

**ABN AMRO Group N.V.**

# **Integrated Annual Report 2016**



## About this report

This Integrated Annual Report presents the developments relating to ABN AMRO that took place in 2016. In addition to our financial and non-financial performance, you will also find information on how we create value for our stakeholders.

 See our Value Creation Model  
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## We create value for



Clients



Employees



Society at large



Investors

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Strategy

Business

Risk, funding & capital

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## New in this report

- Integrated reporting principles have been further incorporated into the report
- We report on our approach to material topics as identified by our stakeholders
- EY has performed a limited assurance engagement on the disclosures related to these material topics
- We enhanced connectivity by including links to information (online and offline)

## See also:

Our Annual Report supplement 'Initiatives in 2016'  
[abnamro.com/annualreportmagazine2016](http://abnamro.com/annualreportmagazine2016)

Our website  
[abnamro.com/annualreport](http://abnamro.com/annualreport)



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# Notes to the reader

This is the Annual Report for 2016 of ABN AMRO, which consists of ABN AMRO Group N.V. and its consolidated entities. The Annual Report consists of the Managing Board report<sup>1</sup>, Report of the Supervisory Board and 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). It also complies with the financial reporting requirements included in Title 9, Book 2 of the Dutch Civil Code, where applicable. Some chapters in the Risk, funding & capital section of this Annual Report contain audited information and are part of the Annual Financial Statements. Audited information in these sections is labelled as 'audited' in the respective headings.

In this Annual Report, we disclose and explain our material financial and non-financial results, strategy, governance, external developments and the risks and opportunities ABN AMRO faces.

As with last year's report, the International Integrated Reporting Framework has been used for this Annual Report and ABN AMRO has taken further steps towards integrated reporting. Furthermore, we have integrated a materiality matrix and the most material financial and non-financial topics into this report. Disclosures on material topics are prepared in accordance with the (DMA) Disclosure on Management Approach as described in GRI G4. Further details are provided elsewhere in this report under Reporting landscape.

Our independent auditor, EY, has performed a limited assurance engagement on selected disclosures, which are labelled '<limited assurance>' in their respective headings. Also refer to the section entitled Assurance report of the independent auditor.

Capital metrics and some risk exposures for 2016 and comparative figures for 2015 are reported under the Basel III (CRD IV/ CRR) framework. Some sections in this Annual Report contain information according to Pillar 3 (as part of the CRR) and Enhanced Disclosure Task Force (EDTF) requirements. These sections are labelled 'Pillar 3' and/or 'EDTF' in their respective headings.

The contents of this Annual Report comply with the Financial Supervision Act, Corporate Governance Code and Dutch Banking Code.

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 document have been calculated using rounded figures.

To provide a better understanding of the underlying results, ABN AMRO has adjusted its reported results in the Financial Review, presented in accordance with EU IFRS, for defined special items. For more information refer to the reconciliation between reported and underlying results in the Financial Review.

For a download of this report or more information, please visit us at [abnamro.com/ir](http://abnamro.com/ir) or contact us at [investorrelations@nl.abnamro.com](mailto:investorrelations@nl.abnamro.com).

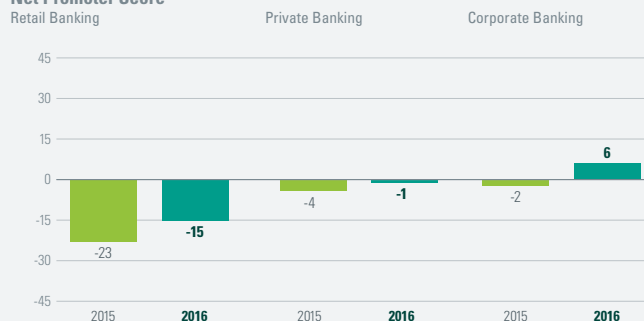
<sup>1</sup> The Managing Board report consists of the sections Strategy, Business, Risk, funding & capital Management, Leadership (Managing Board chapter) and Governance.

# Key figures



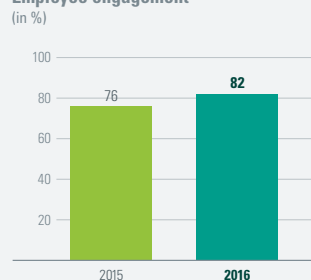
## Clients

### Net Promoter Score

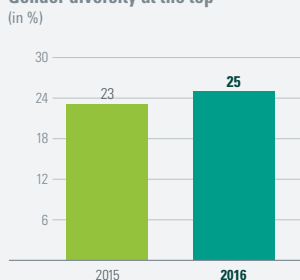


## Employees

### Employee engagement<sup>1</sup>



### Gender diversity at the top

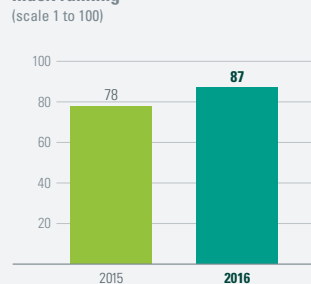


<sup>1</sup> 2016 score based on revised measurement method. For more details on employee engagement, please see 'Employee engagement' in the Group performance section of this report.

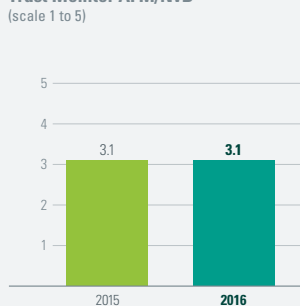


## Society at large

### Dow Jones Sustainability Index ranking

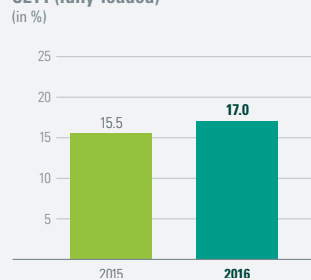


### Trust Monitor AFM/NvB

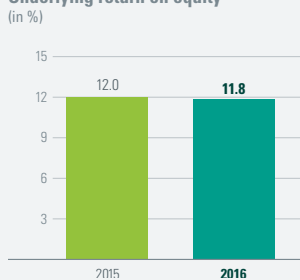


## Investors

### CET1 (fully-loaded)



### Underlying return on equity



# Profile

**ABN AMRO is a leading full-service bank** with a transparent and client-driven business model, a moderate risk profile, a clean and strong balance sheet with predominantly 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 with selective operations internationally.

## Geography

### Europe



### Rest of the world

**Australia:** Sydney  
**Brazil:** São Paulo  
**China:** Shanghai, Hong Kong  
**Japan:** Tokyo  
**Russia:** Moscow

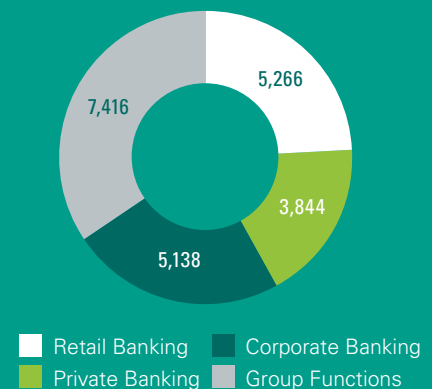
**Singapore**  
**United Arab Emirates:** Dubai  
**United States:** Dallas, New York, Chicago

## Number of employees

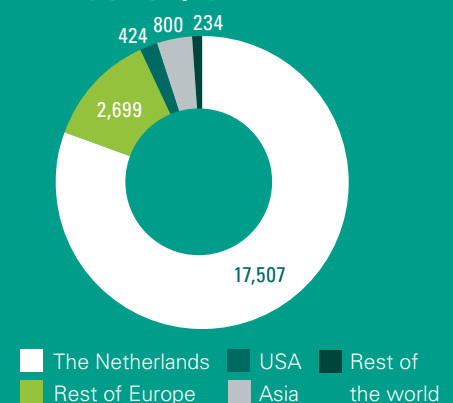
FTEs at 31 December 2016

# 21,664

### FTEs by business segment



### FTEs by geography



## ABN AMRO

### Retail Banking

- ▶ Leading position in the Netherlands
- ▶ Principal bank for 21%<sup>1</sup> of the Dutch population
- ▶ Market share of 20%<sup>2</sup> in the small business segment
- ▶ #2 position<sup>3</sup> in savings (including Private Banking)
- ▶ #1<sup>4</sup> in new mortgage production
- ▶ 5,000,000 retail clients
- ▶ 300,000 small businesses
- ▶ Seamless omni-channel distribution with a nationwide network of 221 branches, Advice & Service Centres and 24/7 internet and mobile banking

Key figures [p 59](#)

### Private Banking

- ▶ Market leader in the Netherlands
- ▶ Ranked 4<sup>th</sup> in France, 3<sup>rd</sup> in Germany and the eurozone<sup>5</sup>
- ▶ Solid position in selected countries in Asia and the Middle East
- ▶ Serves over 100,000 clients
- ▶ Present in 11 countries with more than 50 branches
- ▶ Fully integrated financial advice and a broad array of services focused on wealth structuring, wealth protection and wealth transfer

Key figures [p 68](#)

### Corporate Banking

- ▶ Established business partner of the Dutch corporate sector
- ▶ 70,000 commercial and international clients with annual turnover exceeding EUR 1 million across 15 defined sectors
- ▶ Client- and capability-led international strategy that focuses on three specialities: ECT Clients, Clearing and Asset Based Finance
- ▶ International presence in the key financial and logistical hubs

Key figures [p 77](#)

### Group Functions

- ▶ TOPS (Technology, Operations & Property Services)
- ▶ Finance including ALM/Treasury and Tax
- ▶ RM&S (Risk Management & Strategy)
- ▶ PR&I (People, Regulations & Identity)
- ▶ Group Audit
- ▶ Corporate Office

<sup>1</sup> GfK online tracker, 2016. <sup>2</sup> TNS NIPO, 2016. <sup>3</sup> Calculated based on information provided by the Dutch Land Registry (Kadaster), 2016.

<sup>4</sup> Calculated based on DNB Domestic MFI statistics and internal analyses, H1 2016 figures. <sup>5</sup> BCG global wealth management survey 2014 & annual reports.

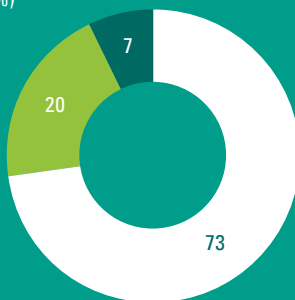
## Operating income

Based on underlying figures  
(in millions)

# 8,588

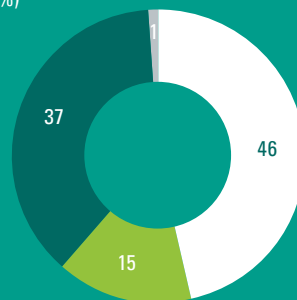
Financial review [p 50](#)

**By type of income**  
(in %)



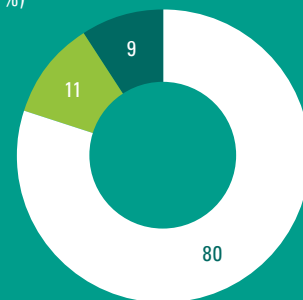
Net interest income  
Net fee and commission income

**By business segment**  
(in %)



Retail Banking  
Private Banking  
Corporate Banking  
Group Functions

**By geography**  
(in %)



The Netherlands  
Rest of Europe  
USA, Asia and rest of the world



# Message from the CEO

I am pleased to report that ABN AMRO had a good year. We continued to fulfil our promises and commitments to our various stakeholders and assisted many clients while delivering solid results, both financial and non-financial.

## Clients come first

We are working hard every day to give clients the best possible service. The appreciation of our clients is reflected in, among other things, a higher Net Promoter Score for all business lines. Our clients fared well as the Dutch economy continued its recovery in 2016. We achieved growth in three of our major loan books. Firstly, we were the number one provider of new mortgages in the Netherlands for the second consecutive year, and our mortgage portfolio grew for the first time since 2010. Secondly, the SME loan portfolio in the Netherlands is growing again after years of decline. And lastly, we grew our international corporate loan portfolio. Our global sector-based approach for ECT Clients is being rolled out to Natural Resources, Renewable Energy, Food Supply Chain and Utilities and we have started onboarding new clients in these sectors. The results show that our bank can achieve growth both in the Netherlands and abroad.

## Wide-ranging innovation

We are devoting constant attention to innovation across the organisation. Our Digital Banking unit supports our drive to be at the forefront of technological developments. Our Digital Impact Fund invests in companies to co-create products and technologies that enhance our service to clients. We are very active in this area – from experimenting in our Innovation Centre and exploring the power of blockchain technology to collaborating with fintechs and positioning our digital bank MoneYou to offer more than just savings and mortgage products.

At the same time, banking is a people business and we recognise the importance of personal contact and realise that innovation is not just about technology. In this respect, we are also innovating our culture by introducing Agile principles across the organisation. Our culture further evolved in other ways as well. We continued to invest in extensive training and ongoing personal and professional development programmes to help our employees make a difference for our clients every day.

Our efforts to put clients first in everything we do were recognised by various organisations in 2016. ABN AMRO MeesPierson was named 'Best Private Banking Services Overall' in the Netherlands by Euromoney, and ABN AMRO Private Banking was awarded Best Overall European Private Bank and Best Private Bank – Client Service by the Wealth Briefing European Awards.

## Lasting value for all our stakeholders

I am particularly proud of our achievements on the sustainability front. We made funding available to help clients make their real estate more sustainable and developed the first official Green Loan for that purpose. With well over 50% of our loan portfolio in housing and real estate, we are in a good position to make a meaningful contribution to the transition to sustainable properties in the Netherlands. We will encourage all our clients to accelerate this change and will facilitate their efforts. We also continue to reduce the environmental footprint of our own operations. Our head office in Amsterdam won the 2016 BREEAM award for being the most sustainable





**Kees van Dijkhuizen**  
CEO

in-use office building in the world, and we started building a fully circular pavilion in 2016, scheduled to open its doors this year. More examples of how we are creating sustainable value for our stakeholders are highlighted throughout this report.

## Strategy

In the second half of 2016, we fine-tuned our strategic priorities, updated one of our financial targets and announced plans to carry out a cost-saving programme in the years up to 2020. Our pledge to be client-driven and maintain a moderate risk profile still stands. We will continue to invest in the future and we aim to achieve sustainable growth – meaning we will be selective in our pursuit of growth, focusing on sectors in which we have proven expertise. As for our financial targets, we now target a cost/income ratio in the range of 56-58% by 2020. The targets for the CET1 ratio (11.5-13.5%), ROE (10-13%) and dividend payout ratio (50% over 2017) will remain unchanged until we have more insight into the impact of Basel IV.

## Financial results for 2016

The underlying net profit for the year was EUR 2,076 million, or 8% higher than in 2015. Profitability improved on the back of growth in the loan book (mortgages, SME and corporate loans) and significantly lower impairments. As a result of the restructuring charges taken for cost-saving initiatives, the cost/income ratio rose to 65.9%

(61.8% excluding restructuring costs). These initiatives should lead to a leaner and more agile organisation while freeing up investments for innovation and growth. The underlying ROE was 11.8% and excludes a EUR 271 million provision we have taken for the reassessment of interest rate derivatives sold to SME clients. The reported net profit (after this provision) amounted to EUR 1,806 million. Based on this figure we propose a final dividend of EUR 0.44 per share, bringing the total dividend per share over 2016 to EUR 0.84. This is a payout ratio of 45% of the reported net profit, and an increase of 4% compared with 2015. The capital position was further strengthened, which is reflected in a 1.5 percentage point increase in the (fully-loaded) CET1 ratio to 17.0%.

We recently announced a new management structure. Going forward we will have a statutory Executive Board and an Executive Committee. The statutory Executive Board consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Risk Officer (CRO). The Executive Committee consists of the members of the Executive Board, representatives from four business lines (Retail Banking, Commercial Banking, Corporate & Institutional Banking and Private Banking) and two roles with bank-wide responsibilities (Innovation & Technology and Transformation & HR). This structure will make ABN AMRO more efficient and more client-focused as the business lines are more strongly represented at senior executive level.

I would like to thank our staff for their hard work and dedication to our clients and the bank, and our clients for their business in this increasingly competitive industry. I would also like to express my gratitude to the four members of the Managing Board who have departed in the past few months. Mr Gerrit Zalm, Ms Caroline Princen, Mr Chris Vogelzang and Mr Joop Wijn made valuable contributions to the bank during an important stage of its history.

## Kees van Dijkhuizen

CEO of ABN AMRO Group N.V.

# ABN AMRO shares

## Key developments

Between 31 December 2015 and 31 December 2016, ABN AMRO's share price (depository receipts) rose 2% while the STOXX Europe 600 Bank declined 8%. In November 2016, NLFI ('Stichting administratiekantoor beheer financiële instellingen') completed an accelerated book building offering of 65 million depository receipts (representing approximately 7% of total issued share capital), which are now listed on Euronext Amsterdam.

## Listing information and substantial holdings

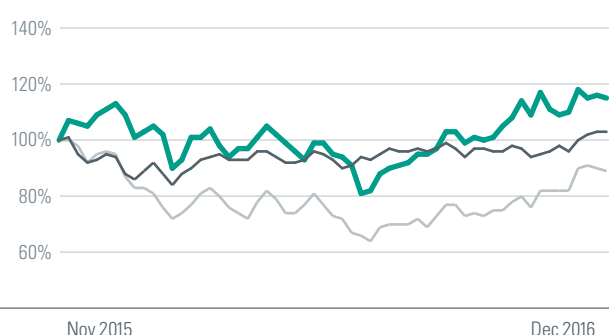
A total of 281.2 million shares are currently held by STAK AAG ('Stichting Administratiekantoor Continuïteit ABN AMRO Group'), which subsequently issued depository receipts representing such shares. The depository receipts are listed on Euronext. The depository receipts trade under ISIN code 'NL0011540547', Reuters ticker 'ABNd.AS' and Bloomberg ticker 'ABN:NA'.

Aside from STAK AAG, the remaining issued share capital is held by NLFI. As per 31 December 2016 ABN AMRO is not aware of any current or potential shareholders (or owners

of depository receipts representing such shares) with an interest in ABN AMRO Group of 3% or more, other than STAK AAG and NLFI. More information on STAK AAG and NLFI is provided in the [Governance section](#) of this report.

## Share price development

(in %)



— ABN AMRO — STOXX Europe 600 Banks Index  
— Amsterdam Exchange Index

Source: S&P Global Market Intelligence.

(in millions)	31 December 2016	31 December 2015
<b>Share count</b>		
Total shares outstanding/issued and paid-up shares	940	940
- of which held by NLFI	659	724
- of which listed (in the form of depository receipts)	281	216
- as a percentage of total outstanding shares	30%	23%
Average number of shares	940	940
Average diluted number of shares	940	940
<b>Key indicators per share (EUR)</b>		
Underlying earnings per share <sup>1</sup>	2.16	2.03
Reported earnings per share <sup>1</sup>	1.87	2.03
Shareholder's equity per share	19.08	17.63
Tangible shareholder's equity per share	18.82	17.35
Dividend per share <sup>2</sup>	0.84	0.81
<b>Share price development (EUR)</b>		
Closing price (end of period)	21.05	20.67
High (during the period)	22.12	20.80
Low (during the period)	14.02	18.00
Market capitalisation (end of period, in billions)	19.79	19.43
<b>Valuation indicators (end of period)</b>		
Price/Earnings	9.5x	10.1x
Price/Tangible book value	1.1x	1.2x
Dividend payout ratio <sup>2</sup>	45%	40%

<sup>1</sup> Underlying/reported profit for the period excluding reserved coupons for AT 1 Capital securities (net of tax) and results attributable to non-controlling interests divided by the average outstanding and paid-up ordinary shares.

<sup>2</sup> Dividend per share and payout ratio subject to approval of the annual General Meeting in May 2017.



# Strategy

In a challenging economy and changing operating environment, our strategy should support our pledge to our stakeholders. This section highlights key trends, developments and our stakeholder insights. These serve as input for our strategy, purpose and how we ultimately create value for our stakeholders.

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How we create and share value

# From stakeholders to strategy

This section of the report describes our stakeholders' needs, our pledge to our stakeholders, and our strategy and purpose. Our pledge is to create lasting stakeholder value and to make a sustainable contribution to society. To achieve this, we listen closely to our different stakeholders – clients, employees, society and investors.

In a world that is defined by constantly changing trends, we want to understand what matters most to our stakeholders now and how their needs will change going forward. We do this by engaging in a dialogue with our stakeholders, and in 2016 we conducted a materiality assessment with them.

We have updated our Value Creation Model and strategy with the insights gained from this assessment. We have also developed new non-financial KPIs to help us measure our progress.

## Stakeholders



### Clients

#### What they expect

A bank that excels beyond its core business and delivers valuable expertise, any time, any place.



### Employees

An employer that empowers and offers opportunities to make the most of people's potential.



### Society at large

An engaged financial institution that invests in the future sustainably and responsibly.



### Investors

A trustworthy bank that produces healthy, sustainable returns.

#### What we promise

To act in your best interests, we listen carefully, deliver valuable expertise and offer seamless experiences.

Together we are ABN AMRO. We empower our employees to make use of their full potential and develop themselves.

We are engaged in society and are committed to investing in the future.

We pursue sustainable growth and offer attractive returns based on a moderate risk profile.



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- Other

### Strategy towards 2020

2016 was an eventful year – for the financial industry, for our stakeholders and for our bank. It was a year in which we took numerous steps in our ongoing development. Among other things, ABN AMRO was listed on the stock exchange in late 2015 and another 7% of the shares in the company were sold on 17 November 2016, we bolstered our digital service offering, we pressed ahead with innovation, and we saw our Net Promoter Score improve.

The strategic choice to be an organisation that is client-driven, while maintaining a moderate risk profile, remains unchanged. Changes in the needs and behaviour of our stakeholders and technological, competitive and regulatory developments pose threats, but they also offer opportunities. To take full advantage of these opportunities, we have updated our plans regarding digitalisation, innovation and growth, resulting in a number of strategic objectives towards 2020. We developed these plans based on our profile: we are a relationship-driven, knowledgeable and digitally savvy bank, active in Northwest Europe and with expertise in selected sectors globally.

**PURPOSE**

**Creating space for  
dreams and ambitions**

Driven by passion,  
guided by expertise

### The foundation of our purpose

In today's fast-paced world, people are increasingly looking for meaning and want to be part of something bigger. In response to this need and to other relevant trends, we have taken the first steps toward becoming a purpose-driven organisation.

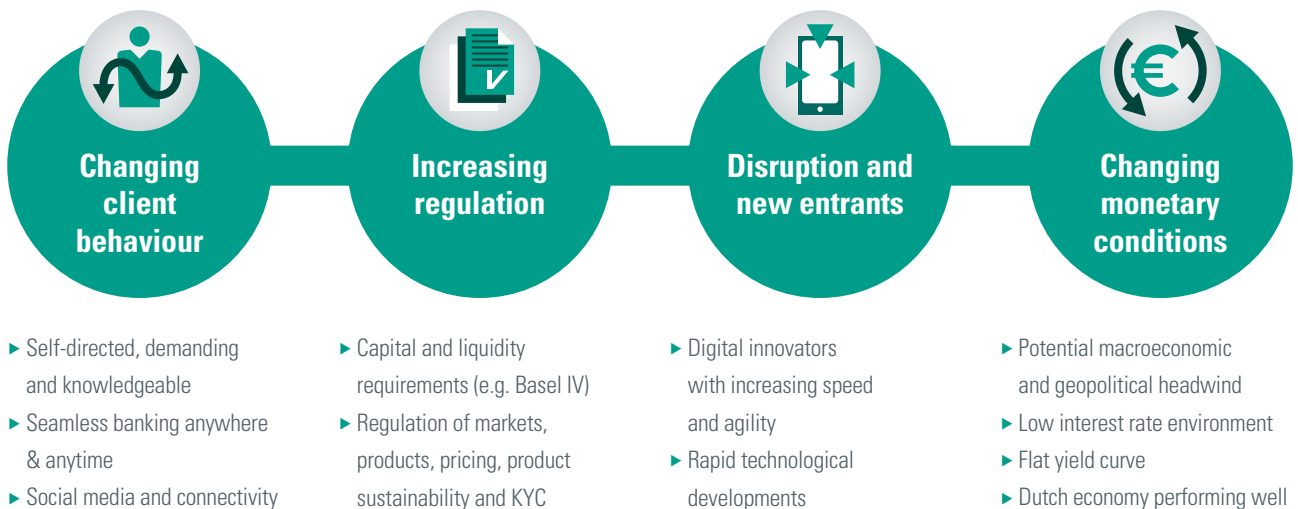
Throughout their lives, our clients strive to fulfil their dreams and ambitions, large and small. To do this, they need the freedom to act. We use our financial expertise to empower our clients to take charge of their lives and pursue their goals. We are part of a powerful network which we use to connect people and organisations. That is how we contribute to a sustainable society – by helping people achieve their goals, based on responsible financial decisions, and inspiring them to develop and grow, knowing that growth is not always about 'more'.

# Mapping out **the path**

As part of society, we are attuned to what is going on in our environment. It is our responsibility to respond to societal trends and external developments and to prepare for the future as effectively as possible. We have introduced a scenario planning framework to help us anticipate how developments and challenges we might face in the years up to 2020 and beyond could affect our business.



## Key trends: changing faster than ever



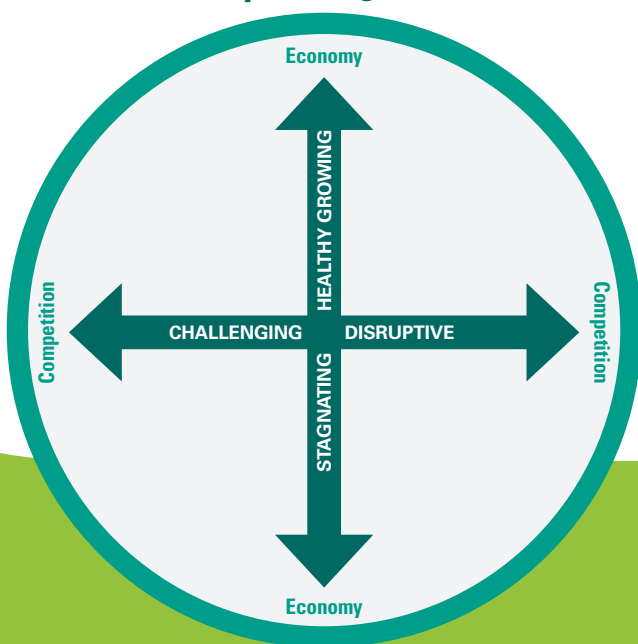
For more information about trends and external developments, see the Operating environment section.

## Preparing for the future: scenario planning

Our scenario planning framework helps us determine at an early stage how various trends and developments could impact our business model and performance should they transpire. The framework is based on two key uncertainties: the competitive landscape and economic development. We applied this framework bank-wide, with different teams at various levels of the organisation exploring its implications.

We are exploring what the future of the financial industry in Western Europe might look like in the next five to eight years. We have analysed trends that could influence the way the future of the financial sector will unfold. The most impactful themes are related to technology: constant connectivity will become the standard and a wide variety of new technologies will revolutionise the financial landscape. Our conclusion is that changing client needs and technology are key trends and should play a role in each scenario. Moreover, three overarching trends emerged: competition (new entrants), economic development (low interest rates) and regulation (intensified).

## Scenario planning framework



### Future-proof moves

As we frame our goals, we also define important actions we can take regardless of the broader path we choose. These actions will benefit us in any scenario and form the input for our strategy.

We have also performed an analysis of the environment in which we operate. The main drawbacks and strengths are

presented in this section. We have updated our plans and strategic objectives based on the outcome of this research.

### Drawbacks

- ▶ Large exposure to and dependence on the Dutch economy
- ▶ Growth opportunities in the Dutch home market limited
- ▶ Solid but complex IT landscape following integration of ABN AMRO and Fortis Bank Nederland
- ▶ Suboptimal scale of businesses in a few countries

### Strengths

- ▶ Leading full-service bank
- ▶ Strong brands
- ▶ Client-driven business model
- ▶ In-depth sector expertise
- ▶ Professional workforce
- ▶ Strong mobile and online capabilities

# Strategy and culture

At the heart of our strategy is our long-term strategic foundation. In our updated strategy, our ambitions to improve profitability and to pursue selective international growth have been combined in our commitment to achieve sustainable growth. We have also defined four medium-term priorities to support us in pursuing our strategy. The purpose and strategy are the anchors of our culture. Our strategic initiatives reflect our focus and priorities and are underpinned by specific actions for each initiative.







### Long-term strategic foundation

Clients want a bank that simply does its job well and that goes the extra mile for them. A bank that knows its business and provides the best service. To address our changing environment, we have set our priorities for the years up to 2020. The core of our strategy remains the same: we will continue to be a 'relationship-driven bank' while ranking among the best on the digital front; a bank with a strong position in Northwest Europe and serving selected sectors worldwide. We are client-driven, we invest in the future, we have a moderate risk profile and we are committed to sustainable growth.

The Business section describes which activities relating to each strategic priority are being developed and implemented at each business line and also looks back on our achievements over 2016.

### Culture of change

Our future revolves around our clients. Connected, open-minded and fast; creative and dynamic; full of trust and empowering; engaged and committed to cooperation – we can be all these things if we have the guts to explore and change. Today's world calls for less hierarchy and more effective collaboration. We want fewer checks, more empowerment and more meaningful relationships.

We recently announced a new management structure designed to make our bank even more client-focused, agile and efficient. The new structure, which includes an Executive Board and an Executive Committee, creates more dedication to the business activities and a stronger client focus. In addition, the management layer below the Executive Committee will be reduced significantly.

#### Core values

Our core values are an expression of our culture and a firm promise to all employees.

They describe how we treat each other and the environment.



#### Trusted

We believe trust is about establishing and maintaining lasting relationships.



#### Professional

We understand banking and strive to improve ourselves every day.



#### Ambitious

We are always stretching our boundaries and striving to achieve more for our stakeholders.



# What matters most

Limited assurance

We strive to manage the impact of our activities and balance the interests of all our stakeholders. To gain insight into how our stakeholders view the bank's ability to create value in relation to its long-term strategy, ABN AMRO has performed a thorough materiality assessment for the bank as a whole.

## Determining our most material topics

The analysis revealed what topics our stakeholders consider to be the most material, or relevant, to ABN AMRO's ability to create value. With the support of an external agency, we consulted our stakeholders in detail. We started out by asking external stakeholders to rate the importance of a list of material issues. First, a long list of possible subjects was developed, based on our strategy, sustainability perspectives, risk assessments and topics determined by relevant stakeholders or within the sector. Second, a short list was drawn up based on material frameworks and peer analyses, which was verified by internal experts. An online survey with this short list was subsequently sent directly through social media to over 300 stakeholders in our four stakeholder groups, producing 183 responses in total. In addition, we held a dialogue with our internal stakeholders – comprised of members of the Managing Board and senior management from the business lines – who ranked various topics based on the potential impact for ABN AMRO. During the internal consultation process, the matrix was validated and defined. Based on this comprehensive process, the material topics emerged (see next page). The scope of the materiality matrix has been expanded compared with 2015: it now covers all relevant topics that matter most to stakeholders, not only sustainability topics.

## Governance

Management of material topics follows the regular governance procedures as described in the Governance section. The Managing Board is ultimately responsible for managing the material topics and is monitored by the Supervisory Board. Although some topics are discussed more frequently than others, all topics received management attention in the course of 2016. Each material topic is assigned to the Management Group member or senior management responsible for the business line, discipline or department the material topic relates to most. The material topics have been grouped into overarching themes and each working group will develop action plans for 2017.

Stakeholders can direct questions or complaints to us through various channels: our website, one of our branches, or our call centre. ABN AMRO's complaints policy includes the possibility for stakeholders to file a complaint about the bank's impact on society.

## Stakeholder engagement

More information about our stakeholder engagement and the results of our materiality analysis is presented on our website.<sup>1</sup> We take the interests of our stakeholders seriously. It is our responsibility to balance these interests in our pursuit of long-term value. See our approach to value creation on pages 22 to 24.

<sup>1</sup> [abnamro.com/en/images/Documents/010\\_About\\_ABN\\_AMRO/Annual\\_Report/2016/ABN\\_AMRO\\_Materiality\\_Analysis\\_2016.pdf](http://abnamro.com/en/images/Documents/010_About_ABN_AMRO/Annual_Report/2016/ABN_AMRO_Materiality_Analysis_2016.pdf)

## Our material topics



### Connectivity

Most of the material topics are addressed in this Annual Report. Our impact on 'non-discrimination and human dignity' (13) is addressed in our separate [Human Rights Report](#)<sup>1</sup> which we published in December 2016. The topics deemed to have less social or business impact according

to this materiality matrix are not discussed in this Annual Report (15-20), with the exception of number 16 as this is part of our core risk approach (see page 95). The connectivity table on the following pages provides a description of each material topic, how the topic relates to our strategy and to which stakeholder groups the topic matters most.

