Cofiloisirs S.A.	46%	Paris, France
IFCIC S.A.	15.2%	Paris, France
Neuflize Vie S.A.	60%	Paris, France
Prospery GmbH		Frankfurt am Main, Germany
Corporate & Institutional Banking		
ABN AMRO Acquisition Finance Holding B.V.		Amsterdam, The Netherlands
ABN AMRO Capital USA LLC		New York, USA
ABN AMRO Clearing Bank N.V.[1]		Amsterdam, The Netherlands
ABN AMRO Clearing Chicago LLC		Chicago, USA
ABN AMRO Clearing Hong Kong Ltd		Hong Kong, China
ABN AMRO Clearing Investments B.V.		Amsterdam, The Netherlands
ABN AMRO Clearing London Ltd		London, United Kingdom
ABN AMRO Clearing Singapore Pte Ltd		Singapore, Singapore
ABN AMRO Clearing Sydney Nominees Pty Ltd		Sydney, Australia
ABN AMRO Clearing Sydney Pty Ltd		Sydney, Australia
ABN AMRO Clearing Tokyo Co Ltd		Tokyo, Japan
ABN AMRO Effecten Compagnie B.V.[1]		Amsterdam, The Netherlands

Subsidiary	Percentage of interest	Location
ABN AMRO Energy Transition Fund B.V.		Rotterdam, The Netherlands
ABN AMRO Holdings USA LLC		New York, USA
ABN AMRO Investment Holding B.V.[1]		Amsterdam, The Netherlands
ABN AMRO Jonge Bedrijven Fonds B.V.[1]		Amsterdam, The Netherlands
ABN AMRO Participaties NPE Fund B.V.[1]		Amsterdam, The Netherlands
ABN AMRO Securities (USA) LLC		New York, USA
Banco ABN AMRO S.A.		São Paulo, Brazil
European Central Counterparty N.V.	20%	Amsterdam, The Netherlands
Franx B.V.		Amsterdam, The Netherlands
Maas Capital Investments B.V.[1]		Rotterdam, The Netherlands
Maas Capital Offshore B.V.		Amsterdam, The Netherlands
Maas Capital Shipping B.V.		Amsterdam, The Netherlands
Principal Finance Investments Holding B.V.[1]		Amsterdam, The Netherlands
Group functions		
ABN AMRO Arbo Services B.V.[1]		Amsterdam, The Netherlands
ABN AMRO Captive N.V.[1]		Amsterdam, The Netherlands
ABN AMRO Funding USA LLC		New York, USA
Currence Holding B.V.	35%	Amsterdam, The Netherlands
equensWorldline S.E.	7%	Utrecht, The Netherlands
Geldservice Nederland B.V.	33%	Amsterdam, The Netherlands
Nederlandse Financieringsmij voor Ontwikkelingslanden N.V.	20%	Den Haag, The Netherlands
Stater N.V.		Amersfoort, The Netherlands
Stater Nederland B.V.		Amersfoort, The Netherlands
Branches/Representative Offices		
ABN AMRO Asset Based Finance N.V., (UK) Branch[1,2]		London, United Kingdom
ABN AMRO Asset Based Finance N.V., Branch Deutschland[1]		Frankfurt am Main, Germany
ABN AMRO Bank N.V. (Belgium) Branch		Berchem, Belgium
ABN AMRO Bank N.V. (Hong Kong) Branch		Hong Kong, China
ABN AMRO Bank N.V. (Norway) Branch		Oslo, Norway
ABN AMRO Bank N.V. (Singapore) Branch		Singapore, Singapore
ABN AMRO Bank N.V. (UAE/DIFC) Branch		Dubai, United Arabic Emirates
ABN AMRO Bank N.V. (UK) Branch		London, United Kingdom
ABN AMRO Bank N.V. (Greece) Branch		Athens, Greece
ABN AMRO Bank N.V. (Frankfurt) Branch		Frankfurt am Main, Germany
ABN AMRO Bank N.V. (Shanghai) Branch		Shanghai, China
ABN AMRO Bank N.V., Sydney Branch		Sydney, Australia
ABN AMRO Bank N.V. Representative Office (Dubai Multi Commodities Centre)		Dubai, United Arabic Emirates
ABN AMRO Bank N.V. Representative Office Moscow		Moscow, Russia
ABN AMRO Bank N.V. Representative Office New York		New York, USA
ABN AMRO Clearing Bank N.V. (Singapore) Branch		Singapore, Singapore
ABN AMRO Clearing Bank N.V. (UK) Branch		London, United Kingdom
ABN AMRO Hypotheken Groep B.V. Branch Germany[1]		Bonn, Germany
International Card Services B.V. Branch Deutschland[1]		Düsseldorf, Germany

[1] A statement of liability within the meaning of Article 403, subsection 1, paragraph f, Book 2 of the Dutch Civil Code has been issued for these companies.
[2] On 1 January 2018, subsidiary is legally merged with and into ABN AMRO Asset Based Finance N.V.