<sup>1</sup> [abnamro.com/en/images/Documents/040\\_Sustainable\\_banking/080\\_Reporting/2016/ABN\\_AMRO\\_Human\\_Rights\\_Report\\_2016.pdf](http://abnamro.com/en/images/Documents/040_Sustainable_banking/080_Reporting/2016/ABN_AMRO_Human_Rights_Report_2016.pdf)

## Material topics and connectivity

Material topic	Description	Strategy	Stakeholders	Reference
<b>1 Customer issue ownership</b>	We listen to, and take ownership of, clients' needs and problems. Clients should feel that their needs and issues are addressed by the bank.			Page <a href="#">59</a> , <a href="#">68</a> , <a href="#">77</a>
<b>2 Ethics and integrity</b>	We base our actions on society's moral standards.			Page <a href="#">34</a>
<b>3 Preventing corruption, fraud and cybercrime</b>	We protect our clients' funds and data against security breaches. We actively prevent activities designed to illegally acquire commercial or personal gain from our digital or physical environment to the detriment of any party involved in or affected by the bank's activities.			Page <a href="#">35</a>
<b>4 Sustainability of our business model</b>	A sustainable business model is a model that produces healthy and robust results, ensuring continuity over the years.			Page <a href="#">20</a>
<b>5 Stability of our digital services</b>	We ensure the accessibility and stability of our digital services.			Page <a href="#">44</a>
<b>6 Clear, appropriate advice</b>	We give clients clear, comprehensive information and help them select the financial product or service that best fits their personal situation. Our sector expertise and product knowledge help us understand our clients' needs.			Page <a href="#">59</a> , <a href="#">68</a> , <a href="#">77</a>
<b>7 Agile organisation</b>	We respond and adapt to changes and developments outside the bank in order to add value to society now and in the future.			Page <a href="#">21</a>
<b>8 Co-creation and innovation</b>	Teaming up with partners inside and outside the bank (co-creation) and creating an environment in which innovation is stimulated and nurtured.			Page <a href="#">61</a> , <a href="#">70</a> , <a href="#">79</a>
<b>9 Privacy, use of client data by the bank or third parties</b>	The use of client data by the bank in order to improve our services and offer customised products or providing data to third parties outside the bank for commercial purposes.			Page <a href="#">36</a>
<b>10 Responsible tax policy</b>	We pursue a transparent tax policy that prohibits tax evasion and prescribes fair tax payments and structures. We advise our clients in line with this policy.			Page <a href="#">41</a>
<b>11 Employee engagement and empowerment</b>	We strive to create an open corporate culture in which employees are empowered and encouraged to be engaged and help build the organisation. We have a fair remuneration policy and offer training and development programmes designed to develop talent and create highly skilled employees and a committed workforce.			Page <a href="#">37</a> , <a href="#">38</a> , <a href="#">39</a> , <a href="#">246</a>

Material topic	Description	Strategy	Stakeholders	Reference
<b>12 Moderate risk profile</b>	A moderate risk profile means we pursue a prudent risk policy. This helps us deliver a stable financial performance.			Page 96, 129
<b>13 Non-discrimination and human dignity</b>	We strive to create an environment for all our stakeholders that is free from discrimination and that respects human dignity and equal opportunities.			Human Rights Report 2016
<b>14 Responsible remuneration policy</b>	We pursue a responsible remuneration policy for Board members, senior management and other employees. We are transparent about this policy and about performance standards and measurements used in awarding variable remuneration.			Page 237, 240
<b>15 Role model in terms of legislation and regulations</b>	In addition to complying with national and international legislation and regulations, we proactively identify and anticipate developments in this area.			Governance section
<b>16 A positive impact on ESG criteria through our financing and investment services.</b>	In offering our finance and investment services, we work to ensure that our clients and the entities they invest in put their impact on human rights, health and safety and the environment first in their conduct. We leverage our position to expose abuses to human rights, health and safety and the environment and are in constant dialogue with our clients with a view to improving the situation. If we do not see tangible improvements, we end our relationship.			Page 71, 80, 118, 187
<b>17 Safe and healthy workplace</b>	We offer our employees a safe and healthy working environment by providing the necessary facilities and by actively promoting their well-being and encouraging vitality. In doing so, we enable employees to carry out their work to the best of their ability.			Careers Human Resources and Sustainability
<b>18 Our environmental impact</b>	The environmental footprint of our organisation, created by our business operations and procurement activities.			Sustainable business operations
<b>19 Adding value by promoting the welfare of society</b>	We promote the welfare of society by offering products and services that empower people and businesses. We give back to society by facilitating social entrepreneurship and by organising volunteer programmes in which our employees participate.			ABN AMRO Foundation Annual Report 2015
<b>20 Adding value by leading the public debate</b>	We respond to society's needs by offering our financial expertise, including sharing sector-specific knowledge and promoting social entrepreneurship.			Stakeholder dialogues

**Strategy**

- Client-driven
- Invest in the future
- Moderate risk profile
- Sustainable growth
- Strategy-transcending topic

**Stakeholders**

- Clients
- Employees
- Society at large
- Investors

Two of the several material topics that are relevant to ABN AMRO at a strategic level are described below.

## Sustainable business model Limited assurance

### Connectivity of material topic 4

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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The long-term continuity of our bank is vital if we are to deliver on our promise of creating lasting stakeholder value. One of our – and one of our stakeholders’ – top priorities is therefore to work according to a sustainable business model. This ensures that our organisation is future-fit and that we can deliver healthy, robust results, now and in the future. A key ingredient of a sustainable business model is a diverse workforce and an inclusive environment. Creating a workforce that reflects the communities we serve will allow us to serve society more efficiently and effectively. ABN AMRO is firmly committed to conducting responsible business practices and investing in a more sustainable world.

and control activities. This programme is being carried out in 180 initiatives bank-wide and is expected to save the bank EUR 0.2 billion annually by 2020 as compared with 2015. The ongoing TOPS 2020 and Retail Digitalisation programmes are expected to account for an additional EUR 0.3 billion in annual cost savings by 2020. An additional EUR 0.4 billion in cost savings are expected to be achieved by digitalisation and process optimisation, including the initiatives to move towards an agile way of working.

Total annual cost savings expected to be achieved by 2020 come to EUR 0.9 billion. Offsetting these cost savings are, however, a number of external factors that will increase costs, including wage inflation, regulatory levies and general price inflation. These effects are expected to lead to EUR 0.5 billion in additional costs on an annual basis by 2020. We intend to use the remainder of the cost savings to invest in innovation and growth.

### Innovation and growth

We are pursuing growth in sectors in which we already have in-depth expertise. Our focus is increasingly on adjacent sectors and clients and offering our clients best-in-class sustainable products and solutions. We strive to maximise

### Creating and maintaining a sustainable business model

We believe that a sustainable business model is by definition a work in progress, so we are constantly exploring ways to improve ours. In accordance with our moderate risk profile, we maintain a large capital buffer and, among other things, avoid excessive sector and country overexposure abroad. Below we describe the most important bank-wide initiatives that are helping us to further develop and maintain a sustainable business model.

#### Efficiency programmes

Various programmes are up and running at the bank. The efficiency programme currently under way is designed to streamline our organisation and to rationalise our support

the sustainability of all our business’s operations. At the same time, we plan to introduce several innovative product offerings in various business segments for our clients. And we are developing new earnings models. We want to move ahead quickly so these will be set up as innovator entities that will operate online and have a large degree of autonomy in running their own IT. Using these small entities will help us accelerate innovation while allowing us to test new banking concepts in a low-risk manner. As an example, MoneYou aims to extend its digital product offering and will gradually be expanded internationally. The client experience should become even more seamless, mobile, attractive, relevant and ‘techy’ – what we call ‘smart banking’.



We intend to increase investments in these growth initiatives, up to EUR 0.4 billion annually in 2020 versus 2015. Together with the abovementioned EUR 0.5 billion cost increase expected from wage and price inflation and higher regulatory costs, total costs are expected to grow by EUR 0.9 billion, netting out the savings of the efficiency programmes.

### Monitoring our sustainable business model

Our financial performance gives us a good indication of how sustainable our business model is. In particular, our return on equity reflects our profitability and measures how well we have put investments to work.

To create a diverse workforce we are committed to achieving our gender diversity targets of placing women in 30% of senior management positions and in 35% of upper middle management positions by 2020. And we also continued to make progress on building a diverse and inclusive workforce in the areas of cultural diversity and disability.

ABN AMRO rose sharply in the globally renowned Dow Jones Sustainability Index (DJSI) ranking, scoring 87 out of 100 points – nine points higher than in 2015. Furthermore, rating and research agency FTSE4Good added ABN AMRO to the

market. We also believe agile working will help us reach our clients through new channels more efficiently. This in turn can support us in entering new markets.

### Agile way of working

We are taking various measures to promote this way of working. To promote a more results-driven culture, we are creating a new governance model which places a greater emphasis on output. One hundred multidisciplinary teams and 1,000 employees across the bank are already working according to agile principles. In 2017 we will increase the number of multidisciplinary teams across the bank. These teams will have end-to-end responsibility. This will help us create an environment in which innovation and co-creation are nurtured.

### Re-engineering the IT landscape

Meanwhile, we will continue to streamline and re-engineer our IT landscape in the coming years through our ongoing TOPS 2020 and Retail Digitalisation programmes. At the same time, we see promising opportunities in teaming up with partners, big techs and fintechs. We have a great deal to learn from them and are eager to share our expertise and launch start-ups together.

FTSE4Good Index in 2016. Both the DJSI and FTSE4Good put ABN AMRO in the top 15% of banks worldwide.

## A responsive organisation Limited assurance

### Connectivity of material topic 7

<p>Link to strategy</p>	<p>Important to these stakeholders</p>	<p>See material topics and connectivity on page 18</p>
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As an agile organisation, we will be able to respond more swiftly to changing client needs, embrace new technologies more effectively and accelerate our time-to-

### Monitoring our responsive organisation

We measure and report on our progress in implementing agility-promoting initiatives four times a year in the Quarterly Execution Monitor and once a year in the Yearly Strategic Review. Our annual Employee Engagement Survey and interim engagement assessments show whether the organisation and our people are capable of changing quickly enough.

An overview of the strategic targets and our 2016 performance are provided in the Business section. And our Value Creation Model shows the value we are creating for our different stakeholders.

# How we create and share **value**

Our value creation model shows how we use the resources and expertise at our disposal to create value for our stakeholders. It all starts with the 'input' – four types of capital. These are the key resources we use to generate value. The output results in the value we create for our stakeholders and how we share it with each stakeholder group. The Value Creation Model is presented in the Strategy section of this report.

## INPUT



### Social and Relationship Capital

We maintain strong relationships with our stakeholders by regularly conducting dialogues with them and by performing market analyses, scenario planning and materiality research on what topics matter most to them. Stakeholder management is embedded in our governance model and is carried out in all layers of the bank. Our commitment to sustainability and other social issues is continuously growing.



### Digital and Technological Capital

Our business activities are conducted through tangible and virtual infrastructures. We are investing in digital and innovative propositions and pursuing external partnerships to fortify our digital and technological capital.



### Human and Intellectual Capital

We have specialised financial skills and in-depth sector expertise in different industries. We are committed to attracting, retaining and developing talented and dedicated employees. Our cultural principles and purpose serve as a guide as we work to transform our culture and embed agile methods across our organisation, allowing us to respond alertly to changing client needs.



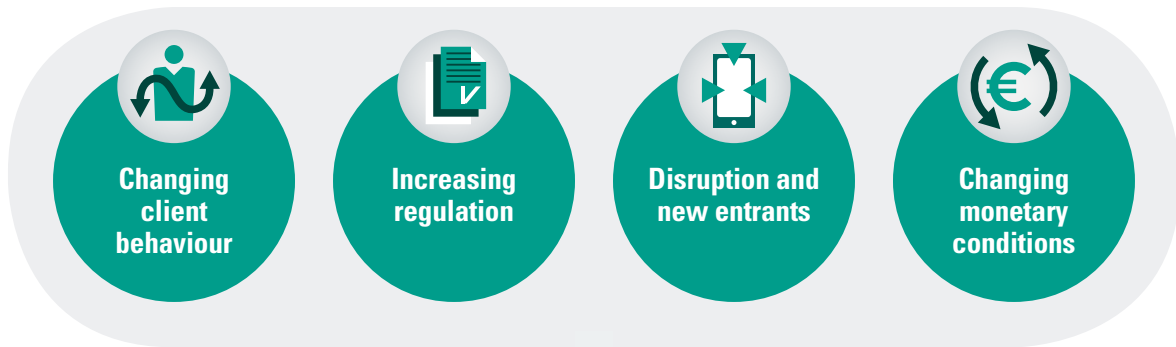
### Financial Capital

We use financial capital – including reserves generated through equity, client deposits and other funding sources – to invest in our activities.





## KEY TRENDS



## OUTPUT

## VALUE CREATED


**Social and Relationship Capital**

We are redesigning our business and distribution models to address changing client needs, and we offer personalised advice and tailor-made products and services.

**-15** NPS Retail Banking  
**-1** NPS Private Banking  
**6** NPS Corporate Banking  
**3.1** Trust Monitor score  
 (on a scale of 1 to 5)


**Digital and Technological Capital**

We are opening up our network by forging partnerships. We strive to ensure a stable, secure IT landscape with high availability while protecting client data, guaranteeing privacy and combating fraud.

**99.87%** Availability of our digital services  
**5.9 million** Number of internet banking contracts


**Natural Capital**

We are minimising the environmental footprint of our operations and embedding environmental principles in our corporate and real estate financing and our investment services.

**EUR 8.2 billion** Sustainable client assets  
**1.62 tonnes** CO<sub>2</sub> emissions in tonnes per FTE


**Human and Intellectual Capital**

Our purpose, strategy, values and principles form our culture. We are introducing agile methods bank-wide. Our engaged staff share their financial and sector expertise with our clients and partners.

**82%** Employee engagement score  
**2%** Training expenses as a percentage of total personnel expenses


**Financial Capital**

We have a moderate risk profile, contributing to a strong, stable financial sector. Effective management and an improved Dutch economy will lift our ROE and dividend payout.

**11.8%** Underlying return on equity  
**17.0%** Fully-loaded CET1 ratio

## OUTCOME

## VALUE SHARED

**We are creating an agile organisation and a more sustainable business model that addresses our stakeholders' needs.**

**Clients**

Client satisfaction is rising and the number of loyal clients is growing.


**Employees**

Employee engagement grew in 2016, but job losses will affect our workforce.


**Society at large**

We are contributing to a better world while improving our bank's reputation.


**Investors**

Sustainable revenues, healthy cash flows and share price, responsible tax policy.





Introduction

**Strategy**

Business

Risk, funding & capital

Leadership

Governance

Annual Financial Statements

Other



Introduction

**Strategy**

Business

Risk, funding & capital

Leadership

Governance

Annual Financial Statements

Other



# Business

This section includes an overview of our operating environment, discussion and analysis of both financial and non-financial results, and business review of the different segments for the years 2016 and 2015.

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### Responsibility statement

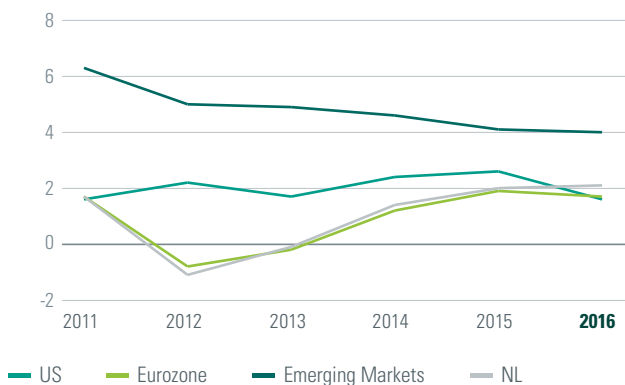
# Operating environment

## Economic environment

2016 was a fairly calm year for the global economy. Growth in the US and the eurozone was neither spectacular nor worrying. With actual growth slightly exceeding potential, unemployment in the eurozone declined and public finances improved, while inflationary pressure did not increase.

The US economy strengthened in the course of the year as the energy sector stabilised and the inventory cycle in the manufacturing sector turned positive. Despite fears of a hard landing in China, the Chinese economy stabilised, partly thanks to fiscal stimulus. The Dutch economy showed convincing growth in 2016, with consumption, fixed investments and international trade all contributing. The mood on the global financial markets was not calm at all, but improved significantly in the latter part of the year. The AEX index, for example, fluctuated between 383 and 482. Markets shrugged off unexpected political unrest relatively easy (Brexit, US elections, Italian referendum).

### Calm year for global economy (GDP, % year-on-year)



Source: Thomson Reuters Datastream, EIU.  
EM figure for 2016 is ABN AMRO estimate.

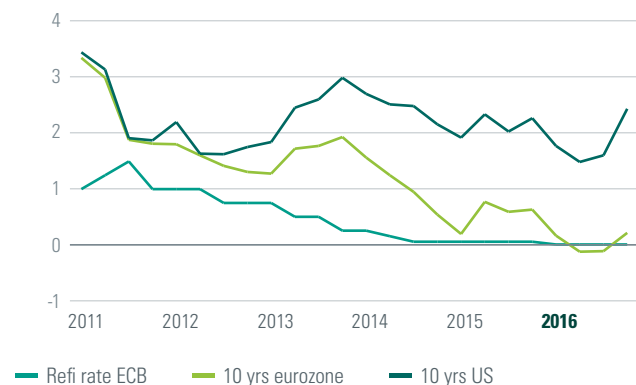
### Interest rates under pressure as a result of ECB policy

The European Central Bank maintained its highly relaxed monetary policy in 2016, deviating from the US Federal Reserve, which raised its federal funds rate by 25 basis points in December. Inflation in the US is still low, but

the job market has picked up considerably and the new government has expansive budgetary intentions, sowing the seeds for higher inflation. The eurozone, on the other hand, saw only minor tendencies towards domestic inflation. Persisting slack in the economy kept a firm lid on inflation, but at least deflation fears eased. Yields on the capital market rose in the final months of the year under the influence of rising interest rates in the US.

### Rising long yields in latter part of 2016

(Interest on 10-year government bonds and ECB rate)



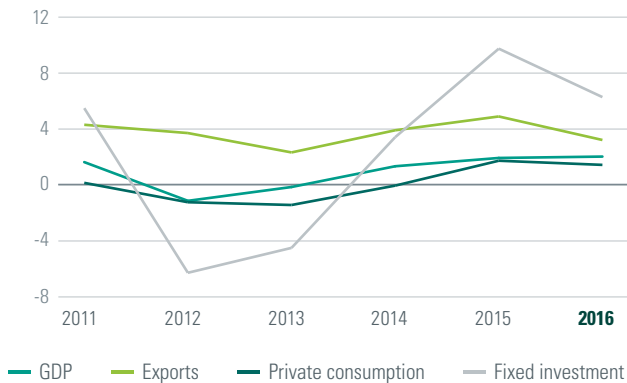
Source: Thomson Reuters Datastream.

### Dutch economy continues to recover

The Dutch economy grew by 2.1% in 2016, more or less matching growth in 2015. Both years saw growth in all areas of spending. Although global trade did not grow spectacularly, Dutch exports did well. Fixed investment rose sharply, mainly because residential construction continued to climb steeply on the back of the strong recovery of the housing market. Corporate investment rose more than 4% in 2016. Household consumption rose around 1.5%, which is not surprising considering

the significant improvement in purchasing power in 2016. The increase in the number of employed people also stimulated consumption.

### Another fruitful year for Dutch economy (% year-on-year)



Source: Thomson Reuters Datastream.

### Housing market is booming

The housing market continued its powerful upward spiral in 2016. Sales growth was very strong: the number of homes sold was 20%<sup>1</sup> higher in 2016 than it was a year earlier. Growth was seen in all provinces of the country. Signals of overheating were visible in several larger cities. National house prices rose by almost 7% between December 2015 and December 2016. At year-end 2016, the national price level was 14% higher than the low point in 2013. However, it was still 11% below the 2008 peak. The steady decline in the number of homes for sale indicates an intensifying housing shortage. Low mortgage interest rates are largely responsible for this boom. Moreover, the economy is growing and the job market is on the way up. Other factors are backlog demand and rent increases of recent years.

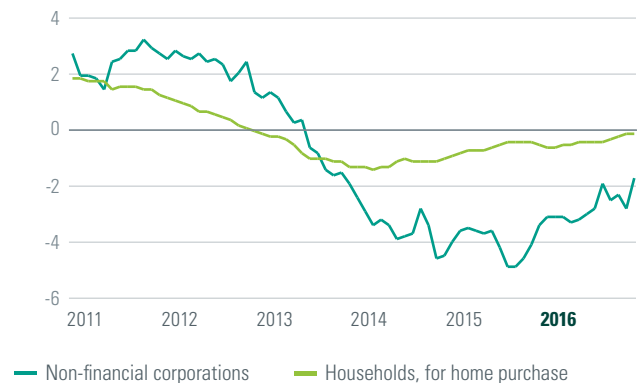
### Lending fails to grow despite economic growth

Bank lending in the eurozone is on the rise, thanks in part to the European Central Bank's relaxed monetary policy. In contrast, the amount of outstanding loans to Dutch businesses by banks in the Netherlands has shrunk continuously since July 2013. This seems related to large companies' preference for issuing bonds over bank credit. The pace of the decline of total outstanding bank loans to businesses diminished during the course of 2016.

<sup>1</sup> Source: Dutch Land Registry (Kadaster).

Mortgage lending to households by banks has hovered around zero growth for the past three years. On this market, the market share of institutional investors has increased substantially.

### Slighter decline in outstanding loans in 2016 (Outstanding loans to Dutch entities, % year-on-year)



Source: DNB.

Data adjusted for securitisations and breaks and excluding notional cash pooling positions.

### Looking ahead to 2017

We expect the Dutch economy to sustain its growth momentum in 2017. Growth of global trade is slim, but budgetary incentives in the US could provide an extra boost. We foresee stable growth in the eurozone. Large budgetary incentives are not in the cards, but favourable corporate earnings should give fixed investment within the eurozone a push. The European Central Bank, unlike the Fed, will continue its purchasing programme until at least the end of 2017. Diverging central bank interest rates could weaken the euro. Dutch exports could benefit from these developments. The strong improvement in purchasing power will also continue to drive household consumption in 2017. We expect growth of the housing market to flatten in the coming year. Elevated prices and a lack of suitable properties for sale could dampen demand.

Developments on the political front will cause uncertainty going forward. The outcomes of the British referendum on leaving the EU and of the US presidential election were surprising. In both cases a nationalistic course turned out to be the winning formula. It appears that the public's trust in the benefits of free trade has been harmed. Elections in various eurozone countries in 2017, including in Netherlands on 15 March, will reveal whether these two events were exceptions or whether they represent a structural development.

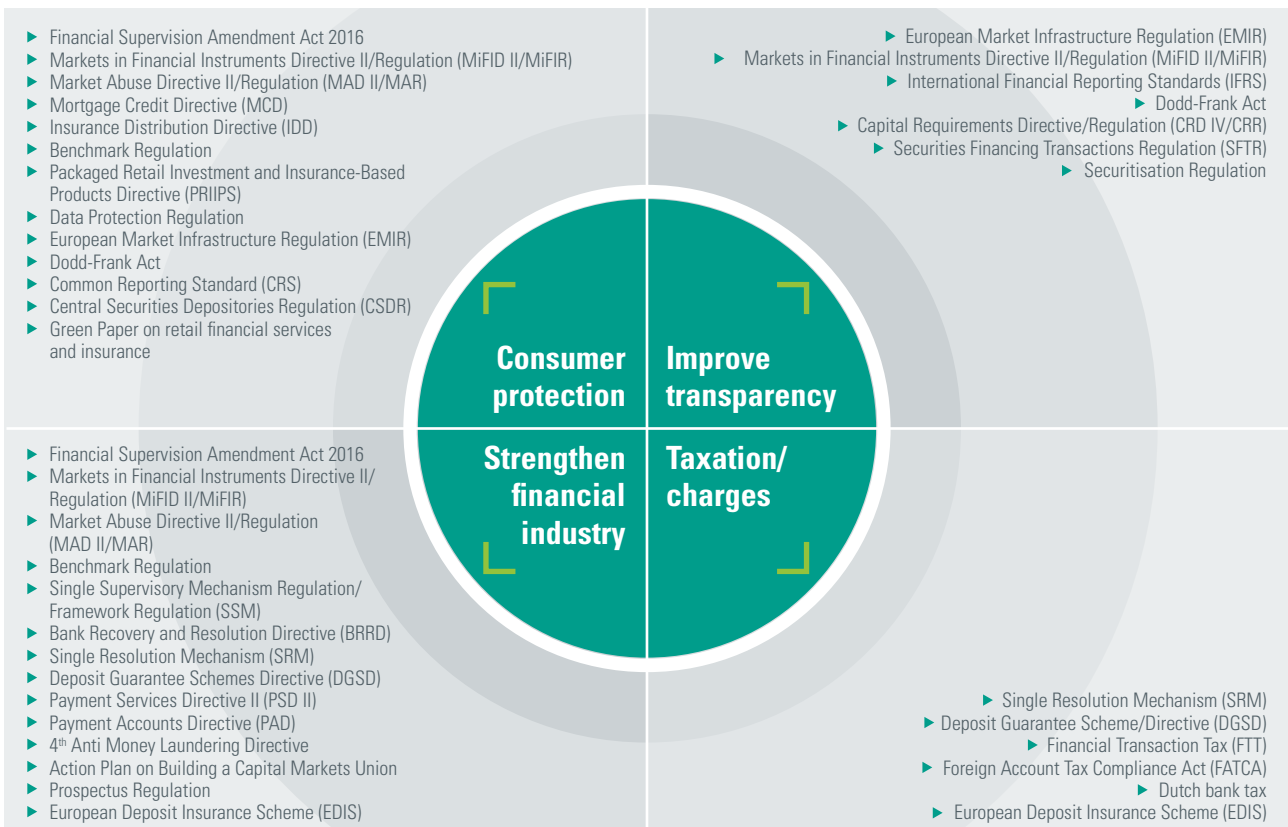
# Regulatory environment

## Overview

The main regulatory developments affecting ABN AMRO in 2016 involved finalising post-crisis European legislation, strengthening the Banking Union and supporting the European Single Market. This resulted in a substantial number of measures being implemented under European legislation, such as the Market in Financial Instruments Directive II (MiFID II), the Payment Services Directive II (PSD II) and the fourth Anti Money Laundering Directive (AMLD IV). Along with regulations and guidance from the national and European supervisors, amendments to the Capital Requirements Regulation and Directive

(CRR/CRD IV) and the Bank Recovery and Resolution Directive (BRRD) have been proposed. Also, further proposals under the Action Plan on building a Capital Markets Union (CMU) have been made (including a proposal for a directive on business insolvency).

Considering the vast volume of rules and regulations, the Regulatory Committee – supported by the Regulatory Office – continuously monitors the bank's response to and implementation of these new rules and regulations to ensure this is done in a timely and efficient manner.



## Strengthening the Banking Union

CRR/CRD IV and BRRD form the basis for the Banking Union. To further create the Banking Union, a Single Supervisory Mechanism (SSM) and a Single Resolution Mechanism (SRM) for banks in the euro area became operational.

## European Deposit Insurance Scheme (EDIS)

Reaching agreement on the proposal for a common European Deposit Insurance Scheme (EDIS) is a priority for the European Commission in order to complete the Banking Union. The European Commission believes that risk reduction



should take place in parallel with the introduction of EDIS; however, in 2016 the Committee on Economic and Monetary Affairs (ECON), a committee of the European Parliament, published a draft report proposing the introduction of a reinsurance period in 2019, but the second and final stage would only be introduced after certain conditions for risk reduction are fulfilled.

### Implementing and finalising remaining Basel reforms

In 2016 the European Commission published a proposal for amendments to CRR/CRD IV. The proposal regarding CRD IV aims to avoid divergent interpretations and resolve disproportionate effects for certain institutions and introduces adjustments to CRD IV as a result of BRRD. The second proposal is to amend CRR in recognition of the need to further reduce risk in order to strengthen the resilience of the European banking system and the markets' confidence in it. The proposal aims to improve existing rules in a proportionate manner. The proposal also amends the existing legislation to align it with policy provisions for prudential requirements, supervision and the recovery and resolution framework.

### Basel Committee proposal

In 2014 the Basel Committee on Banking Supervision (Basel Committee) published consultations for revised standardised RWA calculations and on the application of capital floors (informally referred to as Basel IV). As a result, banks that apply advanced approaches to risk categories may be required to apply the higher of (i) the RWA (REA) floor based on new standardised approaches and (ii) the RWA (REA) based on advanced approaches in the denominator of their ratios. Implementation of the standardised RWA (REA) floors would have a significant impact on the calculation of the Group's risk-weighted assets. This is because of the substantial difference in RWA (REA) calculated on the basis of advanced approaches and such calculation on the basis of new standardised rules for mortgages, and, to a lesser extent, exposures to corporates.

The Basel Committee published a second consultation in 2015 for Revisions to the Standardised Approach for credit risk. The proposals in this consultation differ in several ways from the initial set of proposals in 2014.

In March 2016 the Basel Committee issued a consultative paper regarding the reduction of the variation in credit

risk-weighted assets and the constraints on the use of internal model approaches. The proposed changes to the IRB include a number of complementary measures that aim to reduce the complexity of the regulatory framework and improve comparability and address excessive variability in the capital requirements for credit risk. The consultation paper with revisions to the Basel III leverage ratio framework was published in April 2016, including the adoption of a modified version of the standardised approach for measuring counterparty credit risk exposures, relevant to, among other things, the client clearing business model. The Basel Committee is still discussing the consultation papers.

### Acceleration of the Capital Markets Union

An Action Plan on building a Capital Markets Union (CMU) was presented in 2015 to improve the free movement of capital by removing the barriers to cross-border investments and to diversify the sources of funding.

In 2016 priority was given to the proposal for establishing a framework for simple, transparent and standardised (STS) securitisations and more risk-sensitive capital charges for STS securitisations for banks in CRR. Another priority under the CMU is the proposal for a regulation to revise the current Prospectus Directive to reduce barriers for the listing of smaller firms, secondary issuances and frequent issuers.

In November 2016, a proposal was issued for a directive on preventive restructuring frameworks, a second chance for businesses and measures to increase the efficiency of restructuring, insolvency and discharge procedures. The proposal is intended to help remove barriers to the free flow of capital and to build on national regimes that work well.

### Retail financial services

The Green Paper on retail financial services sets the course for the future of the cross-border provision of retail financial products. ABN AMRO responded to consultations on this Green Paper in 2016. This Green Paper identifies digitalisation and fintechs as key enablers for further integration of EU markets for retail financial products and further proliferation of cross-border financial services. Another key enabler, which requires immediate regulatory attention, is standardised EU electronic identity. The European Commission will publish its Action Plan for retail financial services in 2017.



## Focus on digitalisation and financial innovation

Digitalisation, financial innovation and the role of fintechs were at the top of the agendas of national and EU legislators and supervisors in 2016. The European Central Bank recently announced it will focus on fintech-related issues in its ongoing supervision. The joint EU supervisors identified automated advice as a key focus area in relation to retail financial products. ABN AMRO responded to the consultation paper on automated advice in early 2016, which may result in further guidance on this topic in 2017. In addition, the national legislator proposed setting rules on automated advice with respect to retail financial products. These rules may enter into force in 2017.

The European Parliament also issued a resolution in 2016 with respect to the desired regulatory approach to virtual currencies such as bitcoin and associated distributed ledger technology (blockchain), and the European Banking Authority issued a consultation paper on big data and the use of consumer data. These regulatory developments may result in more specific guidance in 2017.

## Other developments

Many initiatives to integrate European financial markets have resulted in a substantial number of proposals for implementing measures under European legislation. These include MiFID II, PSD II and AMLD IV.

Under MiFID II, in 2016 the European Securities and Market Association (ESMA) published large numbers of implementing measures (delegated acts) that will replace, extend and improve existing European rules on markets in financial instruments, give more extensive powers to supervisory authorities and introduce the possibility to impose higher fines in the event of an infringement of requirements.

A proposal for the act implementing PSD II was published in 2016. One of the main objectives of PSD II is to create a level playing field for payment service providers (including new players). Under PSD II, access to accounts is given to third parties by payment initiation service providers and account information service providers, possibly giving these parties a larger role in the payment system.

A proposal for the act implementing AMLD IV was also published in 2016. Simultaneously, the European Commission proposed certain amendments to AMLD IV.

AMLD IV requires financial institutions to engage in more strict monitoring of money laundering and terrorism financing signals, and to tighten up new client intake and know your client requirements. Some changes foreseen in AMLD IV have a moderate to substantial impact on the bank's operational processes. And while implementation of AMLD IV is scheduled for mid-2017, the bank has set up a multidisciplinary task force to ensure full and timely compliance with the core principles underlying AMLD IV (and possible amendments).

## Outlook for 2017

European financial markets will continue to be integrated in 2017 through further implementation of European rules and regulations (such as MiFID II, PSD II, AMLD IV and the Benchmark Regulation).





Completion of the Banking Union and, in that context, reaching agreement on the proposal for a common European Deposit Insurance Scheme will remain a priority for the European Commission in 2017. On 23 November 2016 the Commission presented a comprehensive package of reforms to further strengthen the resilience of EU banks. It contains measures designed to increase the resilience of EU institutions and enhance financial stability, to improve banks' lending capacity in order to support the EU economy, and to further facilitate the role of banks in achieving deeper and more liquid EU capital markets to support the creation of a Capital Markets Union. The proposal amends the CRD IV directive, BRRD directive and the CRR and SRMR regulations and deals with more risk-sensitive capital requirements, and a binding leverage ratio and Net Stable Funding Ratio (NSFR).

In addition, the European Commission will propose a revision to the European Market Infrastructure Regulation (EMIR) and an Action Plan for retail financial services to break down the national barriers preventing consumers from getting the best value, choice and prices and to benefit from new financial technologies. The European Commission will also ensure follow-up on the call for evidence on the cumulative impact of financial legislation.

The national legislator will continue working on the revision of the Financial Supervision Act (*Wet op het financieel toezicht*) in 2017, also in relation to financial innovations and other European developments.

# Group performance

## Performance on strategic targets

Stakeholder	Metrics	2016	2015	Target for 2020
<b>Clients</b> 	<b>Net Promoter Score<sup>1</sup></b>			Best NPS of Dutch peers
	<b>Retail Banking</b>	<b>-15</b>	-23	
	<b>Private Banking<sup>2</sup></b>	<b>-1</b>	-4	
	<b>Corporate Banking</b>	<b>6</b>	-2	
<b>Employees</b> 	<b>Employee engagement<sup>3,4</sup></b>	<b>82%</b>	76%	At least 80%
	<b>Gender diversity at the top<sup>5</sup></b>	<b>25%</b>	23%	30% women in top
	<b>Gender diversity at the subtop<sup>6</sup></b>	<b>26%</b>	25%	35% women in subtop
<b>Society at large</b> 	<b>Dow Jones Sustainability Index ranking<sup>7</sup></b>	<b>87</b>	78	Within 10% best banks
	<b>Trust Monitor AFM/NvB<sup>8</sup></b>	<b>3.1</b>	3.1	Leading among large Dutch banks
<b>Investors</b> 	<b>Underlying return on equity</b>	<b>11.8%</b>	12.0%	Pending Basel IV
	<b>Underlying cost/income ratio</b>	<b>65.9%</b>	61.8%	56-58%
	<b>CET1 (fully-loaded)</b>	<b>17.0%</b>	15.5%	Pending Basel IV
	<b>Dividend pay-out ratio</b>	<b>45%</b>	40%	Pending Basel IV

<sup>1</sup> Please refer to the respective business line chapter for more information about measurement of NPS.

<sup>2</sup> Score is a weighted average of the PBI and PBNL scores, weighted by operating income of the respective segments. The set-up of the NPS surveys differs among the segments.

<sup>3</sup> Source: annual survey by Willis Towers Watson. Total number of respondents: 21,952.

<sup>4</sup> 2016 score based on revised measurement method. For more details on employee engagement, please see 'Employee engagement' in the Group performance section of this report.

<sup>5</sup> Diversity at the top is measured as the percentage of female employees in Hay salary scale 14+.

<sup>6</sup> Diversity at the subtop is measured as the percentage of female employees in Hay salary scale 12 and 13.

<sup>7</sup> Source: RobecoSAM.

<sup>8</sup> Source: Trust monitor, Dutch Banking Association. Published 3 October 2016. Degree of confidence in own bank. (scale 1-5).

See also: [nvb.nl/nieuws/1464/vertrouwensmonitor-banken-vertrouwen-in-sector-stabiel-maar-laag-in-eigen-bank-hoger-klantbelang-meer-gediend.html](http://nvb.nl/nieuws/1464/vertrouwensmonitor-banken-vertrouwen-in-sector-stabiel-maar-laag-in-eigen-bank-hoger-klantbelang-meer-gediend.html)

For the definition of abovementioned concepts, please refer to 'Definitions and other important terms'.

# Material topics Limited assurance

This chapter describes certain topics that our stakeholders have identified as being material. The topics that are relevant to ABN AMRO at group level are described in this chapter. Other material topics are described elsewhere in this report.

## Reinforcing ethical conduct

### Connectivity of material topic 2

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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ABN AMRO invests in creating and maintaining an organisational culture that encourages employees to do the right thing. As a learning organisation, we want to improve a little bit every day. To this end, we encourage our staff to engage in a continuous dialogue on ethical behaviour. All employees and managers are expected to comply with the letter and spirit of the laws and regulations that apply to ABN AMRO.

The bank's policies, core values, principles and code of conduct guide our staff in displaying the right behaviour. We support our employees in striking a balance between being driven by rules and being driven by values. The regulatory authorities expect the bank not only to implement regulations, but also to ensure that employees understand the concepts underlying the regulations and the bank's policies and to act accordingly.

### Educating employees

We train our employees and conduct awareness campaigns to ensure that staff understand the guidelines and why it is important to comply with them. The campaigns are designed to motivate employees to do the right thing and to act in accordance with the letter and spirit of the law, rather than blindly following procedures.

The Compliance & Conduct department sets priorities based on identified risks, regulatory requirements and the needs of the businesses. It uses this information to develop learning solutions, which are rolled out and monitored primarily by the businesses while Compliance & Conduct maintains oversight. Line management is responsible for monitoring completion of all mandatory training courses as defined in the business curricula.

In 2016 we added a number of courses to the Compliance & Conduct curriculum on the topics of client centricity, client acceptance and anti-money laundering, sanctions and conflicts of interest. These courses offer an effective method for discussing real-life dilemmas around these themes. We also developed new e-learning modules on anti-money laundering and market abuse as well as a bank-wide learning app on operational risk, information security and business continuity management.

### Ethics Committee

In 2015 the bank's senior management set up the Ethics Committee, which consists of a diverse team of employees and is chaired by a member of the Managing Board. Employees that encounter a problem which is not covered by rules and regulations can submit the issue to the Ethics Committee. The Ethics Committee discusses moral dilemmas facing the bank and guides staff in handling difficult situations.

The committee meets once every quarter and on an ad-hoc basis as necessary. It reviews issues in light of laws and regulations and the bank's core values, principles, strategy and corporate identity. The committee uses a six-step plan for taking decisions on ethical matters and considers the interests of all parties involved, including clients, employees and investors. The dilemmas and guidance are shared throughout the organisation.

## Root cause analysis

In managing conduct risks, we supplement our controls with a root cause analysis. The analysis gives us greater insight into the root causes of behaviour that caused the controls to fail, and the root causes are incorporated into action plans. This allows us to take more effective and efficient measures against conduct that deviates from rules and procedures. Controls and root causes are registered in the ABN AMRO Global Risk Management Framework, giving us insight into how well our control measures are functioning. The businesses have integrated this method into their monthly and quarterly monitoring of the conduct risk framework.

The quality of root cause analyses, conduct drivers and action plans for conduct risks is safeguarded by the Compliance & Conduct department. All employees who are part of the first and second lines of defence are trained to perform a root cause analysis: 1,333 employees had been trained at year-end 2016.

Our quality control procedures regarding mortgage advice identified a breach of the bank's procedures in 2016. Security & Information Management, Compliance & Conduct and Group Audit work together in investigating facts and root causes. More information on this topic is provided in the [Business Performance – Retail Banking](#) chapter of this report.

## Trend analysis

Compliance & Conduct conducts bank-wide analyses of trends and patterns of conduct risks, and reports on these issues to the Managing Board, on a quarterly basis. The thematic analysis helps us understand the barriers to and incentives for good conduct by highlighting the gap between desired and actual behaviour. As a result, we can proactively govern attitude and behaviour and identify and effectively manage conduct risks. Examples in 2016 include an analysis of tone of voice in a learning organisation. We acquired valuable insights into the situation on this front at PBI in 2016. We now know how our employees perceive their day-to-day environment at PBI and what they feel are potential areas for enhancement.

## Preventing corruption, fraud and cybercrime

### Connectivity of material topic 3

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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Integrity, transparency and duty of care are key elements of ABN AMRO's business principles. Protecting our clients and the bank against corruption, fraud and cybercrime is essential to the bank. Clients expect to be able to make secure payments, and society expects us to conduct business as securely as possible and with the highest degree of integrity. Corruption, fraud and cybercrime can cause significant financial losses and reputational damage to our clients and the bank. We therefore have a dedicated organisation in place to ensure information security and bolster our resilience to financial crime and unethical and illegal behaviour.

### Resilience to threats

We have an information security framework in place which defines management and staff responsibilities and sets out security directives that apply to the bank, its vendors and third parties with whom the bank exchanges information. The Chief Information Security Office (CISO) systematically monitors client transactions in order to detect fraudulent transactions and to raise awareness and support the relevant staff in mitigating fraud risks. Security & Intelligence Management (SIM) monitors and reports the number of issues relating to fraud, information security and compliance breaches. SIM also monitors losses for the bank's clients and the bank itself. Key alerts and quarterly updates are distributed in order to inform the relevant staff.

ABN AMRO also has a security framework in place to manage the risk of, and to prevent, financial crime and unethical behaviour. Measures the bank uses include organisational controls, anti-fraud and sanction risk assessment, client and employee screening, global education and awareness training. Before introducing new products and services, the bank assesses possible risks related to these products and services, such as the possibility of fraud, via Change Risk Assessments (CRA).

The bank raises awareness among clients and employees on how to recognise and prevent financial and economic crime (such as fraud, corruption and cybercrime).

The bank cooperates with other major banks, police and justice departments to shield financial transactions from potential criminals.

## Cybercrime

ABN AMRO's information infrastructures connect the bank's networks with public networks. As a result, banking processes and their supporting information systems inherently are vulnerable, threatening the security and availability of client data and services. The bank is faced with a constant threat of cybercrime. Examples of such threats are computer assisted fraud, unauthorised disclosure of confidential information, virus infection, computer hacking and denial of service. Specific examples of cybercrime that clients experience are fake emails (phishing) and malicious software (malware).

In recognition of the importance of protecting our clients' and the bank's information and the bank's associated assets, such as systems and infrastructure, at all times, we have established a structured approach to information security to ensure the confidentiality, integrity and availability of information. This approach defines the organisational framework, management and staff responsibilities, and information security directives that apply 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 adjusts the bank's defences where necessary.

## Measuring progress

The Dutch Banking Association (NVB) represents the common interests of the Dutch banking sector. Each major bank in the Netherlands (including ABN AMRO) reports its payment transaction fraud losses to the NVB, and the NVB publishes overall payments transaction fraud loss figures. The NVB reported a 32% decrease in payment fraud in the first two quarters of 2016 (total loss of EUR 4.7 million) and an 82% decrease in internet banking fraud (net loss of EUR 148,000).

Our partnerships resulted in joint awareness campaigns for the general public, joint investigations and criminal charges against a number of suspects.

## Privacy and trust

### Connectivity of material topic 9

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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Traditionally, clients have expected their money to be safe with us. Today, clients also need to be able to trust us to handle their personal data with care. Rapid technological developments and growing societal awareness of privacy issues reflect the importance of this subject. We believe it is crucial for us to provide transparency on how we handle personal data in order to secure the trust of all our stakeholders.

This is one reason why we apply the strict European legislation to our global organisation, including the countries in our international network outside Europe, by means of Binding Corporate Rules. We want our clients to know how seriously we take this issue. At the same time, the Binding Corporate Rules give all of the bank's staff clarity on the rules and regulations governing personal data. The principles of the relevant European legislation have been incorporated into our Personal Data Policy.

In January 2016, the Privacy Office was set up to increase global oversight and control over the bank's privacy risks by implementing and maintaining an adequate and effective privacy risk framework designed to support the business lines in managing privacy risks.

## Personal data breach

One of the responsibilities of the Privacy Office is to be alert to possible violations of the confidentiality of personal data in order to minimise or prevent potential negative consequences for clients and the bank. To this end, an internal notification process was designed and implemented in 2015. The Privacy Office reviews any incidents involving the loss of personal data and decides whether formal notification to the Dutch Data Protection Authority is required.

## Privacy regulation

The EU General Data Protection Regulation (GDPR) replaces the existing EU Data Protection Directive and its implementation in member states' laws (*Wet Bescherming Persoonsgegevens* in the Netherlands). It aims to reinforce the data protection rights of individuals, facilitating the free flow of personal data in the digital single market. The GDPR will enter into force in 2018.

To ensure compliance with this regulation by 2018, we have initiated global implementation in order to raise the level of privacy protection within the bank even further. We will implement additional technical and organisational measures to ensure, and to demonstrate that, processing of personal data is performed in compliance with the data protection principles set out in the GDPR. An example is the development of a user-friendly Privacy Impact Assessment tool that will help identify high privacy risk areas.

## Employee engagement

### Connectivity of material topic 11

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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Our people are our most valuable asset: ABN AMRO can only live up to its pledge to clients if it has a highly talented and committed workforce. We offer our staff a challenging and rewarding environment in which they do meaningful work and add value for clients.

We believe in an open corporate culture in which employees have a say and are encouraged to help build the organisation. Employees who give our management feedback on what needs to be improved in the organisation help us create a future-proof and successful bank. They are a reflection of our open culture and our people's engagement. We have a fair remuneration policy and we offer our staff training programmes to promote their development and to enhance engagement. The [Remuneration section](#) discusses our remuneration policy. Employee representation at the bank is discussed in the Employee Representation section.

In September 2016 we conducted our fourth global Employee Engagement Survey (EES). The questionnaire was available in five languages spoken across the ABN AMRO network. With nearly 22,000 people (internal and external staff) completing the survey, the response rate was 80%, making the results highly representative. In order to improve the comparability of our results with the benchmark and to gain a more accurate and complete perspective on employee engagement, we used a slightly different measuring method in 2016. This method focuses more on sustainable engagement, which also incorporates how enabled and energised employees feel. To measure this, two old questions were removed, and five new questions were added to the engagement index.

The 2016 EES showed an employee engagement rating of 82%, 2 percentage points higher than the financial services norm. We slightly changed the measuring method in 2016 to improve comparability with the benchmark. Under the old method, the employee engagement score would have been 77%, 1 percentage point higher than in 2015. The target for 2016 was 78% based on the old method. With a 77% score the target was not met by 1 percentage point. In October the overall bank results were shared with all employees. Managers received results for their teams and, as in previous years, were encouraged to discuss the results with their teams and take the desired actions. This process is being evaluated by two specific questions in the questionnaire: 'Have you seen the results of last year's EES for your team?' (78%) and 'Has action been taken in response to last year's EES?' (52%).

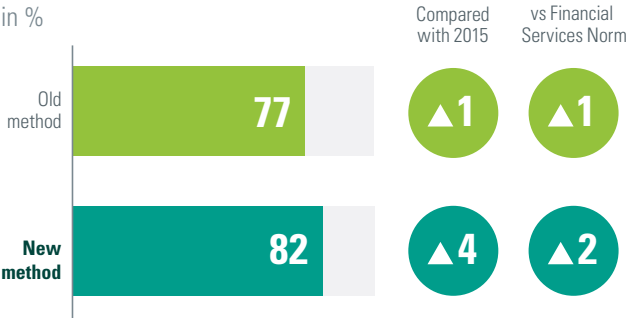
### Better teamwork, greater efficiency

Nearly all categories achieved a better score in 2016. Efficiency improvements and collaboration – two of our priorities in the past year – did particularly well. Sixty-eight per cent of respondents gave a favourable score on the bank's efficiency; this is a 6 percentage point improvement on 2015, but 2 percentage points below the financial services norm. In addition, 82% said that they felt free to take decisions on their own and 86% believed that problems were being tackled at root cause level and resolved by their team. Seventy per cent of respondents had a positive opinion of collaboration in 2016, up from 63% in 2015. ABN AMRO scores well in this category, at 13 percentage points above the financial services norm.

Teamwork is encouraged, new ideas find more fertile ground and cross-departmental collaboration improved. Another positive point is that many employees added a comment on client focus in the open comment box of the survey, reflecting our people's focus on clients' interests.

Our annual Employee Engagement Survey helps us to enhance engagement and constantly improve our performance. Eighty-one per cent of our employees are proud to work for ABN AMRO and 90% are motivated to go beyond what is normally expected of them to help the company be successful.

**Employee engagement<sup>1</sup>**



<sup>1</sup> Please note that the comparison of the 2016 new method score against 2015 is only based on a recalculation of the comparable questions. It was not possible to make a full comparison.

**Focus on decisiveness and pace of change**

Besides the many high scores, the 2016 EES also revealed areas where we need to take action. Respondents were critical when it comes to decisiveness and priority-setting on the part of senior management. They also have less confidence in the future of the bank than they did in 2015 (-4% and also 2% below the industry norm). The EES was held before the bank's updated strategy was communicated. In addition, 32% of respondents said that they felt the bank is changing at too slow a pace. The Managing Board shares these concerns; these issues are essential for the future of the bank and we have worked hard to address them over the past year. To ensure the bank's lasting success, we need to look closely at these issues and take effective measures.

**Talent and development**

**Connectivity of material topic 11**

<p>Link to strategy</p>	<p>Important to these stakeholders</p>	<p>See material topics and connectivity on page 18</p>
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ABN AMRO encourages its staff and managers to continuously pursue their personal and professional development. While we do this in part to comply with legal requirements, we believe continuous development helps our employees make a difference for our stakeholders.

**Investment and appreciation**

In 2016 we invested EUR 54 million in employee training and development, around 2% of our overall personnel costs. We measured the extent to which staff appreciate this investment in our annual Employee Engagement Survey with the questions 'My manager encourages me to invest in my employability' (score of 82%), 'I have received the training I need to do my current job well' (85%) and 'I have the opportunity to continually learn and grow' (83%). Overall satisfaction with Talent and Development stood at 82%, an increase of 5 percentage points on 2015 and 13 percentage points higher than our industry peers. We value these positive results, as it is important in a rapidly changing world for employees to feel encouraged to work on their personal development.

Another way we measure how much our employees invest in their personal development is by looking at their use of the personal development budget. Each member of staff receives an annual budget of EUR 750 which they can use to improve their employability, in or outside the bank. This budget can be saved for three years before it expires. A new three-year saving period started in 2016 for most employees, and 4,533 of our employees used this budget (a total of approximately EUR 1.7 million).



## Leadership

Our managers made full use of the bank's renewed leadership programmes in 2016, with around 1,400 managers participating in a course or programme. This includes a programme for new to role managers, Develop365, which we also started rolling out internationally in 2016. For this programme we examined the extent to which participants apply what they have learned to their daily practice. The benchmark for these kind of programmes usually lies around 40% (of the 100% they have learned). The 2016 score for Develop365 was 100%, meaning participants should show a greater performance improvement.

At the same time, we continued to devote attention to the expertise of our employees, especially financial advisors, in compliance with the Financial Supervision Act (*Wet op het Financieel Toezicht*). A total of 8,089 employees passed 11,373 exams in 2016. Our advisors also maintain their knowledge by means of an online tool that tests their knowledge.

## Redeployment

ABN AMRO has announced cost-saving measures in 2017 which will lead to redundancies. The bank invests in the development of employees whose jobs have been made redundant. We strive to minimise forced redundancies as much as possible, by helping employees find a job either within the bank or elsewhere. Prior to a reorganisation we increase investments in employee mobility.

The mobility organisation supports employees who have been made redundant in their search for a suitable position, either within or outside the bank. ABN AMRO engages internal and external expertise to support employees and pays for the necessary training to prepare them for the labour market. Our main focus is on guiding the employee from job to job. Employees that make use of the mobility organisation also receive an extra personal development budget of EUR 2,000 on top of an amount of EUR 3,000, which is made available as from the date of notification of redundancy. In addition to this EUR 5,000, all ABN AMRO employees also receive an annual budget of EUR 750 to spend on their own personal development or education.

## Open culture and diversity

### Connectivity of material topic **11**

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on page 18
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We can only be successful if we have a diverse workforce that reflects the communities we serve. An inclusive environment plays a pivotal role in developing an open culture. According to the Employee Engagement Survey, 84% of our people are positive about the inclusive environment at the bank. This is 13 percentage points above the financial services norm. The EES is an important indicator of our performance on the diversity front, as is the quarterly diversity KPI dashboard.

ABN AMRO's commitment to diversity and inclusion includes the promotion of equal treatment and equal opportunities for employees, the prevention of harassment, non-discrimination, and compliance with national and local labour and employment laws.

Our diversity vision and guidelines are described in the bank's Diversity & Inclusion policy. The intention is to create a diverse and inclusive workforce and to respect the human rights and equal opportunities of the bank's employees. ABN AMRO aspires to create an organisation in which staff from diverse backgrounds feel welcome and safe, can be themselves and are given the space and recognition they need to use their talents to foster the bank's development and their clients' success. As part of the bank's policy, all businesses have a D&I plan and report on their progress at regular intervals.

In building a diverse workforce, we focus on age, disability, LGBT, gender and cultural background. The bank's D&I plan sets out challenges and actions to be taken for all of these groups.

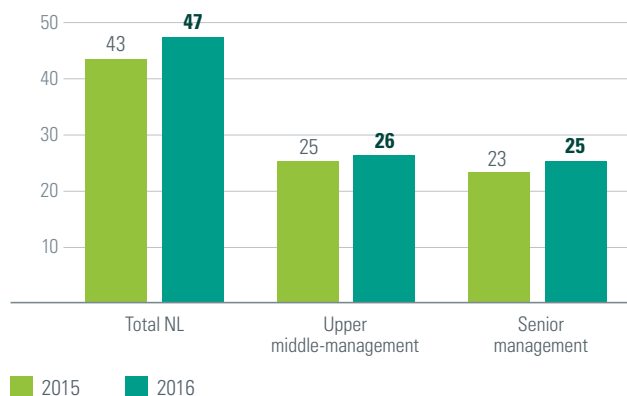
ABN AMRO pursued various diversity initiatives in 2016. Examples are the Diversity Experience conference and mentoring programmes for both women and employees with a bicultural background (such as the Female Career Accelerator Programme and the Cultural Career Accelerator Programme) within and outside the bank. We are also the lead sponsor of De Kleurrijke Lijst for influential Dutch people with a bicultural background and organise the World Wheelchair Tennis Tournament Conference every year.

We also received external recognition for our efforts in this area: ABN AMRO was given the Okura – Emma at Work Award in 2016. This organisation helps young people with disabilities join the labour market. Each year the Okura - Emma at Work Award goes to a company that supports young people with a disability to find work. We are proud to report that we hired several employees with a disability within ABN AMRO. For example, we have an employee with autism working in communications and a severely sight impaired person as a commercial client advisor. These are just a few examples of our commitment to promoting diversity, and the Okura – Emma at Work Award is recognition of the work we have done for many years.

We are also proud of our employee Eeke Olijve, Director of Relationship Management at ABN AMRO MeesPierson, who received The Young Talent Award in 2016. This award recognises women for their innovative leadership style and active contribution to a sustainable society. It is an incentive for young female talent in the Netherlands and an initiative of the Dutch Top Woman of the Year foundation.

### Female representation

(in %)






In line with the group's diversity policy, ABN AMRO strives to meet the gender target of 30% for both the Supervisory Board and the Managing Board. ABN AMRO Group currently meets this target for the Supervisory Board. For the Managing Board, where 14% (1 out of 7) of its members were female in 2016, the diversity target was not met. With the departure of Ms Caroline Princen in 2017, there are currently no women on the Managing Board. All current Managing Board members were either appointed in 2013 or reappointed in 2014 for a four-year period. ABN AMRO Group will give due consideration to any applicable gender requirements in its search to find suitable new members for vacancies who meet the fit and proper requirements under the Dutch Financial Markets Supervision Act. The Supervisory Board is committed to appoint at least one woman to the Managing Board, subject to the relevant profile of the open position, the availability of suitable candidates and approval by the European Central Bank. In addition, ABN AMRO continues to encourage greater diversity at other levels of the Group.

Female representation in senior management and upper middle-management positions is one of the bank's strategic KPIs. With the 2016 figure at 24.5%, we are on track to meet our 2020 target (30%) for female representation in senior management positions. We are behind (26% in 2016) on meeting our 2020 target of placing women in 35% of upper middle-management positions. We will continue to devote attention to increasing the number of women at the top of the organisation and are planning several initiatives to ensure we meet our 2020 targets. For example, we are developing a talent identification programme and 'talent book' to make female candidates for senior and upper middle management positions more visible and we will continue to focus on women in our recruitment communications.

## Responsible tax policy

### Connectivity of material topic **10**

<b>Link to strategy</b> 	<b>Important to these stakeholders</b>  	See material topics and connectivity on <b>page 18</b>
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It is our corporate social responsibility to pay our fair share of tax. We communicate on our tax approach transparently and have published 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, regarding our own affairs and in our dealings with clients.

### Developments

We reviewed and amended our tax principles and tax policy in 2016, and stressed our social responsibility, based in part on the expectations expressed by our stakeholders during the stakeholder dialogue and public discussions. We also discussed tax policy matters in a meeting with the bank's Ethics Committee. Tax avoidance – which is different from tax evasion – and aggressive tax planning are not strictly illegal, but these activities are increasingly unacceptable in today's societal context. As a good corporate citizen we do not use structures that are designed for aggressive tax planning or tax avoidance, and we aim to comply with the intention and spirit of the law. This is also reflected in our tax principles. To promote tax awareness and adherence to the tax policy, Group Tax has actively presented the revised tax policy to the ABN AMRO Group worldwide.

The Panama Papers have strengthened our awareness of our corporate social responsibility, not only for our own tax position but also in our approach to clients. We reviewed the files of our clients who had links to the Panama Papers and held discussions with a number of them. In some cases we re-evaluated the relationship with the client as a result of our review and after consulting the client in question.

### Tax embedded in client acceptance and review procedures

As part of our Reliable and Responsible Banking programme, we extended our client acceptance and review procedures. The procedures not only include a review regarding potential tax evasion – which is never acceptable – but now also include reviews of clients from an aggressive tax planning and tax avoidance perspective. Group Tax supports relationship managers in assessing the tax positions of clients and in defining appropriate actions. If we encounter artificial arrangements that appear to have been put in place for the essential purpose of avoiding taxes, we consult and discuss this with the client in question. Group Tax provided extensive training in 2016, not only to relationship managers but also to legal and compliance officers to enhance their understanding of how to assess clients from a tax perspective. At the same time we are subject to limitations, as it is impossible to perform a complete tax due diligence procedure on our clients.

### Tax embedded in product approval procedures

As we wish to steer clear of aggressive tax planning and tax avoidance, our intention is to not offer products that do not fully comply with the intention and spirit of the law and that place tax motives above commercial motives. This approach is also reflected in our tax principles and tax policy and embedded in the product approval process.

### Transparency

Our tax principles, tax policy and our aim to be a good corporate citizen support our objective to pay our fair share of tax. We report taxable income in each country where we operate and in line with the value creation 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. In addition to the FATCA regulations, we implemented the Common Reporting Standards regulations in 2016 and met our legal obligation to report information on our clients to the tax authorities. Going forward, we will annually review whether our tax policy needs to be adjusted in order to remain responsible.



# Dealing with dilemmas

This section presents a selection of dilemmas the bank faced in 2016, highlighting the interests of our stakeholders and the bank.

## Serving non-resident clients

ABN AMRO has traditionally served clients residing in many different countries, while the bank does not have offices in a number of these locations. As a client-driven bank, we want to serve all our clients, no matter where they are located. However, this has become increasingly difficult in recent years because complying with local requirements is a labour-intensive process that poses the risk of non-compliance both for our clients and the bank. And this is at odds with our moderate risk profile.

How should we resolve this dilemma? Retain these loyal clients despite the risk of non-compliance, or end our relationship with them? Ending the relationship would mean they would have to find a new bank. While this may not be a big problem for people who live abroad on a permanent basis, expats would have to go through this process every few years, and again when they return to the Netherlands.

In the end, ABN AMRO reviewed its country policies and, after careful consideration, decided to stop serving non-resident clients in a number of countries. We have opted for a notice period of six months, giving clients time to make alternative arrangements. And we have made an exception for expats and clients who cannot transfer their bank accounts, for example because they hold a mortgage.

## Expanding in Europe

One of ABN AMRO's strategic priorities towards 2020 is to gradually grow its international business. From a Corporate Banking perspective, this includes growing our Large Corporate business in Germany, Belgium, France and the UK. We will use our existing product portfolio and sector expertise to realise this growth.

Enhancing our presence in Northwest Europe provides us with access to additional revenue pools. Furthermore, it enables us to diversify our risks by lowering the dependency on the Dutch market. Also, we believe that onboarding new ABN AMRO employees with different cultural backgrounds and international sector expertise provides fresh perspectives. This creates the diversity we need to achieve sustainable growth.

We also see the challenges this may bring. New local staff will have to adapt to our company culture or could interpret the bank's moderate risk profile in a different way, leading to potential losses or reputational damage.

We believe that we can manage this risk effectively. We are expanding in countries in which ABN AMRO is already present and are leveraging our existing sector and risk expertise. A culture scan is available to support us in selecting the right staff. Furthermore, to ensure the ABN AMRO culture is embedded in the new local teams, each team will consist of at least one employee who has worked at ABN AMRO for a number of years ensuring a smooth integration into the ABN AMRO organisation. Our international expansion not only offers new business opportunities but also provides career and development opportunities for our employees in the Netherlands and our Corporate Banking staff that is already present in the Northwest European countries.



## Duty of care: to what extent are clients responsible for their choices?

We have a duty of care towards all our clients. This means we have an obligation to offer suitable, appropriate and transparent products to our clients that benefit our clients in the short and/or long term. This is an obligation we are determined to fulfill. As a client-driven bank we feel the responsibility to inform our clients adequately about our products and services. In the past, the extent of the duty of care mainly depended on the professionalism of the client: consumer clients are assumed to have less financial background and therefore need more protection than professional clients.

However, where a clear distinction existed between consumer and professional clients in the past, this distinction has largely disappeared under the influence of new insights of the financial regulators and public opinion in recent years. Given how society's norms have changed, this raises the question: to what extent are our clients still responsible themselves for assessing whether or not a financial product is suitable for their purposes, and to what extent is the bank responsible in this respect? This natural tension might impact the choices we make in the product offering to our clients.




Balancing these two interests remains a challenge. We strive to be as transparent as possible about our products and help our clients manage their financial situation with our products. But due to the developments mentioned above, we have decided that we will no longer offer certain (more complex) products to certain client groups even though these products in itself could be beneficial for the client.

# Technology

The role of IT in the financial industry has changed in recent years: whereas in the past technological advancements primarily boosted efficiency, these days they are essential for offering convenience – clients expect nothing less than 24/7 service, anywhere and with any device. In fact, innovative digital products and services are the distinguishing feature of a successful financial services provider. We aim to be a frontrunner in this area, so we need to make sure our systems can handle these new demands. We are therefore investing heavily in digitalisation and innovation. At the same time, our stakeholders also expect our IT foundation to be robust and secure.

## Stability and availability Limited assurance

### Connectivity of material topic 5

<p>Link to strategy</p> 	<p>Important to these stakeholders</p>  	<p>See material topics and connectivity on page 18</p>
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The stability and availability of our digital services, such as internet banking and mobile banking, are essential to our client offering. Clients expect to be able to make payments anytime, anywhere and easily. Any outage of systems immediately affects the bank's operations and clients.

We monitor and improve our performance constantly. In the event of a disruption, we use various platforms to inform clients: via service messages on internet banking and in our Mobile Banking app, through our Advice & Service Centres and webcare team, and in tweets and Facebook messages. Major disruptions in internet banking, mobile banking, iDEAL and other customer-faced services are reported on abnamro.com, Twitter and Facebook.

We achieved an availability level of 99.87%<sup>1</sup> for internet banking and mobile banking in 2016, an increase compared with 2015. We will continue to devote attention to this area in order to maintain and, ideally, further increase the level of availability.

## Modernising and increasing efficiency

Our overarching goal is twofold: we aim to maintain an IT foundation that is robust and secure yet is also flexible, fast and future-fit. Our current IT landscape is capable of delivering all facets of a full-service bank model which is compliant with multinational regulations and delivers a stable and secure performance. To keep us future-proof, our TOPS 2020 IT programme is simplifying our IT environment by reducing the number of applications and interfaces. By the end of 2016, more than 1,000 applications of a total of approximately 2,400 had been decommissioned since the programme began, with another 400 applications scheduled to be decommissioned by the end of 2019.

Under TOPS 2020 IT, we are also standardising the way applications connect with our core IT systems. By designing software functionality as re-usable standard components, front-end applications can connect with the core IT systems quickly and flexibly. At the end of 2016, more than 195 applications had been migrated to our on-premise, dedicated private cloud, enabling flexibility, scalability and standardisation. A total of 860 applications are scheduled to be migrated to the cloud by the end of 2019. Simplifying the IT landscape will not only increase speed and agility, but will also significantly cut costs. Annual savings are expected to come to EUR 0.3 billion from 2020 onwards although this also includes some cost saves from the Retail Digitalisation programme.

<sup>1</sup> Availability of internet banking and mobile banking during peak hours. Peak hours are from early in the morning to after midnight for all services.



In short, we are combining a robust and secure IT backbone with a fast and agile application landscape. These interface with each other through a standardised connectivity layer, enabling rapid delivery of new products and services. In this way, we aim to make our strong IT landscape a competitive asset in the future.

While we are adapting our IT systems, we are also embedding agile principles in our culture and way of working. Our traditional delivery model needs to be adapted in order for us to cope with the higher pace of change in today's market. We have therefore started transforming our IT delivery chain into a series of multidisciplinary teams with a high degree of autonomy. These teams focus on turning a business idea into a minimum viable product for clients as quickly as possible, greatly reducing the time-to-market for new products. The product is then further developed based on client feedback. We launched our Agile programme in 2014, and by the end of 2016 more than 125 Agile teams (more than 1,100 FTEs) were set up, with a planned total of approximately 300 teams (2,700 FTEs) by the end of 2017.

### Trends on the horizon

At the same time, new trends continue to appear on the horizon, changing the expectations of our regulators and our stakeholders. We foresee certain trends – in particular open banking, advanced analytics and blockchain technology – that will have a significant impact on the banking world.

The revised Payment Services Directive (PSD II), to be introduced in 2018, will open up the market to new entrants by giving third parties access to certain client data. ABN AMRO was already PSD II-compliant in 2016. We believe that, although open banking will intensify competition, it also opens up business opportunities for us. Among other things, we can capitalise on our risk and analytics capabilities. A recent example is the Gradefix pilot we started with De Hypotheker, a Dutch mortgage intermediary, in November 2016. Gradefix uses personal transaction data to calculate a credit score for consumers and SMEs. Clients can subsequently choose whether or not to share this information with third parties, such as a mortgage advisor.

The Gradefix pilot is also a good example of how we are responding to the trend of advanced analytics. There is a

shift taking place from descriptive systems that produce information towards predictive systems that produce insights and enhance decision-making. Advanced analytics is now influencing back-end capabilities, such as trading decisions, fraud detection, cyber security and risk management. In the near future, it will affect front-end capabilities, such as personal advice.

In experiments with our clients, we are exploring how blockchain technology will potentially affect our value chains. What we see is that some value chains will erode, while others will be developed, opening up opportunities for us. We also forged relationships with key global players in blockchain technology in 2016. For example, we invested in the start-up Digital Asset Holdings, closely partnered and experimented with IBM and joined the leading R3 consortium and the Linux Foundation Hyperledger project. In October 2016, ABN AMRO hosted the first-ever Hyperledger Hackathon.

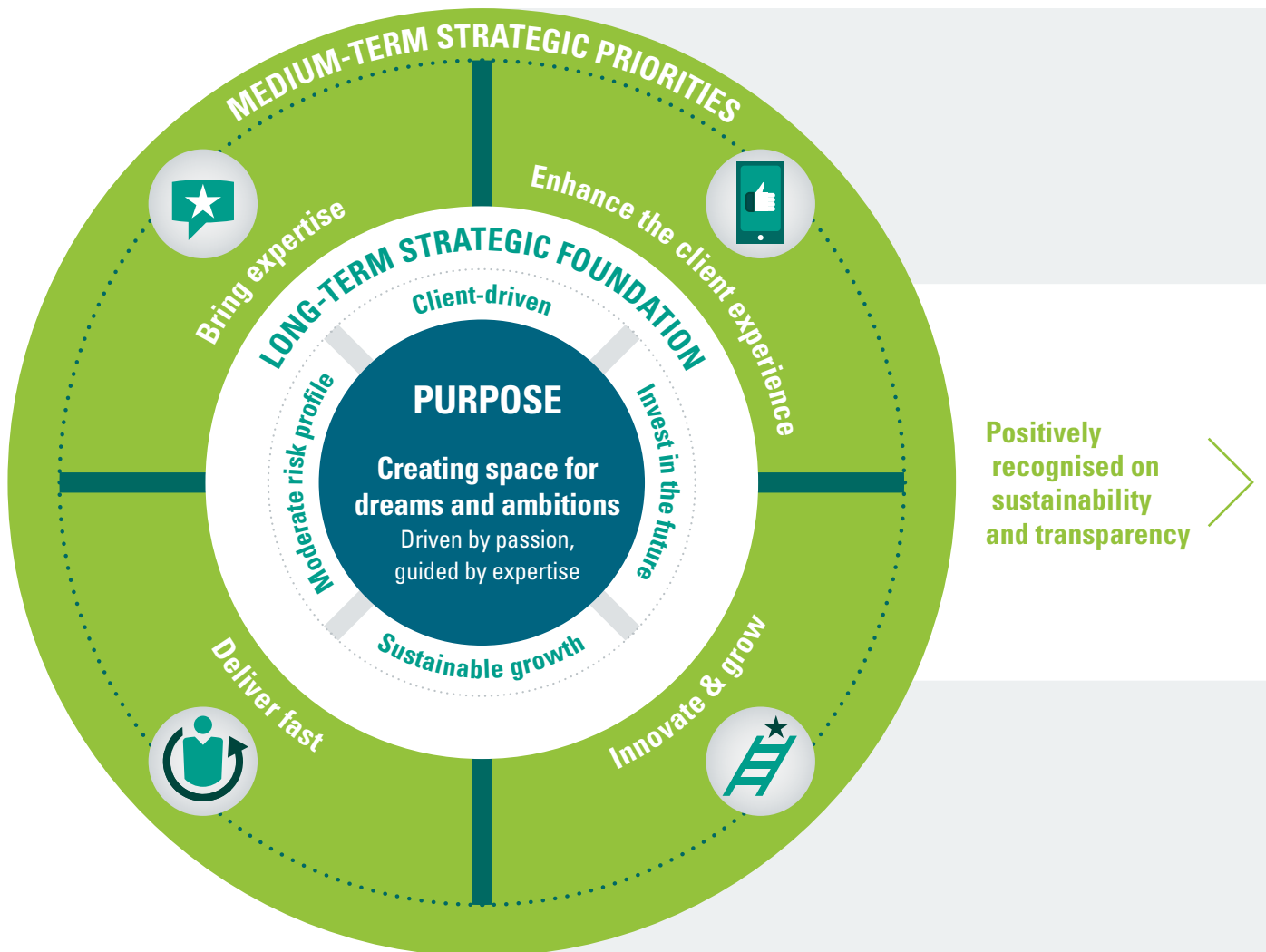
These relationships give us direct access to the latest trends in blockchain technology, which we can use for our own experiments. A good example is Trade Finance, where the combination of blockchain technology and smart contracts creates a powerful trade innovation platform. Domestic and international buyers and suppliers will be able to trade on this secure platform in a fully digitised, simple manner. Another experiment, in which De Nederlandsche Bank is also involved, is Torch. This blockchain application enables parties involved in real estate transactions (e.g. banks, clients, appraisers, notaries, the land registry office, Chamber of Commerce) to record, share and exchange data efficiently and reliably.