The interest is 100%, unless stated otherwise.

The full list of participating interests as referred to in Article 414, Book 2 of the Dutch Civil Code has been filed with the Trade Register.

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Provisions of the Articles of Association concerning profit appropriation

The provisions regarding the reservation and distribution of profits are included in Article 10 of the Articles of Association. In accordance with the reserve and dividend policy and subject to approval by the Supervisory Board, the Executive Board proposes to the General Meeting of Shareholders which part of the profit is to be reserved. The remainder of the profit will be at the free disposal of the General Meeting of Shareholders, pursuant to a proposal to this end by the Executive Board, subject to approval by the Supervisory Board.

From 2018 onwards, the ABN AMRO dividend payout policy has been set at 50% of net sustainable profit attributable to owners of the parent company excluding exceptional items that significantly distort profitability. Additional distributions, which can either be special dividends or share buy-backs (subject to regulatory approval), will be considered if capital is within or above the target range and will be subject to other circumstances, including regulatory and commercial considerations. The combined distribution will be at least 50% of net sustainable profit. Please refer to the Capital chapter for more information on ABN AMRO's dividend policy.

Fiscal unity

ABN AMRO Group N.V. forms a fiscal unity with several Dutch subsidiaries for corporate income tax purposes. All members of the fiscal unity are jointly and severally liable for the corporate income tax liabilities of the fiscal unity.

Any distribution of dividend remains discretionary, and deviations from the above policy may be proposed by ABN AMRO.

Cautionary statements

The Group has included in this Annual Report and may from time to time make certain statements in its public filings, press releases or other public statements that may constitute 'forward-looking statements' within the meaning of the safe-harbour provisions of the United States Private Securities Litigation Reform Act of 1995. This includes, without limitation, such statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'should', 'intend', 'plan', 'aim', 'desire', 'strive', 'probability', 'risk', 'Value-at-Risk' ('VaR'), 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions. In particular, this document includes forward-looking statements relating, but not limited, to ABN AMRO's potential exposures to various types of operational, credit and market risk, such as counterparty risk, interest rate risk, foreign exchange rate risk and commodity and equity price risk. Such statements are subject to risks and uncertainties. These forward-looking statements are not historical facts and represent only ABN AMRO's beliefs regarding future events, many of which by their nature are inherently uncertain and beyond the bank's control.

Other factors that could cause actual results to differ materially from those anticipated by the forward-looking statements contained in this document include, but are not limited to:

- The extent and nature of future developments and continued volatility in the credit and financial markets and their impact on the financial industry in general and ABN AMRO in particular;
- The effect on ABN AMRO's capital of write-downs in respect of credit and other risk exposures;
- Risks relating to ABN AMRO's stock-exchange listing;
- Risks related to ABN AMRO's corporate transactions (e.g. merger, separation and integration process);
- General economic, social and political conditions in the Netherlands and in other countries in which ABN AMRO has significant business activities, investments or other exposures, including the impact of recessionary economic conditions on ABN AMRO's performance, liquidity and financial position;
- Macroeconomic and geopolitical risks;
- Reductions in ABN AMRO's credit ratings;
- Actions taken by the European Commission, governments and their agencies to support individual banks and the banking system;
- Monetary and interest rate policies of the ECB and G20 central banks;
- Inflation or deflation;
- Unanticipated turbulence in interest rates, foreign currency exchange rates, commodity prices and equity prices;
- Liquidity risks and related market risk losses;
- Potential losses associated with an increase in the level of substandard loans or non-performance by counterparties to other types of financial instruments, including systemic risk;
- Changes in Dutch and foreign laws, regulations, policies and taxes;
- Changes in competition and pricing environments;
- Inability to hedge certain risks economically;
- Adequacy of loss reserves and impairment allowances;
- Technological changes;
- Changes in consumer spending, investment and saving habits;
- Effective capital and liquidity management;
- The success of ABN AMRO in managing the risks involved in the foregoing.

The forward-looking statements made in this Annual Report are only applicable as from the date of publication of this document. ABN AMRO does not intend to publicly update or revise these forward-looking statements to reflect events or circumstances after the date of this report, and ABN AMRO does not assume any responsibility to do so. The reader should, however, take into account any further disclosures of a forward-looking nature that ABN AMRO may make in ABN AMRO's interim reports.

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abnamro.com/annualreport

Information on our websites does not form part of this Annual Report, unless expressly stated otherwise.

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