### Embracing change

These are dynamic and demanding times for financial institutions. On the one hand, sophisticated cybercriminals pose a potential threat to financial stability and security, while on the other new players are entering parts of our value chain. These challenges are firmly on our radar. Our ambition is to develop innovative, regulatory-compliant products and services, either on our own or in co-creation with fintechs, and to be the first to offer them on a mass scale. The combination of our robust and agile IT landscape and our close relationships with innovators equips us to take on the challenges and opportunities that lie ahead.

# Sustainability

Our pledge is to be a better bank contributing to a better world. We are committed to being positively recognised for our position on sustainability and transparency. In 2016, we made good progress on the goals we set; for example, we significantly improved our scores on the Transparency Benchmark and the RobecoSAM Corporate Sustainability Assessment ranking, which is the basis for the renowned Dow Jones Sustainability Index (DJSI). We also finalised the metrics for our goals, illustrated in the table Progress on sustainability strategy.





## Targeted communication

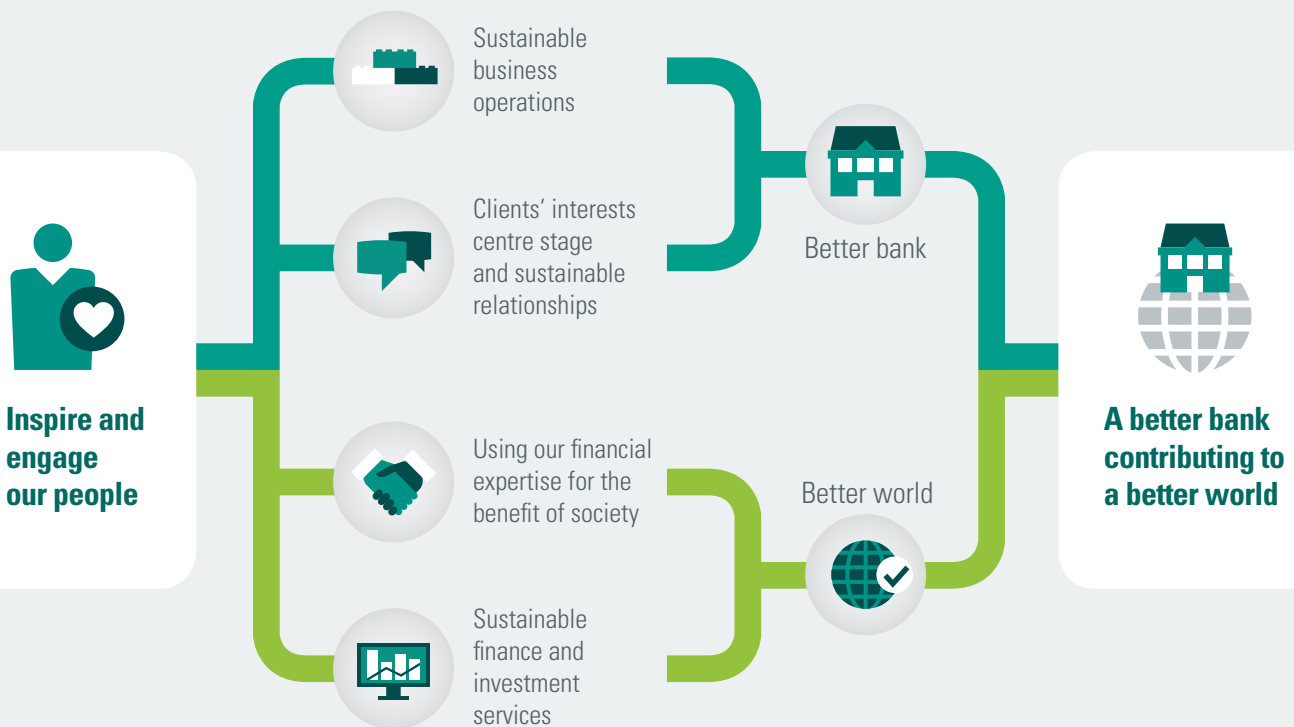
In addition to this Annual Report, we communicate information on sustainability through several channels, targeting specific stakeholder groups. For instance, we issue a quarterly newsletter, 'Sustainable Banking, The How and Why'<sup>1</sup>, which is part of our reporting framework. In addition, the progress on ABN AMRO's four salient human rights issues is addressed in ABN AMRO's first Human Rights Report<sup>2</sup>, published in December 2016.

## Strategy

Our strategic priorities up to the end of 2017 are designed to help us create sustainable value for our stakeholders. As a bank, we play a key role in facilitating business. This means we have an obligation to do business responsibly, put our clients' interests first and address environmental, social and governance (ESG) risks in our financing and investments advice. The connection between our long-term strategy and our sustainability strategy is illustrated in the figure below. In the coming year, we will work on further integrating our sustainability ambitions, including metrics, into our bank-wide strategy for 2020.

<sup>1</sup> [abnamro.com/nl/duurzaam-bankieren/index.html](http://abnamro.com/nl/duurzaam-bankieren/index.html)

<sup>2</sup> [abnamro.com/en/images/Documents/040\\_Sustainable\\_banking/080\\_Reporting/2016/ABN\\_AMRO\\_Human\\_Rights\\_Report\\_2016.pdf](http://abnamro.com/en/images/Documents/040_Sustainable_banking/080_Reporting/2016/ABN_AMRO_Human_Rights_Report_2016.pdf)







## Measuring progress

We made significant progress in achieving our overarching goal to be in the top 15% of the Dow Jones Sustainability Index ranking by 2017. In 2016, ABN AMRO scored 87 out of 100 points, nine points higher than in 2015. This puts the bank in the top 10% in the banking industry.

We achieved this ranking thanks in part to our improvements in the area of human rights and our efforts to reduce our carbon footprint. In addition, we make our employees ambassadors of ABN AMRO by giving them a role in increasing transparency and sustainability at the bank.

## Progress on sustainability strategy

Strategic pillar	Goal	Metrics for 2017	Results in 2016
 <p><b>Sustainable business operations</b></p>	In our efforts to make our own business operations more sustainable and transparent, we act within the letter and spirit of the laws and standards for financial services provision.	<ul style="list-style-type: none"> <li>▶ Carbon emission reduction by 30% compared with 2013.</li> <li>▶ Gender diversity: women to be placed in 30% of upper middle-management positions and 25% of senior management positions.</li> <li>▶ A score of &gt;180 points on the Transparency Benchmark.</li> </ul>	<ul style="list-style-type: none"> <li>+</li> <li>+</li> <li>+</li> </ul> <p>Carbon emission reduction by 37% compared with 2013. Gender diversity: women in 26% of upper middle-management positions and 25% of senior management positions<sup>1</sup>. A score of 188 points on the Transparency Benchmark.</p>
 <p><b>Client centricity and sustainable relationships</b></p>	We offer clients safe and reliable services by combining highly secure and stable systems with client centricity.	<ul style="list-style-type: none"> <li>▶ Increase in the Net Promoter Score by 10% by 2017 compared with 2015.</li> <li>▶ Increase in the Trust Monitor Score by 15% by 2017 compared with 2015.</li> </ul>	<ul style="list-style-type: none"> <li>+</li> <li>+</li> <li>+</li> <li>+</li> <li>+</li> </ul> <p>Net Promoter Score of Retail Banking: -15 (2015: -23)<sup>2</sup>. Net Promoter Score of Private Banking: -1 (2015: -4)<sup>2</sup>. Net Promoter Score of Corporate Banking: 6 (2015: -2)<sup>2</sup>. The Trust Monitor Score remained unchanged in 2016: 3.1 on a scale of 1-5<sup>2</sup>.</p>
 <p><b>Financial expertise for the benefit of society</b></p>	We increase our contribution to a sustainable society by putting our expertise to use in practical and systemic issues.	<ul style="list-style-type: none"> <li>▶ Have 40% of our employees volunteer through ABN AMRO Foundation or other social projects.</li> <li>▶ Increase our social impact on key themes by 15% (in total volume of impact bonds or impact funds) compared with 2015.</li> </ul>	<ul style="list-style-type: none"> <li>+</li> <li>+</li> <li>+</li> </ul> <p>45% of our employees participated via ABN AMRO Foundation or other social projects. Our social impact more than doubled from two social impact bonds to five social impact bonds (from a total of EUR 3.4 million for 740 participants to a total of EUR 7.3 million for 1,443 participants). Our social impact on key themes increased by 60% in volume of impact funds (from a total of EUR 104 million in 2015 to EUR 167 million in 2016)<sup>3</sup>.</p>
 <p><b>Sustainable finance and investment services</b></p>	We enhance the bank's positive value creation by transparently integrating ESG/ESE criteria into our client assets and lending.	<ul style="list-style-type: none"> <li>▶ ESG criteria to be further integrated into our investments and a 15% increase of loan book with environmental, social and ethical (ESE) indicator, as compared with 2015.</li> <li>▶ To be recognised as a sustainable bank by our clients with an increase by 10% compared with 2016.</li> </ul>	<ul style="list-style-type: none"> <li>+</li> <li>+</li> <li>+</li> <li>+</li> </ul> <p>Sustainable client assets increased from EUR 6.4 billion to EUR 8.2 billion, up 28% compared with 2015.<sup>2</sup> Increase of lending volume with GSRI or SMOS rating by 19% (from 38% in 2015 to 57% in 2016).<sup>2</sup> Baseline measurement took place in 2016<sup>4</sup>: Retail Banking: 21% Private Banking: 15% Corporate Banking: 20%.</p>

<sup>1</sup> For details of the definition, see Performance on strategic targets.

<sup>2</sup> For details of the calculation method, see the definition provided in the Business section of the Annual Report.

<sup>3</sup> Increase of our social impact on key themes calculated by change in impact funds. ABN AMRO has identified six impact funds, which are included in this calculation. Impact has been defined based on a definition of GIIN (source: GIIN, [thegin.org/impact-investing/need-to-know/#s1](http://thegin.org/impact-investing/need-to-know/#s1)).

<sup>4</sup> Definition: percentage of clients that rank ABN AMRO with a 4 or 5 on a scale of 1-5 on the question 'Do you recognise ABN AMRO as a sustainable bank?' Source: Brand track, N = 2,050.

+ Positive
 ■ Unchanged/some improvement
 ■ Negative



We measure the results of our efforts with our Employee Engagement Survey and aim to score 80%<sup>1</sup> or higher by 2017. The employee engagement rate rose from 76% in 2015 to 82%<sup>2</sup> in 2016. Further details on our progress are provided in the table Progress on sustainability strategy.

### Governance: embedding sustainability in the organisation

We report on the progress we have made in implementing our sustainability strategy on a quarterly basis to the Chief Executive Officer, who is ultimately responsible for sustainability. The Sustainable Banking department submits reports at least once a quarter to the Managing and Supervisory Board as part of the monitoring of our long-term strategy (more details are provided in the Governance section). We also report specific sustainability results to senior management of the businesses. Sustainability experts are employed in most businesses to foster engagement with this theme throughout the bank. The activities and efforts of these sustainability experts are integrated into the various business chapters in this section of the report.

### Outlook

In the coming year, we will continue to report on our progress in a transparent manner. Our goals and metrics will be updated for the year 2018 and beyond. We will strengthen the connection between the goals and topics that our stakeholders consider to be the most material issues. In addition, we will continue to explore how we contribute to the United Nations' Sustainable Development Goals (SDGs).<sup>3</sup> We started this work in September 2015 when the 17 SDGs were published and we performed a selection process in 2016, resulting in a shortlist. In 2017, the questions we will focus on are: How well do the individual SDGs and underlying targets relate to our material topics, strategy, core banking activities and the countries that we and our clients operate in? The aim is to make a lasting and meaningful contribution to achieving the SDGs.



<sup>1</sup> Target is based on old measurement method. For more details on employee engagement, please see 'Employee engagement' in the Group performance section.

<sup>2</sup> 2016 score based on revised measurement method. For more details on employee engagement, please see 'Employee engagement' in the Group performance section of this report.

<sup>3</sup> [sustainabledevelopment.un.org/?menu=1300](https://sustainabledevelopment.un.org/?menu=1300)

# Financial review

This section includes a discussion and analysis of the financial condition of ABN AMRO Group for the years 2016 and 2015. The information in this section is presented on the basis of underlying results. A reconciliation from reported to underlying results is provided in this section as well. The Business performance chapter of the Business section provides more information on the activities, clients and products of the different segments as well as a discussion and analysis of the financial condition of the segments.

## Income statement

### Operating results

(in millions)	2016	2015	Change
Net interest income	6,277	6,076	3%
Net fee and commission income	1,743	1,829	-5%
Other operating income	568	550	3%
<b>Operating income</b>	<b>8,588</b>	<b>8,455</b>	<b>2%</b>
Personnel expenses	2,777	2,492	11%
Other expenses	2,880	2,736	5%
<b>Operating expenses</b>	<b>5,657</b>	<b>5,228</b>	<b>8%</b>
<b>Operating result</b>	<b>2,931</b>	<b>3,227</b>	<b>-9%</b>
Impairment charges on loans and other receivables	114	505	-77%
<b>Operating profit/(loss) before taxation</b>	<b>2,817</b>	<b>2,722</b>	<b>3%</b>
Income tax expense	740	798	-7%
<b>Underlying profit/(loss) for the period</b>	<b>2,076</b>	<b>1,924</b>	<b>8%</b>
Special items	-271		
<b>Reported profit/(loss) for the period</b>	<b>1,806</b>	<b>1,924</b>	<b>-6%</b>
<i>Of which Non-controlling interests</i>	1	5	

## Other indicators

	2016	2015
Net interest margin (NIM) (in bps) <sup>1</sup>	152	146
Underlying cost/income ratio	65.9%	61.8%
Underlying cost of risk (in bps) <sup>1, 2</sup>	4	19
Underlying return on average Equity <sup>3</sup>	11.8%	12.0%
Underlying earnings per share (in EUR) <sup>4</sup>	2.16	2.03

<sup>1</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

<sup>3</sup> Underlying profit for the period excluding reserved coupons for AT1 Capital securities (net of tax) and results attributable to non-controlling interests divided by the average equity attributable to the owners of the company.

<sup>4</sup> Underlying profit for the period excluding reserved coupons for AT1 Capital securities (net of tax) and results attributable to non-controlling interests divided by the average outstanding and paid-up ordinary shares.

	31 December 2016	31 December 2015
Client Assets (in billions)	322.7	313.5
FTEs	21,664	22,048

## Analysis

ABN AMRO's **underlying profit** for 2016 was EUR 2,076 million, an increase of EUR 152 million compared with 2015. Significantly lower impairment charges and higher operating income were partly offset by higher expenses, mainly related to restructuring provisions in Q3 and Q4 2016.

**Reported profit** for 2016 amounted to EUR 1,806 million and includes an addition to the provision for SME derivatives-related issues of EUR 271 million net of tax, recorded in Q2 2016. The difference between underlying and reported results is shown in the table Reconciliation from underlying to reported results.

In December 2016 a final version of the settlement for SME derivatives-related issues was presented by the committee of independent experts. A new element in the Uniform Recovery Framework is that all files and client compensation proposals must be reviewed by independent external parties. This additional review will lead to higher-than-expected execution costs for which we recorded a provision of EUR 55 million in 2016 (in other expenses of Corporate Banking). In addition, the existing provision for compensation has been increased throughout 2016 by EUR 35 million (EUR 10 million in NII and EUR 25 million in other operating income of Corporate Banking). The total provision for compensation for SME derivatives-related issues taken in 2015 and 2016 amounts to EUR 520 million. This was recorded primarily in other operating income and,

to a lesser extent, NII. In Q2 2016, the addition to the provision of EUR 361 million was classified as a special item. This provision was taken based on ABN AMRO's decision to adhere to the Uniform Recovery Framework.

International Card Services (ICS), the credit card business of ABN AMRO, has identified certain issues in its credit lending portfolio. A number of clients were given a credit facility above their lending capacity. This has been reported to the AFM, and the clients who were affected will be compensated. A provision of EUR 47 million was recorded in Q4 2016 (in NII). In addition to the compensation, a provision of EUR 16 million has been recorded (in other expenses) for execution costs. ICS is part of Retail Banking.

The underlying **return on equity (ROE)** decreased slightly to 11.8% in 2016 (12.0% in 2015); 2016 included higher restructuring costs as well as lower impairments.

**Operating income** was EUR 8,588 million in 2016 compared with EUR 8,455 million in 2015. The increase in net interest income was partly offset by lower net fee and commission income.

**Net interest income** went up by EUR 201 million to EUR 6,277 million in 2016. The increase was recorded in all business segments and was primarily due to improved margins on residential mortgages, corporate loans and deposits (as well as higher volumes). Moreover, 2016



was not impacted as strongly by negative incidental items as 2015 was. Consumer loans had lower volumes and margins.

**Net fee and commission income**, at EUR 1,743 million in 2016, was EUR 86 million lower than in 2015. This was mainly related to uncertainty and volatility in the financial markets which negatively impacted Private Banking in particular and, to a lesser extent, Retail Banking. The decline in fee income at Retail Banking was also caused by a reduction of client rates for payment packages in 2016.

**Other operating income** came to EUR 568 million in 2016, up from EUR 550 million in 2015. This was partly due to book profits/revaluation gains on stakes in Visa Europe (EUR 116 million) and Equens (EUR 52 million). Both years included provisions for SME derivatives-related issues as well as tax-exempt provisions related to the part of securities financing activities discontinued in 2009. CVA/DVA/FVA results (EUR 2 million negative in 2016 versus EUR 76 million positive in 2015), Equity Participations results (EUR 13 million in 2016 versus EUR 98 million in 2015) and hedge accounting-related results (EUR 39 million in 2016 versus EUR 182 million in 2015) were all lower.

**Personnel expenses** were EUR 2,777 million, an increase of EUR 285 million compared with 2015. The increase was due to EUR 321 million of restructuring provisions related to the announced reorganisation of the control and support activities (Q3 2016) and digitalisation and process optimisation (Q4 2016). This was partly offset by several smaller restructuring provisions recorded in 2015.

**Other expenses** rose by EUR 144 million to EUR 2,880 million in 2016. The increase was partly related to EUR 33 million higher regulatory levies booked in 2016. Regulatory levies amounted to a total of EUR 253 million in 2016 consisting of EUR 66 million for the Single Resolution Fund (including a EUR 32 million refund on the 2015 payment), EUR 98 million for the bank tax and EUR 90 million for the Deposit Guarantee Scheme. For 2017 a total of around EUR 295 million regulatory levies is expected.

Excluding regulatory levies, other expenses increased by EUR 111 million. The increase was largely due to provisions for SME derivatives-related issues (EUR 55 million), ICS (EUR 16 million) and restructuring provision for office space (EUR 27 million). This was partly offset by strict cost control and the favourable settlement of an insurance claim at Private Banking (EUR 24 million).

Last year included a EUR 35 million favourable release related to DSB and a VAT return, partly offset by a final settlement (EUR 55 million) with Vestia (a Dutch housing corporation).

The **operating result** decreased by EUR 296 million compared with 2015 and the cost/income ratio deteriorated by 4.1 percentage points to 65.9%. Excluding the EUR 348 million restructuring provisions related to the cost saving initiatives the underlying cost/income ratio ended at 61.8% similar to 2015.

**Impairment charges** on loans and other receivables were EUR 114 million versus EUR 505 million in 2015. Continued improvement of economic conditions in the Netherlands resulted in EUR 210 million lower additions and EUR 185 million higher releases of impairments previously taken. Both years recorded significant IBNI releases.

Impairment charges on residential mortgages were limited in 2016 but higher than in 2015 due to considerable IBNI releases in 2015. The cost of risk for mortgages was 4bps in 2016.

Impairment charges on corporate loans decreased in 2016. Commercial Clients recorded releases while International Clients had higher impairment charges, mainly in ECT Clients (EUR 209 million in 2016 versus EUR 128 million in 2015).

The **cost of risk** was 4bps in 2016, down from 19bps in 2015.

The **effective tax rate** in 2016 was 26% versus 29% in 2015. The effective tax rate in 2015 was negatively impacted by a reassessment of our tax position.

## Balance sheet

balance sheet figure has been adjusted by EUR 17.1 billion at 31 December 2015.

### Condensed statement of financial position

As a result of the netting adjustments, the comparative

(in millions)	31 December 2016	31 December 2015
Cash and balances at central banks	21,861	26,195
Financial assets held for trading	1,607	1,706
Derivatives	14,384	19,138
Financial investments	45,497	40,542
Securities financing	17,589	20,062
Loans and receivables - banks	13,485	15,680
Loans and receivables - customers	267,679	276,375
Other	12,380	7,676
<b>Total assets</b>	<b>394,482</b>	<b>407,373</b>
Financial liabilities held for trading	791	459
Derivatives	14,526	22,425
Securities financing	11,625	11,372
Due to banks	13,419	14,630
Due to customers	228,758	247,353
Issued debt	81,278	76,207
Subordinated liabilities	11,171	9,708
Other	13,976	7,635
<b>Total liabilities</b>	<b>375,544</b>	<b>389,789</b>
Equity attributable to the owners of the parent company	17,939	16,575
Capital securities	993	993
Equity attributable to non-controlling interests	5	17
<b>Total equity</b>	<b>18,937</b>	<b>17,584</b>
<b>Total liabilities and equity</b>	<b>394,482</b>	<b>407,373</b>
Committed credit facilities	27,299	21,559
Guarantees and other commitments	15,873	13,868

### Main developments in assets

**Total assets** decreased by EUR 12.9 billion to EUR 394.5 billion at 31 December 2016. Excluding netting adjustments, total assets increased by EUR 0.7 billion. This was mainly due to an increase in loans and receivables - customers and financial investments, partly offset by lower derivative assets and cash and balances with central banks.

**Cash and balances at central banks** decreased by EUR 4.3 billion to EUR 21.9 billion, reflecting a shift to financial investments (higher yield).

**Financial assets held for trading** remained stable.

**Derivatives** decreased by EUR 4.8 billion to EUR 14.4 billion (of which EUR 11.5 billion trading and EUR 2.9 billion non-trading) on the back of mid- to long-term interest rate movements impacting the fair value of derivatives. This is also observed in the derivative liabilities.

**Financial investments** increased by EUR 5.0 billion to EUR 45.5 billion. After a period of a lack of new short-term bonds with a yield higher than the overnight ECB deposit rate, a shift from cash into financial investments took place as of March 2016.

**Loans and receivables – banks** decreased by EUR 2.2 billion to EUR 13.5 billion.

**Loans and receivables – customers** decreased by EUR 8.7 billion to EUR 267.7 billion. Excluding netting adjustments, loans and receivables – customers increased by EUR 4.9 billion. Following the announcement in December on the intended sale of private banking activities in Asia and the Middle East, these client assets are classified as held for sale (other assets). This has an impact on client loans (loans and receivables - customers) of EUR 3.4 billion negative (EUR 1.6 billion negative consumer loans and EUR 1.8 billion negative corporate loans) on 31 December 2016. All further remarks are based on the table below (excluding netting adjustments, including the held for sale reclassification).

Residential mortgages increased by EUR 0.5 billion. New mortgage production grew on the back of low mortgage interest rates, insufficient residential construction activity and more favourable economic conditions in the Netherlands. The market share in new production increased to 21.9%<sup>1</sup> (2015: 19.9%). Other redemptions remained

high due to refinancing and relocation. Low interest rates on savings and enhanced awareness among homeowners of the possibility of residual debt are still incentives for extra repayments. Consumer loans decreased by EUR 2.6 billion, of which EUR 1.6 billion outflow related to the reclassification of the private banking activities in Asia and the Middle East.

#### **Corporate loans to clients (excluding netting adjustments)**

increased by EUR 4.4 billion to EUR 82.6 billion largely due to an increase in loans at International Clients (mainly ECT Clients). Growth over 2016, especially in the fourth quarter, was supported by an increase in oil prices, leading to higher utilisation of credit lines for commodity clients, and the strengthening of the US dollar (see also the Risk chapter).

**Other assets** increased by EUR 4.7 billion to EUR 12.4 billion following the held for sale reclassification.

(in millions)	31 December 2016	31 December 2015
Residential mortgages (excluding netting adjustment) <sup>1</sup>	147,472	146,932
Consumer loans	12,539	15,147
Corporate loans to clients (excluding netting adjustment) <sup>2</sup>	82,640	78,195
<b>Total client loans (excluding netting adjustment)<sup>3</sup></b>	<b>242,651</b>	<b>240,274</b>
Netting adjustment <sup>1</sup>	3,505	17,056
<b>Total client loans<sup>3</sup></b>	<b>246,156</b>	<b>257,330</b>
Loans to professional counterparties	12,947	12,194
Other loans <sup>4</sup>	7,448	6,356
<b>Total Loans and receivables - customers<sup>3</sup></b>	<b>266,551</b>	<b>275,881</b>
Fair value adjustments from hedge accounting	4,794	4,850
Less: loan impairment allowance	3,666	4,355
<b>Total Loans and receivables - customers</b>	<b>267,679</b>	<b>276,375</b>

<sup>1</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> Corporate loans excluding loans to professional counterparties.

<sup>3</sup> Gross carrying amount excluding fair value adjustment from hedge accounting.

<sup>4</sup> Other loans consist of loans and receivables to government, official institutions and financial markets parties.

## **Main developments in liabilities and equity**

**Total liabilities** decreased by EUR 14.2 billion to EUR 375.5 billion at 31 December 2016. Excluding netting adjustments, total liabilities decreased by EUR 0.7 billion. The decrease is due to customers and derivatives was partly offset by higher issued debt and other liabilities.

**Derivatives** decreased by EUR 7.9 billion to EUR 14.5 billion (of which EUR 9.5 billion trading and EUR 5.0 billion non-trading) on the back of mid- to long-term interest and FX rates movements impacting the valuation of derivatives. This is also observed in derivative assets.

<sup>1</sup> Source: Dutch Land Registry (Kadaster).



**Due to customers (excluding netting adjustments)** decreased by EUR 5.0 billion to EUR 225.3 billion. A decline was recorded at Private Banking, largely due to a reclassification of the private banking activities in Asia and the Middle East to other liabilities that impacted due to customers by EUR 5.7 billion negative. Due to customers at Corporate Banking decreased by EUR 2.2 billion, partly due to charging negative rates to a wider range of clients compared with 2015. Furthermore, due to customers at Corporate Banking is more volatile by nature due to third-party banking clients. Both were partly offset by an increase in due to customers at Retail Banking of EUR 2.3 billion, partly related to an increase in deposits at MoneYou.

**Issued debt** increased by EUR 5.1 billion to EUR 81.3 billion as short-term funding increased, partly offset by lower long-term funding.

**Subordinated liabilities** increased by EUR 1.5 billion to EUR 11.2 billion as a result of three Tier 2 capital issuances of in total EUR 2.4 billion in 2016.

**Total equity** increased by EUR 1.4 billion to EUR 18.9 billion at 31 December 2016, mainly due to the inclusion of reported profit for 2016, partly offset by dividend payments.

(in millions)	31 December 2016	31 December 2015
Retail Banking (excluding netting adjustment)	100,967	98,674
Private Banking	61,825	66,465
Corporate Banking (excluding netting adjustment)	60,653	62,850
Group Functions	1,808	2,308
<b>Total Due to customers (excluding netting adjustment)</b>	<b>225,253</b>	<b>230,296</b>
Netting adjustment <sup>1</sup>	3,505	17,056
<b>Total Due to customers</b>	<b>228,758</b>	<b>247,353</b>

<sup>1</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

## Reconciliation from underlying to reported results

(in millions)	2016			2015		
	Underlying	Special items	Reported	Underlying	Special items	Reported
Net interest income	6,277	-10	6,267	6,076		6,076
Net fee and commission income	1,743		1,743	1,829		1,829
Other operating income	568	-351	217	550		550
<b>Operating income</b>	<b>8,588</b>	<b>-361</b>	<b>8,227</b>	<b>8,455</b>		<b>8,455</b>
Personnel expenses	2,777		2,777	2,492		2,492
Other expenses	2,880		2,880	2,736		2,736
<b>Operating expenses</b>	<b>5,657</b>		<b>5,657</b>	<b>5,228</b>		<b>5,228</b>
<b>Operating result</b>	<b>2,931</b>	<b>-361</b>	<b>2,570</b>	<b>3,227</b>		<b>3,227</b>
Impairment charges on loans and other receivables	114		114	505		505
<b>Operating profit/(loss) before taxation</b>	<b>2,817</b>	<b>-361</b>	<b>2,456</b>	<b>2,722</b>		<b>2,722</b>
Income tax expense	740	-90	650	798		798
<b>Profit/(loss) for the period</b>	<b>2,076</b>	<b>-271</b>	<b>1,806</b>	<b>1,924</b>		<b>1,924</b>



(in millions)	2016	2015
<b>Operating income</b>		
SME derivatives	-361	
<b>Total impact on Operating Income</b>	<b>-361</b>	
<b>Operating expenses</b>		
<b>Total impact on Operating expenses</b>		
<b>Loan impairments</b>		
<b>Total impact on Loan impairments</b>		
<b>Total impact on Income tax expense</b>	<b>-90</b>	
<b>Total impact on result for the period</b>	<b>-271</b>	



# Business performance

## ABN AMRO

Retail Banking	Private Banking	Corporate Banking	Group Functions
<ul style="list-style-type: none"> <li>▶ Leading position in the Netherlands</li> <li>▶ Principal bank for 21%<sup>1</sup> of the Dutch population</li> <li>▶ Market share of 20%<sup>2</sup> in the small business segment</li> <li>▶ #2 position<sup>3</sup> in savings (including Private Banking)</li> <li>▶ #1<sup>4</sup> in new mortgage production</li> <li>▶ 5,000,000 retail clients</li> <li>▶ 300,000 small businesses</li> <li>▶ Seamless omni-channel distribution with a nationwide network of 221 branches, Advice &amp; Service Centres and 24/7 internet and mobile banking</li> </ul>	<ul style="list-style-type: none"> <li>▶ Market leader in the Netherlands</li> <li>▶ Ranked 4<sup>th</sup> in France, 3<sup>rd</sup> in Germany and the eurozone<sup>5</sup></li> <li>▶ Solid position in selected countries in Asia and the Middle East</li> <li>▶ Serves over 100,000 clients</li> <li>▶ Present in 11 countries with more than 50 branches</li> <li>▶ Fully integrated financial advice and a broad array of services focused on wealth structuring, wealth protection and wealth transfer</li> </ul>	<ul style="list-style-type: none"> <li>▶ Established business partner of the Dutch corporate sector</li> <li>▶ 70,000 commercial and international clients with annual turnover exceeding EUR 1 million across 15 defined sectors</li> <li>▶ Client- and capability-led international strategy that focuses on three specialities: ECT Clients, Clearing and Asset Based Finance</li> <li>▶ International presence in the key financial and logistical hubs</li> </ul>	<ul style="list-style-type: none"> <li>▶ TOPS (Technology, Operations &amp; Property Services)</li> <li>▶ Finance including ALM, Treasury and Tax</li> <li>▶ RM&amp;S (Risk Management &amp; Strategy)</li> <li>▶ PR&amp;I (People, Regulations &amp; Identity)</li> <li>▶ Group Audit</li> <li>▶ Corporate Office</li> </ul>

<sup>1</sup> GfK online tracker, 2016. <sup>2</sup> TNS NIPO, 2016. <sup>3</sup> Calculated based on information provided by the Dutch Land Registry (Kadaster), 2016.

<sup>4</sup> Calculated based on DNB Domestic MFI statistics and internal analyses, H1 2016 figures. <sup>5</sup> BCG global wealth management survey 2014 & annual reports.

**Retail Banking** provides a full range of transparent banking products and high-quality services to individuals (investable assets up to EUR 500,000) and small businesses (turnover less than EUR 1 million).

Our ambition is to deliver the best client experience among our peers. We offer our products and services under the ABN AMRO brand, and specific products and services under different labels. Our omni-channel distribution network provides extensive digital and physical coverage.

**Private Banking's** priority is simple: to make every interaction count and to provide what our clients want to the standards they expect. To help us achieve our aspiration to be a leading private bank in Northwest Europe, we continuously innovate our services, especially in areas that matter most to our clients, such as digital banking. We want to serve our clients based on a multi-channel model, enabling clients to use our services whenever and wherever it suits them. Our daily

business is driven by strategic drivers that are in line with the Group's strategic priorities: client-driven, invest in the future, moderate risk profile and sustainable growth.

**Corporate Banking** is an established business partner of the Dutch corporate sector with a strong domestic franchise and a focused international strategy. We serve clients both in the Netherlands and internationally with our client-centric, relationship-driven business model and extensive sector expertise. In the Netherlands, our clients are active in all sectors of the Dutch economy. We offer a broad range of standard and tailor-made products and services based on in-depth client and sector knowledge. In Northwest Europe and globally, we focus on selected sectors in which we are strengthening and expanding our existing positions, realising cross-business line synergies and leveraging core capabilities.

An app that makes it easier to split the bill: this was the product that Siu Wai Tang and his team launched. That's what better service through innovation is all about.

### Giving **Voice** to **Value**

Read more in our supplement 'Initiatives in 2016' or watch the video: [abnamro.com/tikkie](http://abnamro.com/tikkie)



## Retail Banking

➤ **We serve approximately 5 million individual clients and 300,000 small businesses**

➤ **We are a top 3 player in the Netherlands: number 1<sup>1</sup> in new mortgage production and number 2<sup>2</sup> in savings (including Private Banking) in 2016**

➤ **In the Netherlands we are the principal bank for 21%<sup>3</sup> of the population and have a market share of 20%<sup>4</sup> in the small business segment**

➤ **Clients can reach us through multiple channels, including our 24/7 Advice & Service Centres, our network of 221 branches, and via internet and mobile banking (over 75 million logins monthly)**

### Overview

Retail Banking provides a full range of transparent banking products and high-quality services to individuals (investable assets up to EUR 500,000) and small businesses (turnover less than EUR 1 million).

Our ambition is to deliver the best client experience among our peers. We offer our products and services under the ABN AMRO brand, and specific products and services

under different labels. Our omni-channel distribution network provides extensive digital and physical coverage. We expanded and improved our digital offering in 2016, as clients increasingly want the convenience of these services.

Our Net Promoter Score (NPS) way of working entails carefully monitoring our clients' opinion of our products and services. To this end, we rolled out closed-loop feedback throughout the organisation in 2016 as a way to continuously learn from our clients. Examples of initiatives we launched in 2016 to enhance the client experience are our client loyalty programme &Meer, the Tikkie payment app and the Grip app, which gives clients insight and overview regarding their spending.

Looking ahead, our ambition is to be a client-driven Dutch retail bank with a digital footprint in Northwest Europe. We plan to expand our digital service and advisory offering, driving e-commerce and facilitating self-directed service for our clients. At the same time, we will further leverage our expertise by strengthening our advisory capabilities. Our ambition to be at the forefront of technological developments and innovative solutions is supported by our ongoing focus on co-creation and collaboration. One way we are pursuing our growth ambition is by transforming MoneYou into a fully digital retail bank. We intend to introduce MoneYou's offering throughout Northwest Europe, starting in countries where it is already active.<sup>5</sup>

<sup>1</sup> Source: calculated based on information provided by the Dutch Land Registry (Kadaster), 2016.

<sup>2</sup> Source: calculated based on DNB Domestic MFI statistics and internal analyses, H1 2016 figures.

<sup>3</sup> GfK Online tracker, 2016.

<sup>4</sup> TNS NIPO, 2016.

<sup>5</sup> Besides the Netherlands, MoneYou is currently active in Germany, Belgium and Austria.

## Key figures Retail Banking

Stakeholder	Metrics	2016	2015
<b>Clients</b> 	<b>Net Promoter Score<sup>1</sup></b>	<b>2016</b>	<b>2015</b>
		<b>-15</b>	-23
<b>Employees</b> 	<b>Employee engagement<sup>2,3</sup></b>	<b>2016</b>	<b>2015</b>
		<b>85</b>	78
<b>Society at large</b> 	<b>Trust Monitor AFM/NvB<sup>4</sup></b>	<b>2016</b>	<b>2015</b>
		<b>3.1</b>	3.1
<b>Investors</b> 	<b>Underlying net profit (in millions)</b>	<b>2016</b>	<b>2015</b>
		<b>1,247</b>	1,226
	<b>Underlying cost/income ratio</b>	<b>55.9%</b>	54.6%

<sup>1</sup> Source: Kantar TNS. Research on ABN AMRO label clients. Net Promoter Score is measured quarterly, total score is based on average of the quarters. Every quarter 2,100 randomly selected clients are contacted from a group of 22,500 clients chosen by ABN AMRO, based on internally defined criteria.

<sup>2</sup> Source: Willis Towers Watson. Annual survey, total number of respondents: 4,560.

<sup>3</sup> 2016 score based on revised measurement method. For more details on employee engagement, please see 'Employee engagement' in the Group performance section.

<sup>4</sup> Source: Trust Monitor, Dutch Banking Association. Publication date 3 October 2016. Degree of confidence in own bank. Scale 1-5.

## Business developments

### Putting clients' interests first Limited assurance

#### Connectivity of material topic 1 6

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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Client centricity is at the core of our retail strategy. Our client proposition is based on three principles: always easily accessible, ease in daily banking services and high-quality financial advice. We believe that working according to these principles will help us create a positive and differentiating client experience. Putting clients' interests first involves both meeting our clients' needs and providing clear and appropriate advice.

#### Meeting clients' needs

Our ongoing focus on client centricity is demonstrated by our Customer Experience unit, which we positioned at the heart of our Retail Banking organisation in 2015. This unit is responsible for encouraging our clients and prospects to use our full range of services and for creating a positive

client experience. We have also introduced the Net Promoter Score (NPS) way of working. Over the past two years we have been conducting closed-loop feedback meetings with our clients. Clients provide feedback to our client-facing staff, who follow up on the feedback by contacting clients and learning from their input.

In response to NPS surveys suggesting that we could benefit from improving our understanding of what drives our clients, we are investing in developing our staff's interpersonal skills. At the same time, we are continuously optimising client journeys. We also introduced the client loyalty programme &Meer in the final quarter of 2016 following a successful pilot. Under this programme, we offer clients discounts on their banking products and exclusive deals from merchants and retailers every week.

We are continuously adjusting our service model to better match the needs of our clients. Retail Banking works together with Private Banking to offer our clients products and services that match their needs. In 2016, we lowered the Private Banking threshold of EUR 1 million in investable assets to EUR 500,000 to give more of our clients access to our Private Banking services and knowledge. Furthermore, we decided to terminate our relationship with retail clients



residing outside Europe. This affects approximately 15,000 clients who reside permanently outside the European Economic Area (EEA) and make use of banking services in the Netherlands. Our decision was based on the growing number of regulatory and compliance requirements, combined with a declining number of Retail Banking clients who reside permanently outside the EEA.

### Clear and appropriate advice

To make sure we give our clients high-quality advice, we continued to invest in the expertise and professionalism of our financial advisors and specialists. Regulations under the Financial Supervision Act (*Wet op het Financieel Toezicht*) define professional standards applying to financial services providers, under which client-facing employees must hold valid diplomas relevant to their work. In addition, all of our employees have taken the Banker's Oath, which is an important step in restoring confidence in the Dutch financial sector. We also have an advice quality desk, which reviews more complex financial advice on a random basis.

Initiatives we took to provide clear and appropriate advice to our clients in 2016 include offering mortgage advice in sign language by webcam and providing mortgage consultations on Sundays. These initiatives are described in more detail under 'The organisation and our people' below.

Our quality control procedures regarding mortgage advice identified a breach in the bank's procedures. After the initial mortgage advice has been signed by the client as having been seen and approved, it sometimes emerges that information is missing, or that the client has another preference and the report does not explain this properly. In these cases, the advisor is required to correct the report and share it with the client, who has to sign the revised report. An investigation established that a number of employees had copied clients' signatures. The bank decided that possible measures to be taken under employment law regarding the employees involved will be determined on a case-by-case basis. The vast majority received an official reprimand and a limited number of employees were dismissed; in all cases, performance-related pay was withheld. A root cause analysis performed by Compliance & Conduct helped us to reconstruct the circumstances that led to the undesired behaviour and define appropriate improvement measures. We are currently

discussing this matter with the disciplinary court for banks (Stichting Tucht recht Banken).

### Client recognition

We believe that meeting clients' needs and providing clear, appropriate advice are important elements of the broader client experience. To help us improve this experience, we measure the Net Promoter Score (NPS) on a continuous basis with the support of Kantar TNS, interviewing approximately 2,100 of our retail clients every quarter. The NPS for 2016 was -15, an increase of 8 points compared with our score for 2015. We will continue to conduct closed-loop feedback meetings with our clients to support us in enhancing the client experience and delivering relevant expertise.

The Dutch Banking Association (NVB) published the Trust Monitor (*Vertrouwensmonitor*) for the second time in 2016. The Trust Monitor reflects a survey by market research institute GfK on how Dutch people think about banks in general, their own bank and how they experience various aspects of services provided by banks. The report also publishes the individual scores given by the Dutch Authority for the Financial Markets (AFM) in its Client Centricity dashboard. The survey consists of fourteen items categorised into three main areas: trust & perception, product & advice and service & usage. On a scale of 1 to 5, ABN AMRO scored in line with the industry average on trust & perception (3.3), slightly below the industry average on service & usage (3.6 versus 3.7) and slightly above the industry average on products & advice (4.1 versus 4.0). On the specific question to what extent clients trust their own bank, we scored a 3.1, in line with industry average. Compared with the survey conducted in 2015, ABN AMRO improved on six items and remained stable on seven; one item was added for the first time in 2016.

### Solid market position

Retail Banking has a strong and recognised market position in the Netherlands. In 2016, we maintained our number three primary bank position for retail clients (21%<sup>1</sup> of the Dutch population) and our number three position in the small business segment, with a market share of 20%.<sup>2</sup>

The Dutch mortgage market totalled EUR 665<sup>1</sup> billion in terms of outstanding loans at 30 September 2016.

<sup>1</sup> GfK Online tracker, 2016

<sup>2</sup> TNS NIPD, 2016

As per this date, Retail Banking held a market share of approximately 22%<sup>2</sup> in terms of outstanding mortgage loans. The Dutch mortgage market showed strong growth in 2016, driven by both an increase in the number of mortgages and a higher average mortgage amount. ABN AMRO captured a number one market position, with a market share of approximately 22%<sup>3</sup> in new mortgage production. We mainly offer mortgages under the brands ABN AMRO (main brand), Florius (targeting intermediaries) and MoneyYou (online). Our subsidiary MoneyYou was recognised for its pricing strategy: research agency MoneyView gave MoneyYou the maximum score in the category 'price' – five out of five – for its annuity mortgage. More information on the mortgage portfolio is provided in the [Risk, funding & capital section](#).

The Dutch retail deposits market had a total volume of EUR 340<sup>4</sup> billion at year-end 2016. At the end of December 2016, Retail Banking and Private Banking held a combined market share of 21%<sup>4</sup> on the Dutch savings and deposits market. In the course of 2016 we lowered interest rates on all our savings accounts and deposits in line with the decline in interest rates on the money and capital markets. Besides the Netherlands, Retail Banking is also active in other countries (Germany, Belgium and Austria) under the MoneyYou label.

Our subsidiary International Card Services (ICS) remained market leader in 2016<sup>5</sup> in the Netherlands based on the number of consumer credit cards in circulation. ICS has identified certain issues from its past in respect of the granting of credit to consumers, as a result of which certain clients have been provided with loans above their lending capacity. This has been reported to the AFM. ICS has drafted a redress scheme that contains remedial measures for clients that have been affected, including financial compensation for certain clients. ICS expects to implement the redress scheme in the second quarter of 2017 and to finalise the process by the end of 2018.

Alfam, our subsidiary specialised in consumer loans, grew its consumer credit loan book for the sixth consecutive year. We also act as an intermediary for ABN AMRO Insurances by selling and providing advice

on a comprehensive range of life and non-life insurance products. In 2016, both the ABN AMRO liability insurance and continuous travel insurance were rated number one by the Dutch Consumer Association (Consumentenbond) with a score of 8.2 and 7.5, respectively.

## Digitalisation programme and innovation

Limited assurance

### Connectivity of material topic 8

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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We aspire to be at the forefront of digital developments so that we can deliver innovative solutions that meet changing client expectations. To support this ambition we created a new unit with a dedicated focus on Digital Banking in 2015. We also invest in co-creation and collaboration to offer clients faster and more innovative services.

We launched a multi-year digitalisation programme in 2014 to accelerate digitalisation of key client processes, to expand our digital offering and to offer clients innovative digital solutions. These changes are expected to generate cumulative yearly cost savings which are expected to materialise from 2017 onwards, and which represent the lesser part of the EUR 0.3 billion in cost savings targeted under the TOPS 2020 and Retail Digitalisation programmes. More information about our total cost saving programmes is provided in the Strategy section.

We added more features to our Mobile Banking app in 2016. Clients can now use the app to block their debit card, adjust their ATM and POS limits and change their payment profile setting from 'Europe' to 'World'. These improvements meet the needs of many clients who want to be able to manage their payments independently using the Mobile Banking app, wherever and whenever they want. Clients use this popular app more than 60 million times a month, and the number of logins via the app is now almost five times as high as the number via Internet Banking.

<sup>1</sup> Source: CBS; Dutch households - home mortgages, November 2016.

<sup>2</sup> Source: Calculated based on CBS; Dutch households - home mortgages, November 2016.

<sup>3</sup> Source: Calculated based on information provided by the Dutch Land Registry (Kadaster), 2016.

<sup>4</sup> Source: Calculated based on DNB Domestic MFI statistics and internal analyses H1 2016 figures.

<sup>5</sup> Based on number of credit cards, calculated on the basis of information from DNB Payment statistics Retail payments, September 2016 and company research.



We have also made it possible for our clients to use the bank's Mobile Banking app to pay for webshop purchases made on their smartphone or tablet via iDEAL without using a token (so called e.dentifier). In addition, as from December 2016, our clients on iOS can operate their Mobile Banking app using their fingerprint. Ease and convenience in banking should never come at the expense of security. We have therefore added a new element to the Mobile Banking app: clients are no longer recognised solely by the identification code, but also by the device they use to conduct their banking business.

We have made it easier for our clients to phone us via the app. Clients will see an indication of the waiting time and can choose whether to wait, call back later or send an email straight away. Moreover, ABN AMRO can help clients who phone via the app faster, as they have already been identified based on their app log-in details.

In parallel with our continuous focus on expanding and improving our digital offering, we are also investing in developing new and innovative digital solutions in order to offer our clients an inspiring and convenient experience. In 2016 we launched Tikkie, the first payment app allowing consumers to send payment requests, through the familiar payment platform iDEAL, via WhatsApp. Tikkie is an initiative of ABN AMRO, but can be used by clients with a current account at any Dutch bank. Shortly after the release date, we enhanced Tikkie by enabling users to use Apple's voice command system Siri to create payment requests. At the end of 2016 this app had over 200,000 users.

Other innovative digital solutions we offer that enhance the client experience are our Grip and Wallet apps. Grip includes a range of financial planning features giving users an overview of their spending. Grip was developed together with the Swedish fintech start-up Tink, in which ABN AMRO is investing EUR 1.5 million from the Digital Impact Fund to intensify its existing collaboration. We launched a pilot for Grip in December 2015 during which ten thousand of our clients tried the app and gave us feedback. Grip went live for all our clients in 2016. We are continuously working on further enhancing this app. Our Wallet app, developed in 2016, allows clients to make contactless payments by using their (Android)

mobile phone. We have developed the Wallet in close cooperation with our clients, who gave us valuable feedback throughout the pilot phases.

In addition to the examples illustrated above, our focus on co-creation and collaboration is demonstrated by our Digital Impact Fund, which invests in companies, preferably European fintechs, to co-create products and technologies that are relevant for our clients or our own operations. ABN AMRO is also a founding partner of Tech Quarters (TQ) Amsterdam. This new tech community will be a breeding ground where start-ups can go to collaborate, develop and scale up their propositions. Working side-by-side with start-ups will give us access to new technology as well as the opportunity to discover interesting fintech partners.

Our efforts to enhance digitalisation and innovation are recognised by our clients. Our Mobile Banking app clearly meets clients' needs, as reflected by its top class ranking in the Apple App store and Google Playstore with scores of 4,3 and 4,2 respectively (on a scale 1 to 5). In an analysis conducted by My Private Banking Research, covering 113 mobile banking apps offered by 35 global banks, ABN AMRO's Mobile Banking app came in sixth place<sup>1</sup>.

Our progress on digitalisation and innovation is monitored by both senior management and ABN AMRO's Innovation Board. Based on our bank-wide digitalisation strategy and client feedback on our apps and innovations, we will strive to further improve our existing apps and continue to explore possibilities for new partnerships with start-ups or fintechs.

## The organisation and our people

Due to the rapid digitalisation of society, and as a result of our Retail Digitalisation programme, we further rationalised our branch network in 2016. However, our personal channels remain an important part of our operating model. Our omni-channel distribution approach is underpinned by the NCCA Award for Customer Strategy we won in 2016,<sup>1</sup> we received a prize for our Everywhere & Always proposition, under which we serve clients wherever and whenever they want, through a variety of channels: by webcam, telephone, chat, email or in person.

We provide high-quality financial advice through an extensive network of 221 branches and through our 24/7

<sup>1</sup> Source: My Private Banking Research





Advice & Service Centres. To tailor our distribution approach and service level to the specific expectations of different client segments, and to ensure we give our clients clear and relevant advice, we have pooled expertise within the branch organisation.

ABN AMRO now offers clients throughout the Netherlands the possibility of conducting mortgage consultations on Sundays by webcam. Having introduced remote mortgage advice in late 2011, we conducted over one-third of all mortgage consultations by webcam in 2016. By offering remote mortgage advice on Sundays we hope to further boost this figure. We have also started expanding remote advice to other product groups and to small business clients.

We understand that certain client segments have difficulty using digital services and are continuously tailoring our services to their needs. For example, we started offering mortgage advice in sign language by webcam in 2016. Depending on how this service is received, we want to expand our range of services for deaf and hearing-impaired clients. And we are conducting a pilot with coaches who help our elderly clients conduct their banking affairs in an increasingly digital world. These coaches help clients by phone, email, webcam or during home visits. ABN AMRO also engages with clients through different social media channels, like Facebook and Twitter. In 2016 we were the first Dutch bank to become active on Snapchat.

To keep pace with today's rapidly changing environment, we are updating our organisation and operating model. We are committed to proactively engaging with, and investing in the development of, our people. We measure our employees' engagement with the organisation by means of a yearly internal Employee Engagement Survey. The 2016 survey showed that 85% of Retail Banking staff felt engaged at work, an improvement compared with the 2015 score of 78%. Our employee engagement is also 5 percentage points higher than the financial services benchmark. We continued to invest in developing our people's interpersonal skills with a Retail-wide learning and development academy.

## Transparent product and service offering

We continued to invest in more transparent and tailored products and services in 2016. This past year we introduced three new payment packages to replace the existing Personal Package (Privé Pakket). These new payment packages represent a shift towards more personalised options for our clients. Not only is it clearer to our clients what products they are choosing and what they are paying for, but we were also able to lower the fees for 2.2 million retail clients with payment packages. We also introduced new Business Packages for our business clients with changed conditions and lower fees.

We pressed ahead with our bank-wide multi-year programme, launched in 2014, designed to simplify the mortgage product offering, optimise and digitise processes, and rationalise IT systems. We started offering interest rate averaging to our clients in 2016. Clients with an ABN AMRO mortgage can easily see online how interest rate averaging will affect them personally and, if they choose to do so, can immediately submit a request for interest rate averaging. We also introduced a 0.2% 'sustainability discount' on mortgages for newly built and energy-efficient homes. We expanded the option for online additional repayments we introduced in 2015. Online repayments are now also possible above the penalty-free amount. The progress we made in 2016 is further reflected by the new Florius app which provides Florius clients and prospects online insight into the progress of their mortgage process. Our clients can also use the Florius app to claim construction invoices and to obtain insight into their construction deposit. We have also enhanced our online orientation tool. This tool allows clients to calculate their maximum loan amount and the monthly costs of the loan. We refined the calculation methodology to further improve the reliability of the calculations.

Our ongoing focus on optimising our product offering was recognised by the independent research agency WUA, the worldwide market leader in digital experience benchmarking. We were ranked best for our online journeys in opening a savings account and taking out a commercial loan.

Together with other Dutch banks, we started offering an online service called iDIN, which enables consumers to prove their identity to online service providers. Clients

<sup>1</sup> Source: NCCA Award 2016



who opt for this service will be able to use their own bank's familiar and secure login applications to identify themselves online. With digital services on the rise, companies and institutions are experiencing a growing need for assurance about the identities of their online customers and users. Together with other banks we started a pilot with the Dutch tax authorities; afterwards, the participating banks decided to extend this service to any organisation that wants to offer iDIN to its clients.

## Strategic ambitions

Our ambition is to be a client-driven Dutch retail bank with a digital footprint in Northwest Europe. Our strategic priorities are in line with the Group's strategic priorities: client-driven, invest in the future, moderate risk profile and sustainable growth.

### Client-driven

We aim to build on our client-driven approach and to be perceived as offering a best-in-class client experience. We strive to deliver high-quality advice through seamless omni-channel distribution. We believe we offer a competitive value proposition for clients, combining a personal element (highly-qualified advisors), state-of-the-art technology (online and mobile banking) and broad accessibility to advice. We also invest in digitalisation to improve the client experience, as clients increasingly expect ease of use, always on and immediate service.

In the coming years we seek to further leverage our expertise by strengthening our advisory capabilities (personal, digital and assisted digital). We plan to expand our remote advice services to allow clients to obtain advice whenever and wherever they want. In addition, we strive to offer self-directed small business clients dedicated online services in an efficient and effective manner.

### Invest in the future

We intend to build on our leading market positions and continue to invest in digitalisation and advisory capabilities in order to seize opportunities to better serve clients, create more value and respond to the challenges presented by non-traditional banking players.

We are accelerating digital banking by expanding our digital service and advisory offering, driving e-commerce and focusing on digital services to facilitate self-directedness among our clients. We are also planning on further investing in optimising client journeys. We aim to serve our clients by means of quick and transparent processes and focus on inspiring and convenient interactions.

Our ambition to be at the forefront of technological developments and innovative solutions is supported by our ongoing focus on co-creating with clients and exploring opportunities for collaboration with fintechs. We aim to implement the agile way of working across the organisation to enable us to deliver fast in a continuously changing environment.

### Moderate risk profile

Retail Banking strives to maintain a stable mortgage book relative to the market. We will continue active portfolio management going forward, aiming to achieve the right balance between risk, return and volume/market share. We are planning to do this by focusing on sustainable margins for new mortgage production (mainly with the ABN AMRO, Florius and MoneYou brands) and repricing.

### Sustainable growth

Growth and innovation are key priorities for Retail Banking. We intend to further accelerate digitalisation and innovation, in part through our digital platform MoneYou, which we aim to transform into a fully digital retail bank. We aspire to interact with clients by means of state-of-the-art technologies. The client experience should become seamless, mobile, attractive, relevant and 'techy', what we call 'SMART banking'. We intend to roll out this digital offering throughout Northwest Europe, starting in countries where MoneYou is already active.<sup>1</sup>

At the same time, we will continue to respond to market opportunities and develop new propositions (e.g. pensions). Retail Banking's strategy is to continuously optimise risk and reward with respect to the volume, margin and market share of key products (mortgages, savings and consumer loans) using the ABN AMRO brand and other labels. We aim to have a market share of 20-25% in the Netherlands and to improve top-line revenue and cost efficiency.

## Financial review

### Operating results

(in millions)	2016	2015	Change
Net interest income	3,355	3,302	2%
Net fee and commission income	463	527	-12%
Other operating income	140	25	
<b>Operating income</b>	<b>3,959</b>	<b>3,853</b>	<b>3%</b>
Personnel expenses	470	487	-3%
Other expenses	1,741	1,619	8%
<b>Operating expenses</b>	<b>2,211</b>	<b>2,106</b>	<b>5%</b>
<b>Operating result</b>	<b>1,747</b>	<b>1,748</b>	<b>-0%</b>
Impairment charges on loans and other receivables	79	99	-20%
<b>Operating profit/(loss) before taxation</b>	<b>1,669</b>	<b>1,649</b>	<b>1%</b>
Income tax expense	422	423	-0%
<b>Underlying profit/(loss) for the year</b>	<b>1,247</b>	<b>1,226</b>	<b>2%</b>
Special items			
<b>Reported profit/(loss) for the period</b>	<b>1,247</b>	<b>1,226</b>	<b>2%</b>

Retail Banking's **underlying profit** increased by EUR 21 million to EUR 1,247 million in 2016. This increase was mainly the result of the gain on the sale of Visa Europe and lower impairment charges, partly offset by higher regulatory levies and higher (allocated) project costs related to the continuous improvement of products, services and IT processes (including the Retail Digitalisation programme).

**Net interest income**, at EUR 3,355 million, increased by EUR 53 million compared with 2015. This improvement can largely be attributed to a provision for inconsistencies in interest calculations between the bank and its business partners regarding one of the mortgage products which was booked in 2015 (EUR 29 million) and partly released in 2016. Net interest income in 2016 was negatively impacted by a provision for ICS (EUR 47 million) while 2015 included a provision for Euribor mortgages (EUR 41 million).

Margins on residential mortgages continued to improve in 2016 as the impact of repricing of the mortgage book in recent years continued to benefit net interest income. Net interest income on consumer loans decreased due to lower average loan volumes and decreased margins. Net interest

income on deposits increased compared with 2015 due to higher margins and higher average deposit volumes.

**Net fee and commission income** decreased by EUR 64 million compared with 2015, due in part to a reduction of fees charged for payment packages. Uncertainty and volatility in the financial markets, especially in the first half of 2016, had a negative impact as well.

**Other operating income** increased by EUR 115 million mainly due to a profit (EUR 101 million) related to the gain on the sale of Visa Europe.

**Personnel expenses** decreased to EUR 470 million (2015: EUR 487 million). The number of FTEs in Retail Banking decreased in 2016 due to a reduction in the number of branches and a transfer of employees to Private Banking related to the lower threshold for private banking clients.

**Other expenses** increased to EUR 1,741 million in 2016. This was largely due to an increase in regulatory levies (EUR 136 million in 2016 versus EUR 87 million in 2015) and higher (allocated) project costs related to the continuous improvement of products, services and IT processes (including the Retail Digitalisation programme).

<sup>1</sup> Besides the Netherlands, MoneYou is currently active in Germany, Belgium and Austria

The execution costs provision for ICS in 2016 (EUR 16 million) was offset by stricter cost control.

The **operating result** remained stable at EUR 1,747 million. The underlying **cost/income ratio** deteriorated by 1.3 percentage points to 55.9% as both operating income and operating expenses increased compared with 2015.

**Impairment charges** on loans and other receivables were limited in 2016 and EUR 20 million below the 2015 level. Both years included significant IBNI releases, although these were higher in 2015. An IBNI release of EUR 81 million was recorded in 2016, of which EUR 32 million was due

to a reclassification to impairments. The reclassification has no impact on overall impairment charges and was carried out to align the definitions of defaulted and impaired loans (see also the Risk, funding & capital section). The IBNI release in 2015 amounted to EUR 85 million.

The Dutch economy recovered further and confidence in the housing market improved in 2016. Both contributed to lower impairment charges for mortgages (excluding IBNI releases). Consumer loans also benefited from further improved economic conditions and active risk management of the portfolio of clients in arrears, leading to lower loan impairments with higher IBNI releases.

## Other indicators

	2016	2015
Underlying cost/income ratio	55.9%	54.6%
Underlying cost of risk (in bps) <sup>1,2</sup>	5	6

<sup>1</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

<sup>2</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

	31 December 2016	31 December 2015
Loan-to-Deposit ratio <sup>1</sup>	152%	152%
Loans and receivables - customers (excluding netting adjustment, in billions) <sup>1</sup>	154.5	154.2
Due to customers (excluding netting adjustment, in billions) <sup>1</sup>	101.0	98.7
Risk-weighted assets (risk exposure amount; in billions)	31.8	34.8
FTEs	5,266	5,844

<sup>1</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

**Loans and receivables - customers** grew by EUR 0.3 billion to EUR 154.5 billion at 31 December 2016, of which EUR 144.5 billion in residential mortgages. The Retail Banking mortgage portfolio increased by EUR 0.7 billion in 2016.

New mortgage production grew on the back of low mortgage interest rates, insufficient residential construction activity and more favourable economic conditions in the Netherlands. The market share in

new production increased to 21.9%<sup>1</sup> (2015: 19.9%). Other redemptions remained high due to refinancing and relocation. Low interest rates on savings and enhanced awareness among homeowners of the possibility of residual debt are still incentives for extra repayments.

**Due to customers** increased by EUR 2.3 billion to EUR 101.0 billion at 31 December 2016, partly related to an increase in deposits at MoneyYou.

## Client assets

(in billions)	31 December 2016	31 December 2015
Cash	102.8	98.7
Securities	15.1	15.6
<b>Total Client Assets</b>	<b>117.9</b>	<b>114.3</b>

<sup>1</sup> Source: Dutch Land Registry (Kadaster)

Our French division Neuflyze OBC organised a roundtable event to inspire clients, bankers and investors to improve the sustainability of their investments. That's how we are making a difference for the climate.

### Giving Voice to Value

Read more in our supplement 'Initiatives in 2016' or watch the video: [abnamro.com/climate](http://abnamro.com/climate)



## Private Banking

- > **Reinforced our strong market position (no.1 in the Netherlands, no. 3 in the eurozone, no. 3 in Germany, no. 4 in France)<sup>1</sup>**
- > **Enhanced our digital offering by introducing a new client platform**
- > **Introduced life-cycle segmentation to pool knowledge and expertise**
- > **Opened up our service offering to a broader group of clients in the Dutch market**

### Overview

Our top priority is simple: to make every interaction count and to provide what our clients want to the standards they expect. To help us achieve our aspiration to be a leading private bank in Northwest Europe, we continuously innovate our services, especially in areas that matter most to our clients, such as digital banking. We want to serve our clients based on a multi-channel model, enabling clients to use our services whenever and wherever it suits them. Our daily business is driven by strategic drivers that are in line with the Group's strategic priorities: client-driven, invest in the future, moderate risk profile and sustainable growth.

<sup>1</sup> Source: BCG global wealth management survey 2014 and company annual reports.

We launched life-cycle segmentation in the Netherlands to deepen our knowledge of clients' situations and needs at various stages in their lives. Furthermore, we continued to develop wealth acquisition services for children of clients in our Generation Next Academy. We introduced a boot camp approach in order to enhance sharing of best practices and better serve our Private Wealth Management clients. We asked our clients for feedback on a wide range of topics relating to their experience with us as a whole. Our scores have been steadily improving over the past years, with an NPS of 5.7 overall for our international private banking services and -9 for our Dutch private banking services.

In 2016 we successfully completed the integration of our private banking activities in Guernsey and Jersey into one Channel Islands business. We also transformed our representative office in Marbella into a branch, enabling us to better serve clients with a residence in Spain. The planned transfer of our private banking business in Asia and the Middle East to LGT in 2017 is a logical next step in implementing our strategy.

Furthermore, we focused on strengthening our client relationships through digital services. These services give clients access to our expertise efficiently and offer an inspiring and convenient client experience. We launched key initiatives in online and mobile innovations in the Netherlands and developed an ambitious new digital client platform in Germany and France.

## Key figures Private Banking

Stakeholder	Metrics		Stakeholder	Metrics			
 Clients	Net Promoter Score NL <sup>1</sup>	2016 <b>-9</b>	2015 -9	 Society at large	Sustainable client assets (in billions) <sup>6</sup>	2016 <b>8.2</b>	2015 6.4
	Net Promoter Score international <sup>2</sup>	<b>6</b>	-1		 Investors	Underlying net profit (in millions)	2016 <b>199</b>
 Employees	Employee engagement NL <sup>3,5</sup>	2016 <b>84</b>	2015 77	 Society at large		Underlying cost/income ratio	2016 <b>79.5%</b>
	Employee engagement international <sup>4,5</sup>	<b>76</b>	77				

<sup>1</sup> Source: Kantar TNS. Net Promoter Score is measured once a year. Approximate number of respondents: 3,634.

<sup>2</sup> Source: Scorpio Partnership, Research on clients in France, Germany, Belgium, Hong Kong, Singapore and United Arab Emirates. Approximate number of respondents: 925.

<sup>3</sup> Source: Willis Towers Watson. Annual survey, total number of respondents: 865.

<sup>4</sup> Source: Willis Towers Watson. Annual survey, total number of respondents: 2,372.

<sup>5</sup> 2016 score based on revised measurement method. For more details on employee engagement, please see 'Employee engagement' in the Group performance section.

<sup>6</sup> Scope includes all countries where Private Banking is active.

For the definition of abovementioned concepts, please refer to 'Definitions and other important terms'.

## Business developments

### Staying ahead with our client service Limited assurance

#### Connectivity of material topic 1 6

Link to strategy	Important to these stakeholders	See material topics and connectivity on page 18

We are committed to putting our clients' interests first and creating long-term value for all our stakeholders – our clients, employees, society at large and investors. We offer our clients appropriate, responsible advice based on their overall financial position, risk appetite, and knowledge and experience. These are the key ingredients of our client-focused service and responsible risk management.

#### Meeting clients' needs

Our clients' behavioural patterns are changing in response to technological advancements and amendments to

regulations and pension schemes. To maintain our leading position and relevance as a private bank, we need to innovate and rejuvenate, and expand our operations. Asset growth is essential and enables us to invest.

Our strong segmentation and servicing model keep us close to our clients, enabling us to offer bespoke services and advice and dedicated client service teams. Our main client segments are:

- ▶ Families: helping individuals and families organise and manage their wealth, e.g. how and when to involve children in inherited wealth issues;
- ▶ Entrepreneurs: integrated services to support entrepreneurs in private and business-related matters;
- ▶ Private Wealth Management: dedicated teams for ultra high net worth (UHNW) clients and family offices with assets exceeding EUR 25 million;
- ▶ Institutions & Charities: dedicated teams with the know-how and expertise required to support institutions and charities, including advice on setting up a charity and support in formulating a vision or financial strategy.



Private Wealth Management clients are often more globally oriented than our other private banking clients. To meet their specific needs, we collaborate and share knowledge throughout our international network in order to deepen our expertise. We have adopted a boot camp approach in which we share best practices in our global Private Wealth Management network. We started by leveraging the Art offering from France, followed by Philanthropy and European Real Estate. Moreover, we strengthened our client focus and presence in France by creating a dedicated team of Private Wealth Management bankers.

In the Netherlands we started offering our private banking services to a broader group of clients – people with at least EUR 500,000 in investable assets – allowing us to reach active entrepreneurs, a younger generation with inherited wealth and the children of current private banking clients. To achieve this, we increased the number of specialists in financial planning, income & wealth advisory, and investment advisory. Clients have access to our extensive branch network and satellite locations as well as our direct channels, including the dedicated Advice & Service Team with extended opening hours for basic banking needs. We work with client feedback, helping us to take targeted action to improve our clients' banking experience with us.

By lowering our financial minimum requirements and overall pricing for Discretionary Portfolio Management, we have made this service accessible to more clients, helping us to deliver our expertise to both private banking and retail clients more efficiently. We also pressed ahead with our initiatives to ensure clients receive a suitable investment proposition.

### Clear and appropriate advice

In-depth knowledge of our clients' lives and an understanding of their complex financial situations and unique needs at various stages of their lives allow us to tailor our services to their specific needs. In this light, we launched life-cycle segmentation in the Netherlands in 2016. We want to be a trustworthy partner and to forge long-term relationships with all our clients. At the same time, we have specific aims for specific groups of clients: our ambition for our Explore clients is to help them accumulate wealth; for our Master clients to preserve

wealth; and for our Eminent clients to transfer wealth. We are also working to prepare and educate the next generation of private banking clients about managing wealth. We plan to introduce coaches in 2017 to serve the children of our clients. Our Generation Next Academy, meanwhile, offers children of our clients a one-year course on every aspect of having and preserving wealth, educating the next generation and helping them prepare for their financial future.

The scale of our client base allows us to acquire extensive knowledge and expertise on life-cycle segments, tailor our services and dedicate specialised resources to these segments. We seek to match relationship managers with the client segments that are closest to their field of expertise. Relationship managers with corporate experience, for example, are assigned to the Active Entrepreneurs segment, while relationship managers with a focus on daily banking services are allocated to the Eminent segment.

### Staying relevant through our reach

We focus on a select number of markets so we can remain relevant to clients while leveraging scale, growing critical mass and creating synergies. In 2016 we successfully completed the integration of our private banking activities in Guernsey and Jersey into one Channel Islands business. We also transformed our representative office in Marbella into a branch, enabling us to better serve clients with a residence in Spain. As private banking is a core activity of ABN AMRO, we will further strengthen and grow our private banking activities in Northwest Europe. The planned transfer of our private banking business in Asia and the Middle East to LGT in 2017 is a logical next step in implementing this strategy.

Although we are providing our advisory services increasingly digitally, we continue to invest in our relationship management expertise to keep us as close to our clients' lives as possible. In the Netherlands we expanded our branch network with five satellite locations.

### Client recognition

We believe meeting clients' needs and providing clear, appropriate advice are important elements of our broader client experience. To ensure our clients receive the best service we ask our clients for feedback on a wide range

of topics related to their experience with us and measure the NPS. Our scores have been steadily improving over the past years, and we now have an NPS of 5.7 overall for our international private banking services and -9 for our Dutch private banking services. We follow up on the feedback by contacting clients and continuously improve and coach our employees in order to improve the client experience where needed.

### Expertise and thought leadership Investing in our employees

We invest in our people's personal and professional growth, enabling our highly qualified employees to continuously develop. In 2016 all our investment staff completed the ABN AMRO Investment Professional of Tomorrow programme, a unique course developed by INSEAD exclusively for ABN AMRO Private Banking. The programme is designed to help investment professionals:

- ▶ Better understand risk and return in today's dynamic investment landscape;
- ▶ Better understand broader macroeconomic trends and financial markets;
- ▶ Familiarise themselves with the investment psychology of high net worth individuals and family businesses;
- ▶ Gain a deeper understanding of the ABN AMRO investment process and service model.

We invested in training our employees in new capabilities, such as giving remote advice. We also held our leadership programme in the Netherlands in 2016, addressing the need for personal development and continuous improvement. Part of this programme is designed to give staff the tools they need to improve their vitality and to create an 'outside-in' perspective by visiting inspiring clients.

### Sharing our knowledge

Our dedicated specialists and Global Investment Committee on strategic and tactical decision-making keep our clients well informed of market developments. Our people respond alertly to industry developments and take rapid action to serve our clients. Examples are our reactions to key issues in 2016, such as the Brexit vote and the US elections, where clients, prospects and market watchers were able to follow us easily, via client portals, media interviews and webinars.

We continued to deliver expertise and connect our clients through our networks. In 2016 we held our second Bethmann Forum in Germany, inspiring clients to exchange information and thought-provoking ideas. Speakers shared their experiences in a constantly changing world and talked about how innovation empowers their businesses.

We launched our first international seminar for Institutions & Charities in 2016. The event, held at ABN AMRO's head office in Amsterdam, gave participants an opportunity to address strategic dilemmas on how to best define and achieve impact in the non-profit sector. The programme was organised in cooperation with the Centre for Social Innovation of Heidelberg University (Germany), offering a platform for participants to explore these challenges and share their experiences. We also held our annual Charities Congress for private banking clients in the Netherlands, where participants could exchange ideas on how to create impact through innovation.

### Strengthening client relationships through digital services

**More digital business** Limited assurance

Connectivity of material topic **8**

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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As a leading modern private bank, we need to have a competitive digital offering, because our clients increasingly do business with us 24/7 through multiple channels. Digital services help clients receive our expertise efficiently and offer an inspiring and convenient client experience.

We are investing in online and mobile innovations in order to meet, and even exceed, our clients' expectations. Our interactions with clients take place increasingly online and via remote channels, so we continued to develop our digital capabilities in 2016.





In Germany and France, for instance, we are designing an ambitious new digital platform that combines multi-channel services with personal interaction. We developed a multi-channel service offering and launched a 'family and friends' pilot group in 2016 and, based on the results, plan to extend this to a broader audience in 2017. The service is unique among traditional German private banks.

We also added a new feature to our Mobile Banking app in the Netherlands enabling clients to place investment orders via the app easily using their secure five-digit code. The app also provides current exchange rates for investment products in the portfolio and allows users to contact our investment line directly.

**Multi-channel approach**

We continued to develop our remote advice capabilities in 2016. Following the successful launch of Private LiveXpert, we started piloting remote advice in our branches. We intend to equip all our branches for videoconferencing with clients in 2017.

We plan to deploy new channels that will keep our clients up to date more effectively. Our online and mobile channels are used for portfolio reporting and investment proposals, and support our investment alerts. Webinars and a daily news email, the Daily Focus, bring our clients the latest economic news and market insights as well as other news.

We connect our clients with one another by organising dedicated events for specific client segments and informal investment platforms. This year we launched an exclusive online platform where entrepreneurs can connect with investors.



Use and appreciation of the Private Banking Advice & Service Team for basic banking services has increased. New initiatives have been identified and are being tested to extend the team's service offering. The Private Banking Advice & Service Team is currently piloting the use of WhatsApp for secure client interaction.

Our website was named the world's number one private banking website by MyPrivateBanking for the fifth consecutive year in 2016, and our Mobile Banking app ranked number eight<sup>1</sup> globally.

In line with bank-wide strategy and positive client feedback, we strive to be a frontrunner in innovative online, mobile and social media solutions. We devote continuous attention to developments and improvements in this area, and our progress in innovation is monitored by senior management.

**A better private bank contributing to a better world** Limited assurance

**Connectivity of material topic 16**

<p>Link to strategy</p> 	<p>Important to these stakeholders</p> 	<p>See material topics and connectivity on page 19</p>
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On the sustainability front, our ambition is to be a better private bank contributing to a better world. We take responsibility for the impact that our products and services have on society. Our sustainability strategy focuses on key areas which guide us and our clients on the issues we need to address every day, including sustainable finance and investment services.

When assessing clients and credit applications, we apply guidelines addressing possible ecological, social and ethical risks and we screen new clients by reviewing their activities based on the bank's sustainability risk policy and exclusion list.

ABN AMRO is the world's first financial institution to apply the UN Guiding Principles Reporting Framework (in our reporting on 2015, published December 2016), including reporting on our efforts to promote human rights.

We offer philanthropy advice and support in setting up tailored foundations for private banking clients in the Netherlands, France, Germany, Belgium and Luxembourg.

<sup>1</sup> Source: MyPrivateBanking Research Report - Mobile Apps for Wealth Management 2016

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We invest in social enterprises and Social Impact Bonds in the Netherlands through the ABN AMRO Social Impact Fund. In 2016, for the third year in a row, the fund continued to invest in Social Impact Bonds to support local employment and reintegration.

In 2016 we introduced Sustainable Investment Advisory, in addition to the existing Sustainable Investment Management Mandates. As one of the first private banks in the Netherlands, we offer tailored investment advice to our private banking clients based on a selection of sustainable investment funds. Part of this selection is the FMO Privium Impact Fund, which offers a scalable solution for impact investing in emerging countries by co-investing with the Dutch Development Bank FMO. The fund is exclusively available at ABN AMRO.

Our sustainable client assets increased to EUR 8.2 billion in 2016, up from EUR 6.4 billion in 2015. The increase in demand for sustainable investment solutions was driven mainly by the introduction of a number of impact investment funds, client-facing employees participating in a course on sustainable investing and a marketing campaign targeting private banking clients. In addition, we held a number of awareness sessions on sustainable investing for staff, clients (including institutions and charities) and other stakeholders.

### Strong risk and regulatory framework

Under our risk management and regulatory framework, we assess all private banking client files, including their sources of wealth, against the highest standards. In 2016 we did this through a self-initiated and structured programme.

### Strategic ambitions

ABN AMRO Private Banking is recognised internationally as a leading private bank that offers clients self-directed, advisory and full-service banking services. Going forward, we will continue to build a sustainable and client-focused private bank that is a leader in the markets in which we operate. To this end, we are taking several initiatives to reduce our cost base and simplify our organisation. We expect these initiatives to free up resources for us to invest in, for example, further segmenting our service delivery model and enhancing our clients' digital

experience. We will continue differentiating ourselves based on our client proximity, knowledgeable staff and personalised service provided through the client's channel of choice.

### Client-driven

To better serve our clients, we will continue to develop our expertise and deepen our segmentation model. We will leverage our expertise and our networks in order to assist clients more effectively. For example, in 2017 we plan to introduce coaches in the Netherlands for the children of our clients to help them prepare for their financial future. Our ambition is to remain recognised for our advisory capabilities and segment-specific value propositions. We intend to enhance the client experience by innovating our wealth management insight & overview services.

### Invest in the future

We intend to further invest in digital and remote capabilities and explore advanced online wealth solutions focusing on the key life-cycle moments in our clients' lives, so we can serve clients anytime, anywhere and in any way they want.

We aim to launch a new digital platform for our clients in Germany and France in 2017. The web portal will introduce a new way of communication between clients and relationship managers, enabling them to have chat conversations and receive alerts, relevant portfolio information and market insights. In addition, a new app is expected to be launched providing access to service teams and to account and portfolio details, anytime and anywhere. The platform is being developed according to agile principles, ensuring continuous development and improvement. We will also continue to improve and digitise our processes and reporting.

To accelerate our time-to-market, we plan to set-up multidisciplinary teams to develop and improve products based on feedback from our clients. We are committed to creating an organisation and culture based on trust, where there is space for new ideas and new ways of working. Our organisation will become simpler and have fewer layers. This will give our employees more autonomy and responsibility, making their work more meaningful.

## Moderate risk profile

Private Banking delivers consistent execution and focuses on prudent risk management for its clients and the bank, while providing distinctive products, services and advice. Long-term volatility in the cost of risk is expected to be low due to strict risk acceptance and monitoring criteria and rationalisation of our product offering in alignment with the bank's moderate risk profile.

## Sustainable growth

We aspire to gradually grow our business in the coming years. We aspire to enhance our activities in Northwest Europe while harmonising our IT platforms where possible. Furthermore, we plan to introduce new digital innovators for Private Banking. In the Netherlands Private Banking aims to grow its market share of clients with investable assets of at least EUR 500,000.

## Financial review

### Operating results

(in millions)	2016	2015	Change
Net interest income	645	589	9%
Net fee and commission income	580	619	-6%
Other operating income	89	101	-12%
<b>Operating income</b>	<b>1,315</b>	<b>1,310</b>	<b>0%</b>
Personnel expenses	501	501	0%
Other expenses	544	549	-1%
<b>Operating expenses</b>	<b>1,045</b>	<b>1,050</b>	<b>-0%</b>
<b>Operating result</b>	<b>269</b>	<b>260</b>	<b>4%</b>
Impairment charges on loans and other receivables	20	-4	
<b>Operating profit/(loss) before taxation</b>	<b>249</b>	<b>264</b>	<b>-5%</b>
Income tax expense	50	49	2%
<b>Underlying profit/(loss) for the period</b>	<b>199</b>	<b>214</b>	<b>-7%</b>
Special items			
<b>Reported profit/(loss) for the period</b>	<b>199</b>	<b>214</b>	<b>-7%</b>

Private Banking's **underlying profit** decreased by EUR 15 million in 2016. The decline was the result of higher impairment charges, partly offset by an increased operating result.

**Net interest income** increased by EUR 56 million to EUR 645 million in 2016. This was mainly the result from higher margins on deposits, partly offset by lower average lending volumes.

**Net fee and commission income** decreased by EUR 39 million. Uncertainty and volatility in the financial markets, especially in the first half of 2016, had a negative impact on the stock markets. This led to lower average client assets and a decline in transaction volumes.

**Other operating income** decreased to EUR 89 million (2015: EUR 101 million). The decline was mainly due to lower trading income. The 2016 provision release related to the sale of the Swiss private banking activities in 2011 (EUR 21 million) was offset by the sale of premises in 2015 and negative one-offs in 2016.

**Personnel expenses** remained stable compared with 2015. Lower personnel expenses in the international activities were offset by higher personnel expenses in the domestic activities. The number of FTEs employed in Private Banking's domestic activities increased in 2016 due to a transfer of employees from Retail Banking.



**Other expenses** decreased by EUR 5 million compared with 2015. The decline was mainly due to the favourable settlement of an insurance claim in 2016 (EUR 24 million), several smaller provision releases and strict cost control. This was partly offset by higher regulatory levies (EUR 18 million in 2016 versus EUR 11 million in 2015) and higher allocated project costs for the continuous improvement of products, services and IT processes.

The **operating result** improved by 4% compared with 2015. The underlying **cost/income ratio** decreased by 0.7 percentage points to 79.5%.

**Impairment charges** on loans and other receivables amounted to EUR 20 million compared with a EUR 4 million release in 2015. This was partly due to lower IBNI releases (EUR 3 million in 2016 versus EUR 12 million in 2015) and specific additions in 2016 compared with a specific release in 2015.

## Other indicators

	2016	2015
Underlying cost/income ratio	79.5%	80.2%
Underlying cost of risk (in bps) <sup>1</sup>	13	-2
Gross margin on client assets (in bps)	67	65

<sup>1</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

	31 December 2016	31 December 2015
Loan-to-Deposit ratio	20%	25%
Loans and receivables - customers (in billions)	12.1	16.6
Due to customers (in billions)	61.8	66.5
Risk-weighted assets (risk exposure amount; in billions)	7.7	8.2
FTEs	3,844	3,722

**Loans and receivables - customers** decreased by EUR 4.5 billion in 2016. Of this decrease, EUR 3.4 billion was related to the reclassification of the private banking activities in Asia and the Middle East to held for sale. Excluding the reclassification, the decrease related to both the domestic and international activities.

**Due to customers** decreased by EUR 4.7 billion to EUR 61.8 billion at 31 December 2016. Of this decrease, EUR 5.7 billion was related to the reclassification of private banking activities. Excluding the reclassification, growth was mainly achieved in the Netherlands partly related to internal client transfers from Retail Banking to Private Banking based on the lower threshold.

## Client assets

(in billions)	2016	2015
<b>Opening balance Client assets</b>	<b>199.2</b>	<b>190.6</b>
Net new assets (excl. sales/acquisitions)	0.6	1.5
Market performance	5.0	7.1
Divestments/acquisitions		
Other (incl. sales/acquisitions)		-0.0
<b>Closing balance Client assets</b>	<b>204.9</b>	<b>199.2</b>
<b>Breakdown by type</b>		
Cash	67.6	66.5
Securities	137.2	132.8
- of which custody	35.4	35.0
<b>Breakdown by geography (in %)</b>		
The Netherlands	48%	48%
Rest of Europe	44%	44%
Rest of the world	9%	8%

**Client assets** grew to EUR 204.9 billion at 31 December 2016. This was mainly due to a positive market performance in 2016, especially in the second half of the year. Total client assets includes EUR 17.9 billion related to the private banking portfolio in Asia and the Middle East (held for sale).

**Net new assets<sup>1</sup>** amounted to EUR 0.6 billion in 2016 compared with EUR 1.5 billion in 2015. Net inflow in the international activities was partly offset by net outflow in the Netherlands. In 2016 an amount of EUR 0.9 billion was due to internal client transfers from Retail Banking to Private Banking based on the lower threshold of EUR 500,000 in investable assets. The threshold in the Netherlands was lowered to open up services to a broader client group and to enable us to gain further market share. Clients are gradually being transferred to Private Banking.

<sup>1</sup> Net new assets include client transfers from Retail Banking and referrals from Corporate Banking.

Through Econic, a launch pad for innovation, we join forces with start-ups. This creates the freedom necessary for inspiration and growth.

### Giving **Voice** to **Value**

Read more in our supplement

'Initiatives in 2016' or watch the video:  
[abnamro.com/econic](http://abnamro.com/econic)



# Corporate Banking

- > **Approximately 70,000 clients with annual turnover exceeding EUR 1 million**
- > **Leading player in the Netherlands with a capability-led international growth strategy for selected sectors in Northwest Europe and globally**
- > **International presence in key financial and logistical hubs**
- > **Extensive, in-depth sector expertise and product capabilities**

## Overview

Corporate Banking is an established business partner of the Dutch corporate sector with a strong domestic franchise and a focused international strategy. We serve clients both in the Netherlands and internationally with our client-centric, relationship-driven business model and extensive sector expertise. In the Netherlands, our clients are active in all sectors of the Dutch economy. We offer a broad range of standard and tailor-made products and

services based on in-depth client and sector knowledge. In Northwest Europe and globally, we focus on selected sectors in which we are strengthening and expanding our existing positions, realising cross-business line synergies and leveraging core capabilities.

Our key strengths are our existing market positions and strong brand name, our relationship-driven business model combined with a dedicated sector approach and in-depth expertise, and our clear focus on risk management.

In 2016 we further strengthened our sector-based organisation and deepened our in-depth sector expertise. At the same time, we pursued controlled international growth in Northwest Europe and selected sectors globally. We increased our focus on digitalisation and innovation and introduced an agile way of working to support our strategic goals.

Looking ahead, we believe that our key strengths equip us to adapt to challenges relating to changing client needs, economic conditions, technological developments, new market entrants and new regulations such as MiFID II and Basel IV.

## Key figures Corporate Banking

Stakeholder	Metrics	2016	2015
<b>Clients</b> 	<b>Net Promoter Score<sup>1,2</sup></b>	6	-2
<b>Employees</b> 	<b>Employee engagement<sup>3,4</sup></b>	81	75
<b>Society at large</b> 	<b>Percentage of loans in book with ESE indicator<sup>5</sup></b>	57%	38%
<b>Investors</b> 	<b>Underlying net profit (in millions)</b>	876	596
	<b>Underlying cost/income ratio</b>	62.2%	62.2%

<sup>1</sup> Source: TNS NIPO, Greenwich and MVM2. The set-up of the NPS surveys differs among the business lines.

<sup>2</sup> NPS for Corporate Banking is composed of the NPS results of Commercial Clients (4,142 respondents), Large Corporates (120 respondents), ECT Clients (263 respondents) and ABN AMRO Clearing (229 respondents) weighted by actual operating income of the respective segment.

<sup>3</sup> Source: Willis Towers Watson. Annual survey, total number of respondents: 4,893.

<sup>4</sup> 2016 score based on revised measurement method. For more details on employee engagement, please see 'Employee engagement' in the Group performance section.

<sup>5</sup> Percentage of loan book with environmental, social and ethical (ESE) indicator.

For the definition of abovementioned concepts, please refer to 'Definitions and other important terms'.

## Business developments

To support clients and meet their changing needs, Corporate Banking pursues a strategy based on four cornerstones: i) Our expertise, ii) Our growth, iii) Our digitalisation and innovation, and iv) Our way of working.

### Expertise Limited assurance

#### Connectivity of material topic 1 6

Link to strategy	Important to these stakeholders	See material topics and connectivity on page 18

The first cornerstone of our strategy is our expertise. Clients prefer a partner who understands them and the challenges they face, gives them expert advice and puts their interests first. This requires financial know-how, knowledge of market trends, and an understanding of the opportunities and risks in the sectors in which our clients are active.

### Sector-based organisation

We believe we have laid a solid foundation on which to build our sector expertise in order to provide our clients

with clear and appropriate advice. For example, the sector-based approach has been rolled out within all business lines of Corporate Banking and Risk. Sector teams work together across business lines to promote knowledge-sharing, expand networks and create commercial opportunities – not just within, but also across sectors.

Within Commercial Clients we have taken the next step by creating a more sector-based organisation. We have established client portfolios devoted to specific sectors. This enables our relationship managers to focus on one specific sector and to work in close collaboration with all relevant networks within and outside the bank. The sector expertise of relationship managers is supported by ABN AMRO's Sector Advisory knowledge centre. Moreover, our sector orientation has been adopted by our Risk Management and Financial Restructuring & Recovery departments. Furthermore, we started to roll out sector-specific training programmes to ensure our staff has in-depth and relevant sector knowledge.

We introduced a benchmark tool at the end of 2016 to give clients sector-specific and quantitative insight into their



performance compared with their peers. This information can be used to engage our clients in a dialogue about their business operations.

Our sector-based organisation makes us a valuable strategic partner for our clients, enabling us to deliver first-class service and clear, appropriate advice. Management devoted a great deal of attention to client centricity in 2016, reflecting the importance we attach to putting our clients' interests first.

### Meeting clients' needs

We aim to provide clients with the best possible solutions in today's rapidly-changing environment. We attach great value to the drivers of our Net Promoter Score and we continuously engage with our clients to better understand their wishes and challenges, enabling us to support them where needed. For example, in Transaction Banking we introduced Multi Payment Services together with our partner EMS, which offers our business clients a one-stop shop for payment solutions. We also made it possible for these clients to access their debit card revenues within 24 hours, including on weekends and holidays. And in the final quarter of 2016 ABN AMRO introduced iDIN in partnership with the Dutch Payments Association. iDIN allows consumers to identify themselves securely and easily. This gives our business clients more certainty about the identity of their customers, facilitates further digitalisation of their services and increases conversion rates for online sales.

In today's market, small and medium-sized businesses find it difficult to identify suitable finance providers. ABN AMRO has joined forces with NEOS and Achtergestelde Leningen Fonds to grant clients alternative financing funded by professional investors. The proposition with NEOS made ABN AMRO the first Dutch bank to bring entrepreneurs in the Netherlands directly into contact with a supplemental financier when multi-layered financing is their solution of choice.

Additionally, we introduced several initiatives to improve our service in lending. In the event of an interest rate review, we give clients a longer period of time to consider their options. Also, we lowered costs for early redemption.

### Client recognition

We believe meeting clients' needs and providing clear, appropriate advice are important elements of our broader

client experience. To measure and improve the client experience, we carefully monitor our clients' satisfaction level and regularly ask for feedback on our products and services.

We are proud to report a positive Net Promoter Score for 2016 of +6.2 for all of our client segments combined, which is an improvement of 8.0 points compared with the 2015 score. In particular the Net Promoter Scores for ECT Clients and ABN AMRO Clearing improved. The NPS for Commercial Clients showed a slight decline. We are taking the necessary steps to address this and are carefully monitoring how this NPS is developing. We use the results of the Net Promoter Score to coach our employees in continuously optimising the client journey. We started rolling out closed-loop feedback in 2016: a short survey is conducted after each client interaction, which relationship managers use to take follow-up action. This enables us to learn from our clients and to improve the client experience.

Our efforts to put clients' interests first were also recognised by other parties in 2016. MT Finance magazine named ABN AMRO Best Corporate Bank in the Netherlands for the fourth consecutive year and we were ranked number one in eight out of twelve categories. ABN AMRO also won four prestigious Euromoney awards, including the award for Best Investment Bank for the Netherlands. Our number one position in the annual Thomson Reuters Extel Awards shows how much clients value our services as an equity broker. In addition, Global Finance magazine named ABN AMRO the Best Investment Bank in the Netherlands, and chose ECT Clients as Global Best Bank for Commodity Finance. ABN AMRO Clearing was recently named Proprietary Traders' Clearing Firm of the Year 2016 for the fourth year in a row at the Future & Options World International Awards. Furthermore, ABN AMRO Lease won the Leasing Life award in the category Middle Ticket Corporate Lessor and at the Sustainable & Responsible Capital Markets forum, we were named Most Impressive Bank Green/SRI Bond Issuer.

### Growth

We believe our sector expertise distinguishes us from other banks in the Netherlands and around the world, giving us a solid foundation for growth. Apart from growth in the Netherlands, 27% of Corporate Banking's revenues were



generated internationally in 2016, 2 percentage points up from last year. We saw worldwide growth in ECT Clients and ABN AMRO Clearing and in asset-based finance in Northwest Europe. We took further steps in 2016 to support the bank in achieving its sustainable growth ambition.

In Northwest Europe we are pursuing controlled growth in selected sectors of the mid to large corporates segment and in financial institutions. We are focusing on our neighbouring countries Germany, France, Belgium and the United Kingdom, where we already have a solid presence with asset-based finance, International Desks, Capital Markets Solutions and Financial Institutions, and where we can leverage our existing private banking presence.

Corporate Banking's activities outside Europe include ECT Clients, Financial Institutions, Sales & Trading and ABN AMRO Clearing. In ABN AMRO Clearing we aim to maintain our top three position globally, which we demonstrated in 2016 by delivering a strong performance in Europe, Asia and the Americas.

We want to pursue controlled international growth by targeting sectors that are closely linked to our existing activities. In ECT Clients we plan to expand into adjacent sectors of the existing business by adding Natural Resources and a global proposition for Food. We set up local teams for both of these sectors at the end of 2016. We are also widening our focus in the Energy sector into Canada and Australia and target renewable energy and utility clients worldwide. We enlarged our geographical footprint in March with the official opening of the Shanghai branch, allowing us to better serve our ECT Clients with business in China.

## Digitalisation and innovation

Digital transformation and innovation are another cornerstone of our strategy. We seek to add value by combining the knowledge and creativity of our people with the power and speed of technology, while always ensuring data protection and privacy.

### Digitalisation

We have already achieved tangible results on the digital front in recent years. We intend to integrate our financial and sector expertise into our digital client proposition, so that ultimately anything that can be done offline can

also be done online – 24/7, quickly and easily. The new Corporate Banking environment on abnamro.nl went live in 2016, including new features such as meeting requests to discuss financing and insurance. We also launched the Corporate Banking portal. Clients in the Netherlands now only have to log in once in order to access a whole array of online applications, information and services, e.g. a financial dashboard including rates.

### Innovation Limited assurance

#### Connectivity of material topic 8

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 18</b>
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We believe in the power of innovation and co-creation. Collaboration with start-ups and scale-ups is essential in order to make a difference in the competitive landscape. We pursue this in our day-to-day business and have also introduced specific organisational initiatives. A prime example is the Econic innovation hub that Commercial Clients opened in Eindhoven in 2016. Here, fintechs and other companies with new ideas for business banking work with our employees in an independent environment to co-develop and test their ideas against the bank's day-to-day reality.

Early in the year ABN AMRO Clearing invested in the American technology company Digital Asset Holdings. This partnership gives us direct access to high-grade blockchain technology and its applications. We also launched a large-scale TKI Dinalog project in cooperation with 14 partners, including the Port of Rotterdam, where we apply blockchain technology applications to the logistics sector.

At the end of 2016, we introduced a product developed in-house called Gradefix. With Gradefix, we use our strong risk management skills and advanced analytics to generate an analysis and risk rating based on payment data. We offer Gradefix to corporates, making it easier for them to do business. A Gradefix rating can be used to select tenants, trading partners or borrowers, for example.

Our progress on innovation is monitored by senior management in ABN AMRO's Innovation Board.

## Way of working

Achieving our digital and innovation ambitions calls for a new way of working with a short time-to-market. To respond to our clients' needs more swiftly and effectively, we are introducing the agile way of working across the organisation. At present, more than 100 teams within ABN AMRO already work according to agile principles and within Corporate Banking we have started to adopt this method too. Working according to agile methods gives employees more autonomy and end-to-end responsibility, which increases job satisfaction and helps us retain and attract talented employees. The new way of working also requires a focus on personal development, with more emphasis on adaptability, passion for clients and their business, and collaboration.

## Sustainable banking

In pursuing our ambitions in the areas of expertise, growth, digitalisation and innovation, and our way of working, we are committed to sustainability and sound risk management.

## Sustainability Limited assurance

### Connectivity of material topic 16

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <b>page 19</b>
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We are integrating sustainability into our daily business operations. We are introducing screening of all potential clients to ensure they meet our sustainability standards. Engaging with them on their sustainability performance allows us to conduct effective assessments and identify opportunities for improvement. We made good progress on this front in 2016.

We have set ambitious sustainability targets for our Real Estate Clients business line for 2018. This includes a lending portfolio consisting of 30% energy A label real estate, financing of 300,000 square metres of redeveloped real estate and innovative initiatives. We made funding available to support clients in making their real estate more sustainable and we developed an application that gives real estate owners information on energy-saving possibilities, including potential carbon reduction. ABN AMRO also announced a collaboration with real estate developer OVG to redevelop vacant buildings,

and work commenced in 2016 on the transformation of more than 50,000 square metres of commercial property, which will result in four new sustainable office buildings in the near future. In order to finance this, ABN AMRO developed its first official Green Loan together with the client.

Following up on its first green bond issued in 2015, ABN AMRO successfully issued a second one in 2016. The EUR 500 million transaction attracted a great deal of interest from sustainable investors and gave us an opportunity to share our expertise with our clients. As a result, we were mandated to issue green bonds for Berlin Hyp, Tennet and Deutsche Kreditbank.

ABN AMRO is a partner of the Sustainable Shipping Initiative, which aims to make the shipping sector more sustainable. We are one of the leading banks to develop responsible ship recycling standards, which form an integral part of loan documentation. The Anthony Veder EUR 66 million Euro Private Placement transaction, solely arranged by ABN AMRO in the fourth quarter of 2015, was confirmed as the first sustainable shipping loan in 2016 and was fully certified according to the Clean Shipping Index Standard. Bureau Veritas verified the green credentials of this landmark transaction in the global shipping industry.

ABN AMRO's Social Impact Bond is a promising tool that puts private funds to work in order to solve social problems and gives government agencies more opportunities to address social issues. A number of Social Impact Bonds were launched in 2016. Together with the Ministry of Justice and Security, Corporate Banking invested in a programme to reintegrate former prisoners into society. We also launched a new Social Impact Bond with the Dutch cities of Enschede and Eindhoven, with the aim to reduce unemployment.

## Reliable and Responsible Banking

Reliable and Responsible Banking is a bank-wide programme aimed at optimising our client acceptance and review process and improving client acceptance files. The new global Corporate Banking Client Acceptance and Anti Money Laundering policy was implemented, and we started reviewing files for most business lines in 2016.

## Active risk management

In line with ABN AMRO's moderate risk profile, Corporate Banking has a strong focus on risk management and is



continuously seeking opportunities to further strengthen its risk management capabilities. Commercial Clients enhanced its credit management by transforming its credit control from time-based to risk-based. A systematic approach is employed for assessing the risk of clients, detecting early warning signals, increased and enhanced monitoring of higher risk profiles and undertaking mitigating actions.

Although major economies in general recovered in 2016, many of our ECT Clients faced challenging market circumstances due to low prices of major commodities which have not fully recovered and overcapacity in certain shipping segments. We carefully consider the cyclical nature in relation to lending policies, financing structures, advance rates and active risk management. We continue to closely monitor the impact of these market developments and we perform sensitivity analyses and stress testing exercises periodically to gain insight into the credit performance under price scenarios, economic scenarios and risk measures. We are working proactively with our clients to restructure debt in an early stage if needed.

### Review of interest rate derivatives files

In 2015 ABN AMRO started a review, at the request of both the AFM and the Dutch Ministry of Finance, to determine whether the bank had acted in accordance with its duty of care obligations with respect to the sale of interest rate derivatives to SME clients. In December 2015 the AFM announced that it had found the review performed by banks to be insufficient. In light of this finding, the Dutch Minister of Finance appointed a committee of independent experts (the Committee) to develop a Uniform Recovery Framework in consultation with the participating banks. On 5 July 2016 the Committee presented the Uniform Recovery Framework and on that same date ABN AMRO announced it would adhere to it. A pilot was initiated by the participating banks to refine the Uniform Recovery Framework and processes in order to prepare for execution. During a Parliamentary Hearing on 22 September 2016, ABN AMRO expressed its commitment to compensate clients for potential damage suffered in line with the Uniform Recovery Framework. The pilot phase was finalised in December and the Committee presented the final version of the Uniform Recovery Framework on 19 December 2016. ABN AMRO presented its final execution plan in January 2017 to the

AFM and has appointed PwC as independent reviewer. Implementation of the Uniform Recovery Framework will start in Q1 2017.

## Strategic ambitions

Our overall aim is to be the best corporate bank, both in the Netherlands and internationally. Our strategy is in line with the four long-term strategic priorities of ABN AMRO: client-driven, invest in the future, moderate risk profile and sustainable growth.

### Client-driven

We will continue to integrate our sector approach into our organisation by adding sector focus to management, culture and performance and further leverage our expertise in order to be a distinctive partner for our clients. As part of our drive to put clients' interest first, we expect to continue investing in digitalisation and innovation and implementing the agile way of working for all employees involved in the design of our products, channels, systems and processes. This should help them work in a more flexible and client-centric manner.

### Invest in the future

We are developing several initiatives to strengthen our digital capabilities and enhance our service offering through new partnerships, including fintechs and start-ups. We intend to invest in the future by further embedding sustainable banking in our credit approval processes. We also plan to continue investing in the empowerment, skills, knowledge and development of our employees.

### Moderate risk profile

In accordance with the bank's risk appetite, we are strongly committed to maintaining a moderate risk profile. We have a strict credit policy and execute this policy in a highly disciplined manner, and we have embedded this in our international growth ambitions. To strengthen our moderate risk profile, we aim to deepen our sector expertise and continue to focus on asset-based financing, a sustainable loan-to-deposit ratio and risk-return capital allocation.

### Sustainable growth

Our pursuit of sustainable growth has led to controlled worldwide expansion in ECT Clients and ABN AMRO Clearing, as well as in asset-based finance in Northwest

Europe. We are strengthening existing key positions and expanding further into Northwest Europe and into selected sectors globally by leveraging our sector and

product expertise. We drive performance by maintaining our focus on sustainable growth and increasing cost efficiencies, both in the Netherlands and internationally.

## Financial review

### Operating results

(in millions)	2016	2015	Change
Net interest income	2,280	2,142	6%
Net fee and commission income	751	751	
Other operating income	175	227	-23%
<b>Operating income</b>	<b>3,207</b>	<b>3,120</b>	<b>3%</b>
Personnel expenses	680	676	1%
Other expenses	1,316	1,264	4%
<b>Operating expenses</b>	<b>1,995</b>	<b>1,940</b>	<b>3%</b>
<b>Operating result</b>	<b>1,211</b>	<b>1,180</b>	<b>3%</b>
Impairment charges on loans and other receivables	31	419	-93%
<b>Operating profit/(loss) before taxation</b>	<b>1,180</b>	<b>762</b>	<b>55%</b>
Income tax expense	305	165	84%
<b>Underlying profit/(loss) for the period</b>	<b>876</b>	<b>596</b>	<b>47%</b>
Special items	-271		
<b>Reported profit/(loss) for the period</b>	<b>605</b>	<b>596</b>	<b>1%</b>

Corporate Banking's **underlying net profit** increased by EUR 280 million to EUR 876 million in 2016. The key drivers for the improvement were a rise in operating income and a sharp decrease in impairment charges. This was partly offset by increased operating expenses including an execution costs provision for SME derivatives-related issues (gross amount of EUR 55 million).

Commercial Clients and International Clients contributed EUR 694 million and EUR 196 million respectively to the underlying profit of Corporate Banking. Capital Markets Solutions made an underlying loss of EUR 14 million.

Corporate Banking's **reported net profit** increased by EUR 9 million to EUR 605 million in 2016. In Q2 2016, the addition to the provision for SMEs with derivative-related issues of EUR 361 million gross (EUR 271 million net of tax) was classified as a **special item**. This provision was taken based on ABN AMRO's decision to adhere to the advice of the committee of independent experts on the reassessment of SME interest rate derivatives.

**Net interest income** increased by EUR 138 million to EUR 2,280 million. The improvement was recorded in all segments.

Commercial Clients posted a modest rise in net interest income of EUR 44 million to EUR 1,349 million. Margins on loans and deposits increased as well as average deposit volumes. Average loan volumes were lower compared with 2015 due to a reallocation of a portfolio to Group Functions in Q4 2015. Both years were impacted by the provision for SME derivatives-related issues.

Net interest income in International Clients increased by EUR 35 million to EUR 744 million, benefiting from growth in the ECT Clients loan portfolio (mainly international). This was partly offset by lower margins on deposits.

Net interest income in Capital Markets Solutions improved by EUR 59 million to EUR 186 million, mainly at Sales & Trading (partly due to favourable one-offs as a result of collateral management).

**Net fee and commission income** remained flat at EUR 751 million. Higher fees due to more cleared volumes at Capital Markets Solutions were offset by lower fees at International Clients.

**Other operating income** went down by EUR 52 million to EUR 175 million in 2016. The decrease was driven by lower tax-exempt results on the Equity Participations portfolio due to less favourable market conditions (including the ongoing low oil price). Moreover, the CVA/DVA/FVA results were EUR 51 million lower compared with 2015 (EUR 2 million negative in 2016 versus EUR 49 million positive in 2015). This was partly offset by lower additions to the provision for SME derivatives-related issues current year.

**Personnel expenses** amounted to EUR 680 million in 2016, up by EUR 4 million compared with 2015. Personnel expenses increased due to higher pension expenses and a growth in the number of FTEs, partly offset by lower restructuring provisions in 2016.

**Other expenses** grew by EUR 52 million compared with 2015 due to a provision at Capital Markets Solutions for SME derivatives-related issues (EUR 55 million) and higher project costs for continuous improvement of products, services and IT processes (including TOPS 2020). This was partly offset by EUR 27 million lower regulatory levies (EUR 96 million in 2016 versus EUR 122 million in 2015) and several smaller favourable one-offs in 2016.

The **operating result** went up by EUR 31 million to EUR 1,211 million in 2016. At 62.2%, the underlying **cost/income ratio** in 2016 remained flat compared to 2015.

**Impairment charges** on loans and other receivables amounted to EUR 31 million, down by EUR 388 million compared with 2015. The decrease in impairment charges is fully recognised in Commercial Clients due to the further broad recovery of the Dutch economy. Slightly higher impairment charges in International Clients were offset by lower additions in Capital Markets Solutions. In 2016 an IBNI release of EUR 136 million was recorded for Corporate Banking, compared with a EUR 125 million release in 2015.

## Other indicators

	2016	2015
Underlying cost/income ratio	62.2%	62.2%
Underlying cost of risk (in bps) <sup>1,2</sup>	3	47

<sup>1</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

<sup>2</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

	31 December 2016	31 December 2015
Loan-to-Deposit ratio <sup>1</sup>	137%	121%
Total client loans (excluding netting adjustment, in billions) <sup>1</sup>	75.2	68.3
Due to customers (excluding netting adjustment, in billions) <sup>1</sup>	60.7	62.9
Risk-weighted assets (risk exposure amount, in billions)	54.9	55.1
FTEs	5,138	4,959

<sup>1</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

**Total client loans (excluding netting adjustment)** increased by EUR 6.9 billion to EUR 75.2 billion at 31 December 2016, largely due to an increase in loans at International Clients (mainly ECT Clients). Growth over 2016, especially in the fourth quarter, was supported by an increase in oil prices,

leading to higher utilisation of credit lines for commodity clients, and the strengthening of the US dollar (see also the Risk chapter).

**Due to customers (excluding netting adjustment)** decreased by EUR 2.2 billion to EUR 60.7 billion at 31 December 2016.

## Commercial Clients

### Operating results

(in millions)	2016	2015	Change
Net interest income	1,349	1,305	3%
Net fee and commission income	202	205	-2%
Other operating income	57	13	
<b>Operating income</b>	<b>1,608</b>	<b>1,524</b>	<b>6%</b>
<b>Operating expenses</b>	<b>859</b>	<b>861</b>	
<b>Operating result</b>	<b>749</b>	<b>663</b>	<b>13%</b>
Impairment charges on loans and other receivables	-179	213	
<b>Operating profit/(loss) before taxation</b>	<b>928</b>	<b>450</b>	<b>106%</b>
Income tax expense	234	121	94%
<b>Underlying profit/(loss) for the period</b>	<b>694</b>	<b>329</b>	<b>111%</b>
Special items	-8		
<b>Reported profit/(loss) for the period</b>	<b>686</b>	<b>329</b>	<b>109%</b>

### Other indicators

	2016	2015
Underlying cost/income ratio	53.4%	56.5%
Underlying cost of risk (in bps) <sup>1,2</sup>	-46	53

<sup>1</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

<sup>2</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

	31 December 2016	31 December 2015
Total client loans (excluding netting adjustment, in billions) <sup>1</sup>	37.7	37.0
Due to customers (excluding netting adjustment, in billions) <sup>1,2</sup>	34.0	34.8
Risk-weighted assets (risk exposure amount; in billions)	20.6	21.5

<sup>1</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> Due to customers included an internal transfer of deposits from Commercial Clients to Capital Markets Solutions (mainly Q1 2016).

## International Clients

### Operating results

(in millions)	2016	2015	Change
Net interest income	744	709	5%
Net fee and commission income	223	232	-4%
Other operating income	9	104	-92%
<b>Operating income</b>	<b>976</b>	<b>1,044</b>	<b>-7%</b>
<b>Operating expenses</b>	<b>516</b>	<b>522</b>	<b>-1%</b>
<b>Operating result</b>	<b>460</b>	<b>522</b>	<b>-12%</b>
Impairment charges on loans and other receivables	211	191	11%
<b>Operating profit/(loss) before taxation</b>	<b>249</b>	<b>331</b>	<b>-25%</b>
Income tax expense	53	40	34%
<b>Underlying profit/(loss) for the period</b>	<b>196</b>	<b>292</b>	<b>-33%</b>
Special items			
<b>Reported profit/(loss) for the period</b>	<b>196</b>	<b>292</b>	<b>-33%</b>

### Other indicators

	2016	2015
Underlying cost/income ratio	52.8%	50.0%
Underlying cost of risk (in bps) <sup>1,2</sup>	59	56

<sup>1</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

<sup>2</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

	31 December 2016	31 December 2015
Total client loans (excluding netting adjustment, in billions) <sup>1</sup>	37.5	31.3
Due to customers (excluding netting adjustment, in billions) <sup>1,2</sup>	14.9	19.0
Risk-weighted assets (risk exposure amount; in billions)	24.4	22.6

<sup>1</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> Due to customers included an internal transfer of deposits from Commercial Clients to Capital Markets Solutions (mainly Q1 2016).



## Capital Markets Solutions

### Operating results

(in millions)	2016	2015	Change
Net interest income	186	127	46%
Net fee and commission income	326	314	4%
Other operating income	110	110	
<b>Operating income</b>	<b>622</b>	<b>551</b>	<b>13%</b>
<b>Operating expenses</b>	<b>619</b>	<b>555</b>	<b>12%</b>
<b>Operating result</b>	<b>3</b>	<b>-3</b>	
Impairment charges on loans and other receivables	-2	15	
<b>Operating profit/(loss) before taxation</b>	<b>4</b>	<b>-18</b>	
Income tax expense	18	6	
<b>Underlying profit/(loss) for the period</b>	<b>-14</b>	<b>-24</b>	<b>42%</b>
Special items	-263		
<b>Reported profit/(loss) for the period</b>	<b>-277</b>	<b>-24</b>	

### Other indicators

	2016	2015
Underlying cost/income ratio	99.6%	100.6%
Underlying cost of risk (in bps) <sup>1</sup>	-1	9

<sup>1</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

	31 December 2016	31 December 2015
Financial assets held for trading (in billions)	1.6	1.7
Loans and receivables - customers (in billions)	15.4	13.1
Financial liabilities held for trading (in billions)	0.8	0.5
Due to customers (in billions) <sup>1</sup>	11.7	9.1
Risk-weighted assets (risk exposure amount; in billions)	9.9	11.0

<sup>1</sup> Due to Customers included an internal transfer of both Commercial Clients and International Clients to Capital Markets Solutions (mainly Q1 2016).



Staff can now easily exchange knowledge worldwide thanks to Connections, the bank's social collaboration platform.

### Giving Voice to Value

Read more in our supplement 'Initiatives in 2016' or watch the video: [abnamro.com/connections](http://abnamro.com/connections)



# Group Functions

Group Functions was organised into four main departments in 2016: **Technology, Operations & Property Services (TOPS), Finance, Risk Management & Strategy (RM&S) and People, Regulations & Identity (PR&I). Group Audit and Corporate Office are also part of Group Functions.**

## Technology, Operations & Property Services (TOPS)

TOPS supports the Group by providing services in the areas of IT (software and hardware), operations, facility management, information security, procurement, and programme and project management in the Netherlands and internationally. TOPS consists of the following main departments: IT, Operations, Facility Management and COO.

## Finance

Finance helps keep the Group on track to achieve the goals defined in its long-term strategy. Finance is the primary supplier of management and reporting information to the Group's internal and external stakeholders. It 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. Finance consists of the following main departments: Financial Accounting, Controlling, ALM, Treasury and Tax.

## Risk Management & Strategy (RM&S)

A strong, sustainable bank relies on sound risk management. Risk Management secures a sound risk/return ratio based on a moderate risk profile. The bank-wide risk appetite determines our moderate risk profile. All different events or risk types to which the bank is exposed are defined and categorised in the risk taxonomy. Risk Management identifies and manages all the risk types classified in the risk taxonomy. The Risk, funding & capital management section of this report elaborates on the bank's risk model, risk taxonomy and risk approach.

## People, Regulations & Identity (PR&I)

The primary responsibility of PR&I is to help the Group's businesses put clients centre stage by managing human resources, ensuring compliance with regulations and managing the bank's corporate identity and reputation. PR&I aims to prevent financial losses arising from abuse of the financial system by the Group's clients and/or employees and to prevent reputational damage arising from the unethical behaviour of clients, the Group and/or its employees. PR&I consists of five departments: Human Resources, Compliance & Conduct, Legal, Security & Intelligence Management and Communications & Sustainability.

## Financial review

### Operating results

(in millions)	2016	2015	Change
Net interest income	-2	44	
Net fee and commission income	-52	-68	23%
Other operating income	163	197	-17%
<b>Operating income</b>	<b>108</b>	<b>172</b>	<b>-37%</b>
Personnel expenses	1,125	828	36%
Other expenses	-720	-695	-4%
<b>Operating expenses</b>	<b>405</b>	<b>133</b>	
<b>Operating result</b>	<b>-297</b>	<b>39</b>	
Impairment charges on loans and other receivables	-15	-8	-89%
<b>Operating profit/(loss) before taxation</b>	<b>-282</b>	<b>48</b>	
Income tax expense	-36	160	
<b>Underlying profit/(loss) for the period</b>	<b>-245</b>	<b>-112</b>	<b>-119%</b>
Special items			
<b>Reported profit/(loss) for the period</b>	<b>-245</b>	<b>-112</b>	<b>-119%</b>

Group Functions' **underlying result** was EUR 245 million negative in 2016 compared with a loss in 2015 as well (EUR 112 million). The loss in 2016 was due to EUR 348 million restructuring provisions related to the announced reorganisation of the control and support activities (Q3) and digitalisation and process optimisation (Q4 2016). In 2015 the loss was impacted by a tax-exempt provision related to the part of the securities financing activities discontinued in 2009.

**Net interest income** decreased by EUR 46 million compared with 2015 as the interest result came down, in line with the flattening of the yield curve (partly offset by ABN AMRO's duration strategy. More information is provided in the Market risk in the banking book paragraph). Moreover, interest paid on cash deposits with the ECB increased due to higher average volumes and more unfavourable (negative) rates. Both were partly offset by lower funding costs on Dutch State funding (Dutch State Treasury Agency) following a partial redemption in 2016. Lastly, both years included tax-exempt provisions related to the part of the securities financing activities discontinued in 2009.

**Net fee and commission income** increased by EUR 16 million, partly driven by lower fees paid to Capital Markets Solutions related to securities financing activities.

**Other operating income** decreased by EUR 34 million compared with 2015 primarily as lower hedge accounting-related results were recorded in 2016 (EUR 39 million in 2016 versus EUR 182 million in 2015). Moreover, no CVA/DVA results were recorded in 2016 compared with favourable CVA/DVA adjustments in 2015 (EUR 27 million positive). This was partly offset by profit/revaluation gains on stakes in Visa Europe (EUR 14 million) and Equens (EUR 52 million). Both years included tax-exempt provisions related to the part of the securities financing activities discontinued in 2009.

**Personnel expenses**, at EUR 1,125 million in 2016, went up by EUR 297 million compared with 2015. The increase was due to EUR 321 million of restructuring provisions related to the announced reorganisation of the control and support activities (EUR 144 million in Q3 2016) and digitalisation and process optimisation (EUR 177 million in Q4 2016). This was partly offset by several smaller restructuring provisions recorded in 2015.



**Other expenses** decreased by EUR 25 million as more costs were allocated to the commercial segments compared with 2015. Expenses increased by EUR 82 million as 2015 included some favourable incidentals, including a EUR 35 million release related to DSB and a VAT return, partly offset by a final settlement (EUR 55 million) with Vestia (a Dutch housing corporation). The year 2016 includes a EUR 13 million restructuring provision for office space (plus EUR 14 million accelerated depreciation) and

higher projects costs for continuous improvement of products, services and IT processes (including the TOPS 2020 and Retail Digitalisation programmes).

**Income tax expense** in both 2016 and 2015, the latter more severely, were negatively impacted by the reassessment of our tax position and the tax-exempt provision related to the part of the securities financing activities discontinued in 2009.

## Other indicators

	31 December 2016	31 December 2015
Securities financing - assets	12.9	15.5
Loans and receivables - customers (in billions)	7.8	7.9
Securities financing - liabilities	10.5	10.2
Due to customers (in billions)	1.8	2.3
Risk-weighted assets (risk exposure amount; in billions)	9.8	9.9
FTEs	7,416	7,522

The number of **FTEs** decreased by 106 to 7,416 following the announced reorganisation of the control and support activities (Q3 2016) and digitalisation and process optimisation (Q4 2016).



# Responsibility statement

Pursuant to section 5:25c sub 2 part c of the Dutch Financial Supervision Act, the members of the Managing 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 financial year 2016 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, 14 March 2017

## The Managing Board

**Kees van Dijkhuizen**, Chief Executive Officer

**Johan van Hall**, Vice-Chairman

**Wietze Reehoorn**, Chief Risk 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.

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### Risk, funding & capital management

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### Additional risk, funding & capital disclosures



# Introduction to Risk, funding & capital management

This section provides an introduction to the Risk, funding & capital section. As the Risk, funding & capital section includes information according to both EU IFRS and CRD IV/CRR, more information on scope differences and consolidation is provided.

## Contents

### Risk, funding & capital management

This chapter provides more information on the Group's approach to risk, funding and capital management by describing strategy, policies, governance and measurement approaches.

### Risk, funding & capital review

The portfolio composition and developments are described in the Risk, funding & capital review section. This section also describes developments in the Group's major risk types and regulatory capital.

### Additional risk, funding & capital disclosures

This chapter provides an overview of additional disclosures required under current regulations.

### Regulatory requirements Pillar 3 EDTF 1

The Risk, funding & capital section incorporates 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 IFRS. Furthermore, ABN AMRO embraces the EDTF principles and recommendations.

### Pillar 3 disclosures EDTF 1

The objective of Pillar 3 disclosures is to inform existing and potential investors in ABN AMRO 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. ABN AMRO has incorporated the relevant Pillar 3 disclosures in this Annual Report.

The Pillar 3 disclosures are prepared in accordance with the Capital Requirements Regulation (CRR). Pillar 3 disclosures are labelled as 'Pillar 3' in the respective headings.

### EU IFRS EDTF 1

Some disclosures in the Risk, funding & capital section are an integral part of the Annual Financial Statement (AFS) and contain audited information. The audited parts concern disclosures on financial instrument risk (IFRS 7) and presentation of financial statements (IAS1). Audited information in these sections is labelled as 'audited' in the respective headings.

### Enhanced Disclosure Task Force (EDTF) EDTF 1

The Enhanced Disclosure Task Force (EDTF) was formed in 2012 in order to enhance the risk disclosures of banks and other financial institutions. The EDTF is an industry work group with wide geographical representation, including senior executives from leading financial institutions. On 29 October 2012, the EDTF together with the Financial Stability Board (FSB) published a report with 32 recommendations on how to enhance risk disclosures. ABN AMRO embraces the EDTF principles and recommendations and has implemented the vast majority of the 32 recommendations. For 2016, ABN AMRO reaffirms its commitment to the EDTF report and enhanced its EDTF disclosures, including certain recommendations from the EDTF 2015 progress report. EDTF disclosures are labelled as 'EDTF' in the respective headings.

## Risk exposure measurement and scope differences Pillar 3

Risk measures differ depending on the purpose for which exposure is calculated: EU IFRS, determination of regulatory capital 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 of the following: 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 [note 1](#) to the Annual Financial Statements. In accordance with IAS28 associates, participations and joint ventures engaged in financial and non-financial activities are accounted for on an equity basis. These investments are recognised at cost and increased or decreased by ABN AMRO's share of the profit or loss of the entity after acquisition. Further details on reconciliation between accounting (EU IFRS) and regulatory framework exposures are provided in the Risk management section.

## 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 directly or indirectly controlled by ABN AMRO that are active in the banking and finance sectors. However, subsidiaries consolidated under EU IFRS that are active in sectors other than banking and finance are excluded from the regulatory scope of consolidation. The table below describes the differences in consolidation for the purpose of calculating regulatory capital requirements and for the purpose of financial reporting under EU IFRS.

ABN AMRO applies CRD IV/CRR for determining its regulatory and economic capital and is subject to the reporting requirements imposed by its joint supervisors, the European Central Bank and the Dutch central bank (DNB). The capital and related reporting requirements in the CRD IV/CRR apply under the following scopes:

- ▶ ABN AMRO Group N.V. consolidated;
- ▶ ABN AMRO Bank N.V. solo with its Dutch subsidiaries and foreign branches (solo consolidation);
- ▶ International Card Services B.V. solo
- ▶ Sub-consolidated application for ABN AMRO Clearing Bank N.V., Banque Neuflyze OBC S.A., Bethmann Bank A.G., ABN AMRO Bank (Luxembourg) S.A.

ABN AMRO has acquired waivers to apply the capital and related reporting requirements on a solo basis to its Dutch credit subsidiaries. Sub-consolidated reporting is not applicable to the credit institution subsidiaries in the Netherlands, with the exception of ABN AMRO Clearing Bank N.V.

The Dutch credit institution subsidiaries are ABN AMRO Bank N.V., ABN AMRO Clearing Bank N.V., ABN AMRO Groenbank B.V., ABN AMRO Hypotheken Groep B.V. and International Card Services B.V.

**Differences in scope of consolidation between EU IFRS and regulatory reporting** Pillar 3

Entity	Financial reporting under EU IFRS	Capital treatment under the Capital Requirements Regulation	Main related entities
<b>Insurance companies</b>	Fully consolidated entities engaged in insurance activities.	The required capital is based on the equity investment in insurance entities.	ABN AMRO Captive N.V., White Rock Insurance (Gibraltar) PCC Limited/Cell, ABN AMRO Life Capital Belgium N.V., ABN AMRO Life S.A.
<b>Subsidiaries engaged in non-banking and non-insurance subsidiaries</b>	This category includes entities engaged in non-financial activities, which are consolidated in accordance with IFRS requirements.	The required capital is based on the equity investment in these subsidiaries.	Sumsare N.V., ABN AMRO Arbo Services B.V., Landgoed Duin & Kruidberg B.V.
<b>Associates, participations and joint ventures engaged in non-financial activities</b>	Accounted for on an equity basis.	Accounted for on an equity basis.	Delta Lloyd ABN AMRO Verzekeringen Holding B.V. (NC), AACBOF NEBO B.V. (INV), Alma Maritime Ltd., MP Solar B.V. (NC), Aline Holding S.A. (NC) (see note 22 of the Annual financial statements for more information).





# Risk, funding & capital management

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

## Risk approach

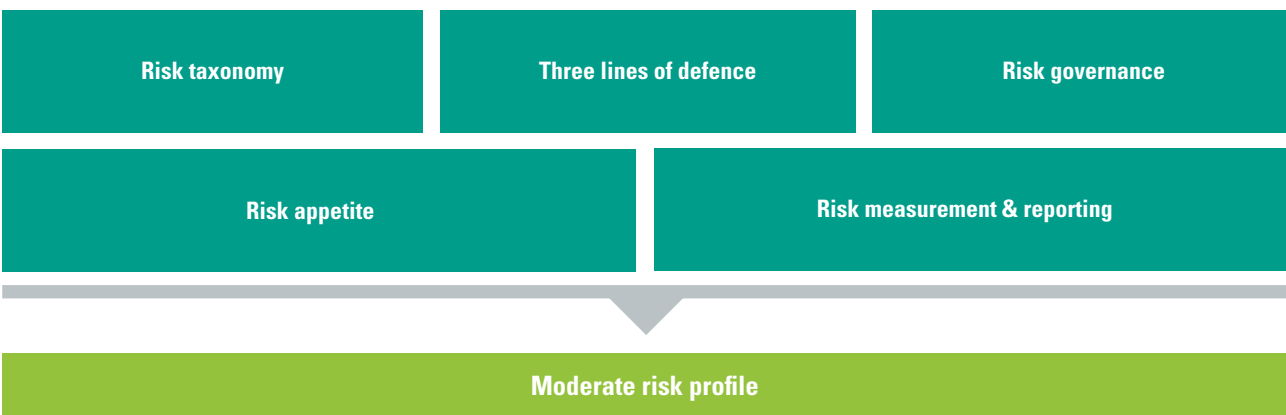
ABN AMRO is committed to being a well-capitalised bank with sufficient liquidity that focuses on delivering sustainable value to its stakeholders. We are committed to a sound risk/reward and to maintaining a bank-wide moderate risk profile. We thoroughly evaluate the long-term risk and

return implications of our operations on an ongoing basis. Based on ABN AMRO's long-term strategy, the bank has defined five key objectives with regard to risk management, which are presented below.

<b>Clean and strong balance sheet</b>	<ul style="list-style-type: none"> <li>▶ Strong focus on collateralised lending</li> <li>▶ Loan portfolio matches deposits, long-term debt and equity</li> <li>▶ Strategic focus to limit LtD ratio</li> <li>▶ Limited market risk and trading portfolios</li> </ul>
<b>Diversification and focus in portfolio</b>	<p>Our loan book is fully aligned to our strategic choices and focus areas:</p> <ul style="list-style-type: none"> <li>▶ Loan book safeguarded against concentrations through Risk Appetite to sectors, single clients and countries</li> <li>▶ Concentration developments monitored and reported monthly</li> <li>▶ Focused growth in Corporate Banking in neighbouring countries and selected industries worldwide</li> <li>▶ Diversification via digital challengers</li> </ul>
<b>Sound capital and liquidity management</b>	<ul style="list-style-type: none"> <li>▶ Capital and liquidity indicators exceed existing regulatory requirements</li> <li>▶ Liquidity buffer steered to manage regulatory compliance and internal views</li> <li>▶ Costs for liquidity buffer charged to business to ensure proper pricing incentives</li> <li>▶ Stress testing used to steer capital &amp; liquidity</li> </ul>
<b>Sustainability and transparency</b>	<ul style="list-style-type: none"> <li>▶ Sustainable relationships with clients centre stage: long-term interest above short-term gains</li> <li>▶ Sustainable business operations (sustainable products, risk management, ecological footprint and a vital organisation)</li> <li>▶ Using our financial expertise for the benefit of society</li> <li>▶ Sustainable and transparent finance and investment services</li> </ul>
<b>Structured approach on risk intake and monitoring</b>	<ul style="list-style-type: none"> <li>▶ Credit risk mainly in the Netherlands and diversified across the economy</li> <li>▶ Operational risk monitored and controlled by setting limits on potential losses</li> <li>▶ Market risk low in comparison to size of the bank</li> <li>▶ Business risk continuously monitored; create a culture of innovation in a constantly changing banking landscape</li> </ul>

**Risk management strategy** Pillar 3 Limited assurance

**Main building blocks of our moderate risk profile**



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Strategy

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**Risk, funding & capital**

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Other

## Risk profile Pillar 3 EDTF 2 EDTF 7

### Connectivity of material topic 12

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on page 19
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As part of the bank's long-term strategy, we want to maintain a moderate risk profile. The risk profile is managed based on an integrated risk management framework. In this framework, all risk types, cross-risk types and overarching risks are identified to provide one integrated view on the bank's risk profile and on the risk profile of the businesses. This is a yearly process involving the relevant stakeholders and subject to the approval of the Managing Board. By looking at the overall, integrated risk profile, we strive to carefully balance actions to manage the risk profile within the moderate risk profile.

Senior management continuously monitors the bank's activities based on the risk appetite. The status and

outlook are discussed on a monthly basis in the Managing Board and on a quarterly basis by the Supervisory board based on the Enterprise Risk Management report.

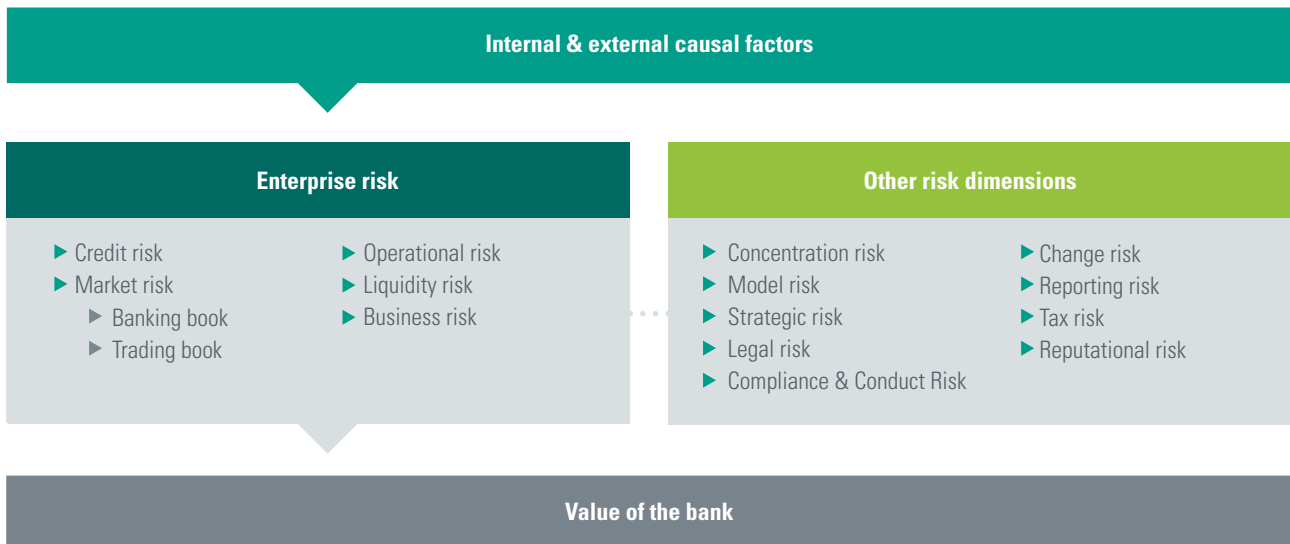
The following sections describe the five building blocks of our moderate risk profile. For more information with regard to the balance sheet composition, please refer to the [Risk, funding & capital review section](#).

### Risk taxonomy Audited

Our risk taxonomy is the classification of risks into risk types to which the bank is, or could be, exposed. It is reviewed and updated on a yearly 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, assists in assuring that all material risks are managed and that roles and responsibilities are identified.

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

### Risk taxonomy



The main risk types are credit, market, operational, liquidity and business risk. These risks are discussed later in this section. Other risk dimensions such as reputational risk

(including [sustainability risk](#)) and model risk, are risk types that emphasise specific aspects applicable to several risk types in the risk taxonomy.

## Risk appetite Audited

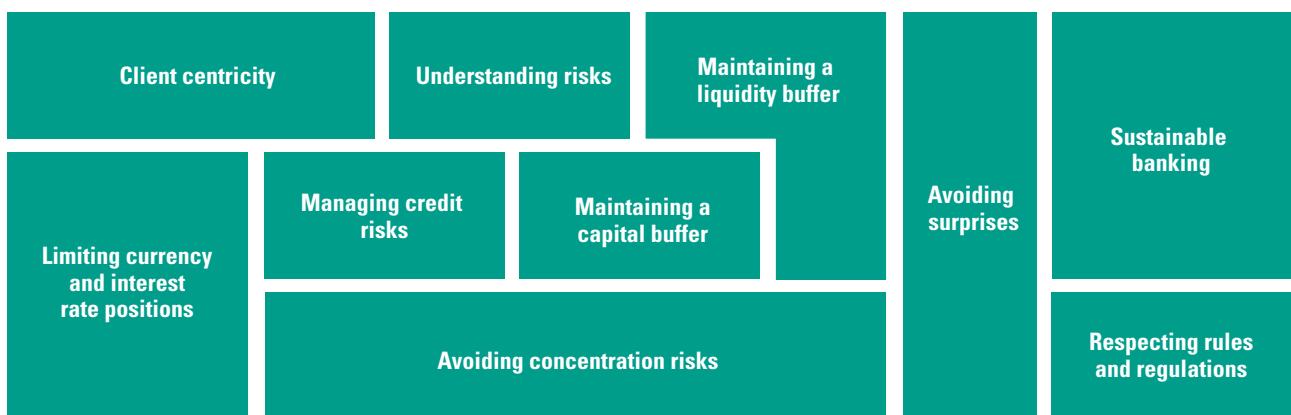
The risk appetite determines the level and nature of risk that the bank is willing to take in order to pursue its strategy, taking all relevant risks and stakeholders into consideration. The risks covered in the risk taxonomy are included in the risk appetite.

The key guiding principles for risk appetite provide a translation of the moderate risk profile statement and

contain guidelines that give a qualitative explanation of the boundaries of ABN AMRO's moderate risk profile.

To ensure that ABN AMRO employees act in a risk-aware manner and in accordance with the ABN AMRO values and business principles<sup>1</sup>, we included the guidelines as an overarching principle this year. The keywords of these guiding principles are shown in the following figure:

### Keywords of the key guiding principles for the risk appetite



The keywords and key guiding principles are further detailed in risk appetite parameters, including:

- ▶ Minimum levels for capital ratios;
- ▶ Risk-adjusted return measures;
- ▶ Concentration limits for single counterparties;
- ▶ Concentration limits for countries and industry sectors;
- ▶ Liquidity ratios (Loan-to-Deposit ratio, LCR and NSFR);
- ▶ Market risk ratios;
- ▶ Operational risk ratios.

The bank-wide risk appetite is an integral part of our corporate strategy. Business-line specific risk appetite statements further specify the bank-wide risk appetite at business line level.

## Risk culture EDTF 6

The bank has a continuous focus on risk awareness as an integral part of the bank-wide risk culture. The moderate

risk profile is embedded in the risk culture by means of communication and training and is monitored through performance assessment.

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 training curriculum is the Integrated Risk Management course, which is mandatory for all Risk Management employees. The course emphasises the importance of taking a holistic view of risks. We also introduced the course to most employees of the International Clients segment in 2015, and it was rolled out to employees of Commercial Clients in 2016. Furthermore, employees are expected to adhere to the ABN AMRO business principles<sup>1</sup>. These principles are fundamental to everything we do and describe how we act as a bank, how we take decisions, and how we deal with various dilemmas.

<sup>1</sup> The business principles were applied for most of 2016 and were replaced by the culture principles when we updated the strategy in the third quarter of the year.

We place 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 [Remuneration](#) in the Governance section.

## Risk governance Audited Pillar 3 EDTF 5

The Risk Governance Charter defines ABN AMRO's Risk governance and decision framework (delegated authorities and mandates). The Risk Governance Charter is in place to support an efficient and effective Risk Control Management throughout, and at all levels of, the bank.

The Risk Management organisation operates under the direct responsibility of the Chief Risk Officer, who is a member of the Managing Board. The Managing 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 life cycle of risk exposures. The three lines of defence principle is summarised in the following figure.

### Three lines of defence Audited Pillar 3



## Executive committees

The Managing Board is ultimately responsible for a balanced assessment between the commercial interests of the bank and the risks to be taken within the boundaries of the risk appetite.

In the risk decision-making framework, the Managing Board is supported by three executive (risk) committees: Group Risk Committee, Central Credit Committee and Asset & Liability Committee, each of which is (jointly) chaired by a member of the Managing Board. The other executive committees also decide on risk-related issues, in the presence of Risk Management representatives. In addition, the Managing Board itself takes decisions

that are of material significance to the risk profile, capital allocation and liquidity of ABN AMRO. Additional information is provided in the [Governance](#) section.

The Supervisory Board is responsible for approving ABN AMRO's risk appetite statements and supervises whether our commercial interests, capital allocation and liquidity requirements in general terms comply with the bank's risk appetite. The Supervisory Board also oversees the risk governance and execution of ABN AMRO's strategy as performed under the responsibility of the Managing Board.

### Group Risk Committee

The Group Risk Committee (GRC) is mandated by the Managing Board to monitor, assess and manage our 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 the adequate functioning of this process. The GRC may delegate specific approval powers to subsidiary risk committees, but remains responsible on behalf of the Managing Board. The terms and conditions of the delegation of authority with respect to risk policies, methodologies and new products are specified in the Risk Governance Charter.

### Central Credit Committee

The Central Credit Committee (CCC) is mandated by the Managing Board to decide on credit proposals that have a significant impact on our credit portfolio. In certain cases, the CCC decisions require final approval by the Managing Board.

### Asset & Liability Committee

The Asset & Liability Committee (ALCO) is mandated by the Managing Board to decide on our interest profile, liquidity profile and solvency position within the risk appetite. The ALCO is responsible for the management of liquidity, market risk in the banking book and capital.

### Risk measurement Pillar 3 EDTF 2

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 occurs and the loss the bank may suffer as a consequence of that event. This serves as the basis for ABN AMRO's internal measures of risk (economic capital) and are key input for the calculation of the minimum regulatory capital requirements according to the Basel framework (regulatory capital).

The modelling departments develop the models in close cooperation with the relevant business and risk experts. In principle, we review the models annually. This means that we back-test the models against historical data and, where relevant, benchmark the calibration of the models with external studies.

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

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

### Capital

#### Regulatory capital (CRD IV/CRR) Audited Pillar 3

Under the Basel framework banks are required to hold capital to cover the financial risks a bank faces. For Pillar 1 the capital requirement is based on the aggregated risk-weighted assets (RWA) for the three major risk types (credit, operational and market risk). The capital requirements are stated as a percentage (set by the regulators) of the RWA.

#### 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 on 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 situations.

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 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 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), but may not capture all risks. As part of the ICAAP, we perform an annual EC Quality Assessment (ECQA). 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 shortfalls in the EC framework.

### Stress testing Audited EDTF 8

ABN AMRO uses stress testing as an important risk management instrument. Stress testing assists us in identifying our risks and vulnerabilities. It therefore helps to increase risk awareness throughout ABN AMRO. Moreover, it also aims to safeguard business continuity by means of proactive management and the review of potential future scenarios. Bank-wide stress testing, as applied by us, takes into account the effect of material plausible but unlikely events and developments on the bank. These events may be systemic (e.g. multi-year macroeconomic stress) or ABN AMRO-specific and cover capital as well as liquidity.

### Stress testing purposes

ABN AMRO applies bank-wide stress testing based on internally defined scenarios for the following purposes:

- ▶ Risk-appetite monitoring: the outcome of stress testing is used for 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 insight into plausible events that could put the continuity of ABN AMRO under pressure.

The Scenario & Stress Test Committee (a sub-committee of the Group Risk Committee) and the Managing Board discuss and decide on scenario selection, the results and implications.

### Scenario analysis

In addition to bank-wide stress testing, we regularly perform scenario analyses for relevant portfolios to test their resilience on specific risk metrics. The scenarios are often adverse in nature and may vary in severity.

# Credit risk management

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 meet the terms of a financial contract.

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. The primary responsibility for managing and monitoring credit risk lies with the business as the first line of defence. Monitoring by the first and second lines of defence takes place on a permanent and ongoing basis, with a view to keeping credit risk exposures within the limits of the business line's risk appetite.

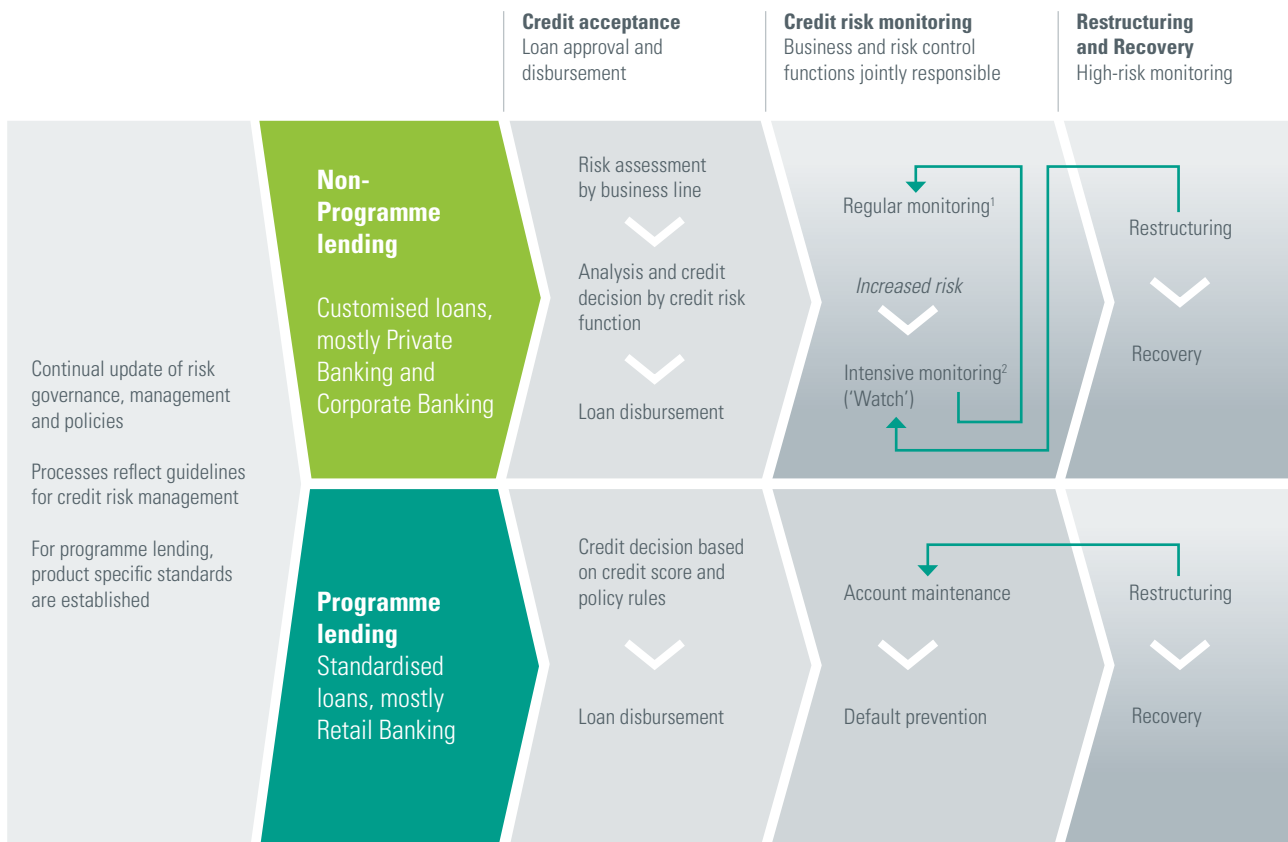
## Credit risk management approach Audited Pillar 3

We manage our credit risk either through customised lending to counterparties, under which risk assessment takes place on an individual basis (Non-Programme Lending), or through standardised products and processes, for which risk criteria are assigned on a pooled basis (Programme Lending). Effectively, any lending not defined as Programme Lending is defined as Non-Programme Lending.

## The credit risk life cycle

The process of credit risk management, the credit risk life cycle, is illustrated in the following figure.

### Credit risk life cycle: differs by type of loan



<sup>1</sup> Daily monitoring, annual or semi-annual credit review.

<sup>2</sup> '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 in which the product is designed and/or reviewed with the goal of optimising its key drivers of risk and return.

## Credit acceptance

Within Non-Programme Lending, the credit acceptance phase of a credit proposal starts with an assessment of the credit proposal by the business line and Risk Management. All credit risk must be assessed qualitatively and quantitatively in detail prior to approval. Information must be provided on matters such as the purpose, details and structure of the proposed credit facility, the obligor and other counterparties, the industry, management and owners, and financial and non-financial analysis. The credit decision is based on independent assessments of both the commercial function 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 is designed to safeguard the bank's position in relation to all risks associated with the counterparty or portfolio. Monitoring starts when the credit facility has been provided and continues throughout the life cycle of the credit facility and the relationship with the counterparty.

A 'watch' status may be assigned to individual counterparties with an increased risk. The watch status allows for more intensive monitoring, early detection of deterioration of the credit portfolio and appropriate follow-up measures.

## Restructuring & Recovery

Credit facilities with an identified high risk are transferred to the Financial Restructuring & Recovery department (FR&R). In the event of a default situation, transfer to FR&R is mandatory. If a 'going concern' approach is applicable and return to a performing status is deemed possible, the credit facility is transferred to Financial

Restructuring, where a plan is devised either for rehabilitation or to increase the likelihood of final repayment. In all other cases, the credit facility is transferred to Recovery.

When a default status is assigned to a Programme Lending contract because payments have been past due for more than 90 days or another default trigger applies, the client is transferred to restructuring and, ultimately, if this is not effective, to internal departments or external parties (such as Lindorff) for debt collection.

If it is likely that a client will be able to meet its future payment obligations and 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 in exposures to individual clients and portfolios. These models quantify their Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The models vary from purely statistical models to expert-based models and are based on quantitative as well as qualitative risk drivers. Using input values for the risk drivers, the models calculate PDs, LGDs and EADs. EAD is established on a monthly basis using actual limits and outstanding exposure data. PD and LGD are determined at least annually.

The model 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, and serve as input for the RARORAC, the bank's key metric for risk-adjusted performance.

## Exposure at Default

Exposure at Default models estimate the expected exposure at the time of a counterparty default. In the event that all or part of a facility is undrawn (the outstanding exposure is less than the limit) at the time of the calculation, a percentage of this undrawn amount is added to the exposure to reflect the possibility that a larger part of the facility is utilised when the event of a default materialises.

## Probability of Default

The probability of default (PD) is the likelihood that a counterparty will default within a one-year time horizon and is expressed in an internal uniform counterparty rating (UCR). The UCRs range from 1 to 8 and a PD percentage is attached to each UCR grade.

Within Program Lending, Retail Banking and smaller credits of Corporate Banking, products with the same characteristics are pooled and a PD is assigned to each pool.

We consider a default to have occurred when:

- ▶ The counterparty is overdue more than 90 days, or;
- ▶ The bank considers the obligor to be unlikely to meet its contractual obligations.

Our internal rating scale comprises five categories, of which Investment grade and Sub-investment grade correspond with the equivalent classifications of the rating agencies.

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

Grade Category	UCR (internal rating)		Low PD%	High PD%	Standard & Poor's equivalent		Moody's equivalent		Fitch equivalent	
	from	to			from	to	from	to	from	to
Investment grade	UCR 1	UCR 3-	0.000%	0.465%	AAA	BBB-	Aaa	Baa3	AAA	BBB-
Sub-investment grade	UCR 4+	UCR 6+	0.465%	100%	BB+	C	Ba1	C	BB+	C
Default with an impairment allowance of zero	UCR 6	UCR 6			D	D	D	D	D	D
Default with an impairment allowance > zero	UCR 7	UCR 7			D	D	D	D	D	D
Default (in liquidation)	UCR 8	UCR 8			D	D	D	D	D	D

## Loss Given Default

Loss Given Default (LGD) models estimate the economic loss that results from a credit facility in the event that the counterparty defaults. It is expressed as the ratio of the loss on an exposure to the amount outstanding at default. The models use specific facility and counterparty characteristics and collateral pledged to the bank.

## Capital for credit risk Regulatory capital

All exposure classes are reported under AIRB. Within these exposure classes, a number of smaller portfolios are temporarily or permanently calculated according to the Standardised Approach (SA).

## 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, so that loss estimates can be based not only on defaults of the obligors, but also on possible credit migrations and associated changes in the market values of loans.

## Specific counterparty credit risk

Pillar 3 EDTF 2 EDTF 29

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

## OTC derivative instruments

OTC derivatives are financial instruments 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 a so-called underlying base value (e.g. interest rates, foreign exchange rates, commodities, equities).

## Securities financing transactions

Securities financing in the balance sheet refers to securities lending. Securities lending is the market activity whereby securities are temporarily transferred from a lender to a borrower, subject to the commitment of re-delivering the securities, usually in the short term. The borrower collateralises the transaction with cash or other securities of equal or greater value than the lent 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) for 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 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. Or, put differently, the credit exposure increases when the credit quality of the counterparty deteriorates. In general, we do not engage in such specific wrong-way risk transactions. Furthermore, we are prudent in considering transactions for which this correlation is less obvious, e.g. transactions where a general wrong-way risk

component forms part of the deal, 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 due to the insufficient diversification of risks within a portfolio, caused by relatively large concentrations of exposures to positively and highly correlated counterparties. Positively correlated counterparties are counterparties that are likely to default under similar circumstances. Limiting excessive concentrations is fundamental to our credit risk strategy. Therefore, 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 clients and groups of related clients (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 total exposure, or One Obligor Exposure (OOE) on a risk group, includes all drawn and undrawn facilities granted plus all indirect exposure to the relationship, including guarantees and any other recourse claims. A risk group is an interrelated group of counterparties (companies and/or persons) with a high degree of dependency. This interrelationship may be due to direct or indirect majority interests by the same shareholder or group of shareholders, or due to other relevant economic dependencies. Counterparty credit concentration risk is measured by the OOE and the Economic Capital (EC) per counterparty. The EC is the amount of capital the bank should hold to cover unexpected losses within a certain confidence level over a one-year horizon. The bank limits its counterparty credit risk by setting OOE and EC limits. Additionally, all credit applications with an OOE above a certain threshold are reviewed by the Managing Board.

## Geographic concentration

The bank has a number of offices located outside the Netherlands and clients who operate internationally. The bank is therefore exposed to country risk, which is the risk of credit losses due to 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 by other events impeding the transfer. These risks are managed by setting country credit limits, based on individual country analyses by economic and country risk experts. Country limits are reviewed at least once a year. Each country also has an internal credit rating approved twice a year, which is an important factor in managing country concentration risks. Approval of country risk policy and country limits is managed through the bank's senior risk committees.

## Industry concentration

Industry concentration risk is the risk of loss arising from a relatively large aggregated 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 limits its industry concentrations by setting credit risk economic capital (EC) limits as a percentage of total credit risk EC per industry sector. In addition to these EC limits, EC concentration checkpoints are set to facilitate timely and sufficient management interventions to avoid breaching the limit.

## Credit risk mitigation Pillar 3 EDTF 30

Credit risk mitigation mainly relates to collateral management and guarantees, offsetting financial assets and liabilities, and enforcing master netting agreements or similar instruments.

## Collateral management and guarantees

Collateral represents assets with material value and an attached security right, such as a mortgage, charge, pledge, lien on an asset, or other right securing obligations under a credit facility or other exposure which gives the bank priority rights on the proceeds of that asset. Requiring a security right for a clients' collateral is a way to mitigate or reduce credit risk associated with a credit facility or exposure. In addition, if certain predefined

eligibility criteria are met, collateral can also help reduce the required level of regulatory capital and economic capital held by the bank.

Collateral is monitored at least once annually to ensure continued eligibility and correct reporting of the collateral value. For reporting purposes we use the net collateral value, the expected recovery value of the collateral in the event of a defaulted client.

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

## Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported on the 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 these criteria.

## Enforceable master netting agreements or similar instruments

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

## Forborne, past due and impaired loans

Audited EDTF 27

Loans at risk are primarily exposures for which signals have been detected indicating that the counterparty may become 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

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

Forbearance can take place at different stages during the client's financial difficulty. Forbearance measures can be applied to a contract that has defaulted on its obligations as well as to a contract that is still performing. A contract that is in the process of being recovered and for which the client relationship will be discontinued is not, or no longer, considered forbore.

A forbore asset will only cease to qualify as forbore once all of the following conditions have been met:

- ▶ The contract is considered performing;
- ▶ A minimum probation period of two years has passed from the date the forbore contract was considered performing;
- ▶ Regular payments of more than a significant 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, that is more than 30 days past due at the end of the probation period.

If the forbore contract is or becomes non-performing, a mandatory cure period for non-performing forbore exposures of at least one year is applicable before the contract may return to a performing status. This cure period starts when the contract becomes non-performing or from the moment the last forbearance measure was taken if the contract was already non-performing.

## Past due credit exposures

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, regardless of the amount.

## Impaired credit exposures

In order to simplify our reporting and improve comparability with our peers, ABN AMRO aligned the definition of default and impaired in the third quarter of 2016. As a result, clients in default without an impairment allowance are now also considered to be impaired.

A loan is impaired if there is objective evidence that the bank will not be able to collect all amounts due in accordance with the contractual terms (principal and interest) and/or one of the default triggers is applicable. An indication that a loan may be impaired is obtained through ABN AMRO's credit review processes.

### Impairment

Triggers for impairment include, but are not limited to, events such as significant financial difficulty, likelihood that the client will enter bankruptcy or financial restructuring, negative equity, recurring payment problems, improper use of credit lines and legal action by other creditors.

ABN AMRO makes a distinction between three types of impairment losses:

- ▶ **Specific impairment losses for individual, significant exposures:** If significant doubts arise regarding a client's ability to meet its contractual obligations, management of the relationship is transferred to the Financial Restructuring & Recovery department (FR&R). The amount of the specific impairment loss is based on the discounted value of the best estimate of future cash flow. Recognised specific impairment losses are partly or fully released when the debt is repaid or expected future cash flows of the customer improve due to positive changes in economic or financial circumstances;
- ▶ **Collective impairment losses for individual, not-significant exposures:** Assets with similar credit risk characteristics are clustered in portfolios. The assets in the portfolios are collectively assessed for impairment. In general, when payments (interest or principal) are 90 days past due, the loan is identified as impaired. The impairment assessment is based on historical loss experience adjusted for current economic conditions. Factors that are taken into account are average life, past loss experience and portfolio trends;

► **Incurring but not identified (IBNI):** IBNI impairment losses are recognised for impairment losses that have been incurred but still have to be identified at the balance sheet date. Specific or collective impairment assessment has therefore not yet taken place. All financial assets that are not yet assessed for impairment are included in the IBNI impairment loss calculation. All related off-balance items such as credit commitments are also included. The IBNI calculation combines the Basel II concept of expected loss on a one-year time horizon adjusted for IFRS elements by applying a loss emergence period (LEP) and a cycle adjustment factor (CAF), or is based on specific Point-in-Time models. The IBNI impairment loss is calculated for the entire non-impaired portfolio.

### Write-off

When a loan is deemed no longer collectible, it is written off against the related loan loss allowance. 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 the income statement line item impairment charges on loans and other receivables.

## Accounting policy on impairment of loans and receivables Audited

A loan is impaired if there is objective evidence that the bank will not be able to collect all amounts due in accordance with the contractual terms (principal and interest). The objective evidence indicates that the borrower's credit quality has deteriorated and the estimated future cash flows in the related financial assets have been impacted negatively. The amount of impairment loss is the difference between the carrying amount and the present value of estimated future cash flows.

Estimating the timing and amount of future cash flow requires significant judgement. The impact of changes in amounts and timing of expected recovery is recognised in impairment charges on loans and receivables in the income statement.

Where possible, ABN AMRO seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and agreeing on revised loan conditions. The loans continue to be subject to an individual or collective impairment assessment.

# Market risk management

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

## Market risk in the banking book Audited

Market risk in the banking book is the risk that the market value or the earnings of the bank decline because of unfavourable market movements. The market risk of the banking book consists predominantly of interest rate risk.

Market risk is the risk of losses in market value or the Bank's earnings. The following market risks are inherent in the banking book:

- ▶ Interest rate risk: arises from unfavourable yield curve developments;
- ▶ Credit spread risk: arises from adverse movements in the prices of bonds or credit derivatives. The principal source is from bonds held for liquidity purposes;
- ▶ Equity risk: arises from 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 to equity as part of a restructuring process;
- ▶ Property risk: arises from adverse movements in property prices;
- ▶ Foreign exchange risk: arises 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.

## Interest rate risk in the banking book Pillar 3

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 therefore continuously managed within the risk appetite as the profile of assets and liabilities on the balance sheet changes and as assumptions made about client behaviour are updated. 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. This is funded by liabilities that have shorter average interest maturity compared to the assets;
- ▶ Actual client behaviour, which determines the maturity of some of our client products. We use models to predict this behaviour. As such, we are exposed to model risk: a potential loss the Bank may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models. The most important behavioural models include:
  - ▶ Client behaviour with respect to early redemption of residential mortgages;
  - ▶ Client acceptance of offered volume and the deviation for a residential mortgage between the offer rate and the prevailing market mortgage rate at the moment the loan is paid to the customer;
  - ▶ Client behaviour with respect to non-maturing deposits which are callable on demand.

## Risk measurement for interest rate risk

Pillar 3 EDTF 2 EDTF 8 EDTF 17 EDTF 24 EDTF 25

The key metrics used are Net Interest Income (NII) at Risk, duration of equity, economic value of equity (EVE) and economic capital. These are complemented with stress testing and scenario analysis.

The metrics used for managing banking book risks are dependent upon the design and assumptions used in the financial models from which they are derived. Models must therefore be validated by the independent Model Validation Department and approved by duly authorised risk committees. Models are assessed as to whether they behave appropriately under the current market conditions and, if required, they are adjusted.

NII-at-Risk is the difference in NII between a base scenario and an alternative scenario. NII-at-Risk is defined as the worst outcome of two scenarios: a gradual increase in interest rates and a gradual decline in interest rates by 200bps, both over a 1-year period.

Duration measures value changes due to small parallel shifts of the yield curve. Computation of the duration is based on deriving the change in economic value of a portfolio due to an interest rate increase or decrease compared with a base scenario.

EVE-at-Risk is the loss in economic value of equity as a result of the worst outcome of various non-parallel yield curve scenarios.

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 interest rate movements. The model also accounts for the potential impact of client behaviour, such as prepayment on mortgages and changes in deposits and savings balances.

ABN AMRO uses stress testing and scenario analysis to ensure a comprehensive approach to risk management and to identify potential weakness.

### Market risk management for the banking book

The overall objective of interest rate risk management is to contribute to a stable long-term NII of the bank while protecting the EVE against adverse yield curve movements.

ABN AMRO has in place a detailed risk management framework to identify, measure and control market risk in the banking book. The framework provides assurance that the banking book activities remain consistent with the bank's moderate risk profile using different interest rate reference curves.

Interest rate risk is managed within the context of the Risk Appetite Statements as approved by the Managing Board. Funds Transfer Pricing shifts interest rate risk away from commercial business lines, enabling central monitoring and management. The Asset & Liability Committee (ALCO) is mandated to manage and steer the market risk in the banking book. The day-to-day management of positions is delegated to ALM, while Treasury performs the execution of interest rate risk steering.

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 interest loss the bank is willing to accept, both in terms of income for a 1-year period, and economic value.

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

### 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 1 basis point 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.

### Market risk in the trading book

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, which impact 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 a detailed risk management framework in place to identify, measure and control market risk in the trading book. The 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 2 | 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 global and business levels.

The metrics used to manage the trading book risks are dependent upon the design and assumptions used in the financial models from which they are derived. New models are therefore validated by the independent Model Validation Department and approved by duly authorised risk committees. Furthermore, existing risk models are reviewed and approved annually. As part of the review, models are assessed as to whether they behave appropriately under current market conditions. If and when required, models are adjusted. Besides the formal validation and review of models, the daily explanation of risk reporting figures, periodic portfolio reviews and regular back testing are important tools to assure the adequacy of the models.

The VaR model measures a one-day 99% VaR using a historical simulation approach and 300 days of historical data. The daily VaR is back-tested against the calculated actual mark-to-market changes for each subsequent trading day and the number of outliers is used to assess the reliability of the VaR model. In 2016, the model's back-testing performance was satisfactory.

In addition to daily VaR, ABN AMRO also uses stressed VaR and incremental risk charge (IRC) metrics. Regulatory guidelines require the bank to calculate a stressed VaR measure calibrated to a continuous 12-month period of financial stress relevant to our trading portfolio.

Stress and scenario testing is designed to focus specifically on the impact of tail events which are outside the VaR confidence interval. We run daily stress tests for large moves in risk factors. Scenario tests 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 either be based on historical or hypothetical events or a combination of both.

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

To calculate market risk capital for the trading book the bank has implemented the Internal Models Approach (IMA). We obtained formal approval from the regulator for the use of the IMA approach for calculating regulatory capital in February 2016.

### 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

ABN AMRO has a framework in place to consistently manage and prevent operational risks that result from inadequate or failed systems or internal processes, failure of people, or external events. The framework is aimed at keeping operational risks within the moderate risk profile and is in line with 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



## Operational risk management approach Pillar 3

Employees are expected and encouraged to be alert to and aware of operational risks in their daily 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, such as Compliance & Conduct, Legal, Security & Intelligence Management, Information Security and Business Continuity Management, which also use the operational risk framework. This reflects the bank's view that operational risk requires a concerted effort on the part of these departments.

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

## Framework for operational risk management

Pillar 3 EDTF 2

At the heart of the operational risk management framework are assessments and risk monitoring activities. 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 as necessary. Key Risk Indicators are monitored to signal adverse risk developments. Despite all preventive measures, incidents and operational losses cannot always be avoided. The bank systematically collects information and analyses such events in order to take appropriate action.

Once a year, senior management reviews the strategy and business objectives from a risk perspective. Based on the strategic risk assessments, senior management signs a Management Control Statement at the end of each year, which is included at the end of this section.

## Operational risk responses Pillar 3

The bank identifies four categories of risk response:

- ▶ **Risk mitigation:** by strengthening controls;
- ▶ **Risk avoidance:** by closing down operations or not starting operations;
- ▶ **Risk transfer:** by transferring risks to insurance companies, among other things. The Group Risk Committee reviews the global insurance programmes annually;
- ▶ **Risk acceptance:** in situations where management decides to consciously accept a risk.

## Specific operational risk areas Pillar 3

The bank has a dedicated organisation in place 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 are dependent on the proper functioning of the bank's information systems. These systems run in complex information infrastructures, connecting the bank's networks with public networks. As a result, banking processes and their supporting information systems are inherently vulnerable, threatening the security of client data and services. Examples of such threats are computer-assisted fraud, unauthorised disclosure of confidential information, virus infection, computer hacking and denial of service.

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 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:

- ▶ Analysis of threats and business impact of calamities and crises;
- ▶ Determining strategies and solutions to be taken in the event of a crisis to enable continuity of business operations, such as business recovery, crisis management, IT disaster recovery planning;
- ▶ Documentation, periodic assessment, and testing of these strategies and solutions.

More information on our approach to the stability and availability of our digital services is provided under in the [Group performance section](#) of the Business section. Information on recovery and resolution planning is provided in the [Capital management](#) section of Risk, funding & capital management.

## Operational risk measurement Pillar 3 EDTF 2

In line with the Advanced Measurement Approach (AMA), the bank has a model in place for operational risk capital. The model predicts potential operational risk losses (annually aggregated) by combining a forward-looking and a backward-looking view of operational risks. Risk control self-assessments and scenario analyses provide a forward-looking view. Historical operational loss data of ABN AMRO and industry operational loss data provide a backward-looking view.

### Capital for operational risk

#### Regulatory capital

ABN AMRO applied The Standardised Approach (TSA) to calculate regulatory capital for operational risk at year-end 2016. At the end of 2016, ABN AMRO received permission from the ECB to apply the Advanced Measurement Approach (AMA). As of Q1 2017, ABN AMRO will use its internal AMA model for calculating regulatory capital. The permission to apply the most advanced calculation method confirms ECB's satisfaction with the way ABN AMRO manages operational risks.

#### Economic capital

The AMA model is already being used to calculate economic capital for operational risks. The bank applies a 99.95% confidence level to calculate the operational risk economic capital, whereas a 99.9% confidence level will be applied to calculate regulatory operational risk capital. The bank is not using insurances or other risk transfer mechanisms for calculation of operational risk economic capital.

# 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 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 will 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 allows the bank to meet 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 within the requirements set by the regulator. By maintaining a smooth long-term maturity profile, limiting dependence on wholesale funding and holding a solid liquidity buffer, we maintain a prudent liquidity profile.

### Funding

ABN AMRO's main source of funding consists of deposits from Retail Banking, Private Banking and Corporate Banking 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 is executed taking 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 balance between private placements and public benchmark deals;
- ▶ Build, maintain and manage credit curves in different funding programmes and currencies;
- ▶ Continuously monitor attractive funding opportunities for ABN AMRO and investment opportunities for investors;
- ▶ Optimise planning and execution of funding in different market windows.

## 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 an integral part of our 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 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, 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. First, it helps us to review our risk framework, i.e. the liquidity buffer size, risk appetite and limits. Second, it allows us to identify ways to reduce outflows in times of crisis;
- ▶ **Liquidity Coverage Ratio (LCR):** The objective of the LCR is to promote the short-term resilience of banks by ensuring sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days;
- ▶ **Regulatory liquidity:** The regulatory liquidity requirement measures the liquidity position in a one-month scenario of severe stress, as defined by the Dutch central bank. The central bank requires the one-month liquidity position to be in excess of the minimum required regulatory level at all times. As of 2017, this regulatory liquidity requirement is no longer mandatory;
- ▶ **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 promote resilience over a longer time horizon by creating additional incentives for banks to fund their activities with 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 receivables - 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 Dutch mandatory and collective pension savings scheme, mortgage loans outweigh client savings balances in the Netherlands, driving the LtD ratio up 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 in the event the liquidity position is threatened. The CFP is aligned to 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:** In the event that 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 which accommodates cash outflows during stress. This buffer consists of unencumbered high-quality liquid assets, including government bonds, retained RMBS 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 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, optimising 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 while 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 tax unit for corporate tax. Apart from prevailing legal and regulatory legislation, there are no specific material impediments to the 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 light of the bank's moderate risk profile and regulatory changes, in order 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 capital issues, if any. The Contingency Capital Plan provides a framework to detect capital adequacy stress by setting out various early warning indicators. The Contingency Capital Plan also sets out a range of actions that could 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 has submitted a reviewed and updated version of its group recovery plan to the ECB in December 2016. 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 will therefore continue to issue 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) developments. Business risk management limits actual and forecasted volatility of business earnings. Earnings are affected by various internal and external factors, such as changes in client preferences, competition, economic and geopolitical developments and regulations. We continuously 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 by performing management practices that address developments in these drivers in an effective and timely manner. In addition, business risk is mitigated by a capital buffer.

The bank's strategy and business risk are correlated. 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 into account these strategic goals.

## Business risk measurement

To determine business risk, we collect a combination of historical and forward-looking scenarios from experts in each business line. These scenarios vary from annual revenue growth to revenue drivers, such as macroeconomic variables or industry performance indicators. The scenarios determine the volatility of revenue growth for each business line, and any correlation between them. Based on the individual volatilities, we calculate bank-wide volatility using a variance/covariance methodology.

## Economic capital for business risk

Economic capital for business risk reflects the maximum downward deviation of actual versus expected net operating profit and franchise value. Based on the PPNR (Pre Provision Net Revenue) methodology, the determined volatility per business line is used to calculate the economic capital.

# Sustainability risk management Limited assurance

## Connectivity of material topic 16

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <a href="#">page 19</a>
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Sustainability is a key objective in our strategy. We aim to make a positive contribution to safeguarding human rights, health and safety, and the environment, mainly through our financing and investment services. We recognise that in its roles as lender and investor, the bank may be exposed to environmental, social and ethical (ESE) 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 in line with the bank's 'three lines of defence' model. The policy framework covers our activities, ranging from corporate lending and investment services to procurement 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 if any gaps become evident or if new developments take place. Among other things, we updated our [bank-wide Exclusion List](#) in 2016, which lists activities and practices the bank does not want to engage in. In addition, we updated our sector policy for the financing of companies in the [agricultural commodities industry](#) and formulated a [statement on animal welfare](#).

A focus area in our sustainability risk policy framework is management of human rights risks in line 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. In 2016, we signed the [Dutch Banking Sector Agreement on international](#)

responsible business conduct regarding human rights, which includes commitments to further improving our human rights due diligence in international finance transactions. We also published our first [Human Rights Report](#), based on the UN Guiding Principles Reporting Framework, being the first bank to do so.

### 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 that are not willing or able to run their business responsibly. Similar checks on exclusions and controversies apply to the investment universe which is provided to our clients via our investment services.

In corporate lending, the bank performs a sustainability assessment for transactions with an increased sustainability risk level. This assessment is based on the ESE standards in our sustainability risk policy framework and focuses on the compliance, commitment, capacity and track record of our client in 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 2016 we continued to integrate this assessment into our credit application systems by further implementing our [Global Sustainability Risk Indicator \(GSRI\)](#). Our ambition is to further develop the GSRI tool and use of the results in our monitoring and reporting of our clients' sustainability performance. Other examples of our sustainability efforts are provided in the [Business](#) section.

If the sustainability assessment indicates that a client does not meet the bank's sustainability standards, we explore possibilities for improvement. We do this by conducting an open dialogue with our clients, by addressing and discussing these matters and, where necessary, promoting and negotiating for improvement. In general, we do not provide lending unless our conditions for improvement have been accepted by the client.



# Management Control Statement

Under best practice provisions II.1.4 and II.1.5 of the Dutch Corporate Governance Code, ABN AMRO's Managing Board is requested:

- ▶ To describe the main risks related to the strategy of ABN AMRO;
- ▶ To describe internal risk management and control systems for the main risks during the year;
- ▶ To describe any major shortcomings (if any);
- ▶ To substantiate the operation of internal risk management and control (related to financial reporting risks) during the year under review, and;
- ▶ To state its adequacy and effectiveness.

ABN AMRO's internal risk management and control is a process, effectuated by the Managing 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 with respect to the conduct of business;
- ▶ Safeguarding of assets, identification and management of liabilities, and;
- ▶ Strategic goals of ABN AMRO.

Different parts of the Risk, funding & capital section elaborate on ABN AMRO's identified risks, such as credit risk, market risk, operational risk, liquidity risk and business risk.

Based on the process regarding internal risk management and control over financial reporting, the Managing Board of ABN AMRO Group N.V. makes the following statement regarding the Group's financial reporting risks:

- ▶ ABN AMRO's internal risk management and control systems provide reasonable assurance that ABN AMRO's consolidated financial statements do not contain any material inaccuracies;
- ▶ ABN AMRO's internal risk management and control systems functioned properly in 2016;

- ▶ There are no indications to suggest that ABN AMRO's internal controls will not continue to function properly in 2017.

The internal risk management and control systems provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of ABN AMRO's published financial statements.

ABN AMRO has implemented an Operational Risk Management Framework (ORMF) for sound operational risk management, worldwide, in line with the requirements for Advanced Measurement Approach (AMA) compliance. As from January 2017 the ECB gave ABN AMRO permission to use the Advanced Measurement Approach (AMA), subject to certain conditions. The ORMF combines the various non-financial risk disciplines into a single converged approach and provides the businesses with a clear and fair view on their operational risks and the way these are managed. These insights allow senior management to form an opinion on the adequacy of internal and management controls regarding the risks they face while pursuing the bank's business objectives.

Based on risk assessments and monitoring and control activities, the Managing Board of ABN AMRO Group N.V. makes the following statement with regard to risks that may jeopardise ABN AMRO's business objectives (as a translation of ABN AMRO's profile and strategy) for the short term:

- ▶ ABN AMRO has internal risk management and control systems in place to provide reasonable assurance that ABN AMRO will not be hindered in achieving its business objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen;
- ▶ Based on internal risk management and control systems in place and barring unforeseen adverse external conditions, the Managing Board is of the opinion that there are no material elements within ABN AMRO that could significantly endanger the realisation of its business objectives;

- ▶ Regarding internal risk management and control systems, the Managing Board has identified dependencies:
  - ▶ The following external factors could have an impact on the current ABN AMRO business model:
    - ▶ Limitations in the execution of the planned sustainable growth strategies due to adverse monetary conditions (i.e. low/negative interest rates) and potential geopolitical developments (impacting global trade, or increasing the risk to business already conducted), leading to reduced shareholder value.
    - ▶ Several (pending) laws and regulations and change of interpretation of existing European and local laws and regulations may significantly impact liquidity and capital adequacy and its capital raising capabilities. Specifically, Basel IV requirements could significantly affect ABN AMRO's business model and may impact the level playing field in specific segments in which ABN AMRO is active. Basel IV will also impact the ability of ABN AMRO to free up resources to compete with new entrants and new intermediaries.
    - ▶ Regulatory pressure in the context of complexity, multiple interpretations, and volume of new laws/regulations will impact ABN AMRO's strategy. As regulatory bank-wide programmes such as MiFID II require significant attention and effort from commercial and other staff, this will impact the capacity for other essential strategic change initiatives.
  - ▶ The following areas of improvement have been identified and agreed upon and are actively managed by senior management:
    - ▶ The high level of change in combination with the challenges regarding our agile and cultural transformation could potentially endanger the business objectives of the Group as a whole. These change initiatives are considered necessary in order to keep the bank competitive. However, they involve a heavy workload for the entire organisation. Change risk is managed at the highest level within the bank (Managing Board). Operational Risk Management and senior management of the businesses and functions are jointly working on identifying and mitigating the risks of each change initiative as well as across initiatives. The objective is to optimise the bank's ability to mitigate these risks effectively and achieve its overall strategic objectives.
    - ▶ Data quality issues remain an attention point, although data quality improvements have been realised. In order to further improve the accessibility, consistency, granularity and quality of risk & finance data, change initiatives such as PERDARR are in progress to mitigate this risk.
    - ▶ Non-compliance with (new or new views on) laws and regulations may lead to reputational damage, fines or warnings. Ensuring compliance with regulatory requirements may take up a substantial part of our resources. This risk is mitigated by raising staff awareness of regulatory programmes by means of ongoing training and presentations. Furthermore, a high number of employees and a large budget have been made available for regulatory change initiatives (such as MiFID II and Basel IV).
    - ▶ Important steps have been taken to improve the bank's ability in the future to respond to disruptive innovations and ensure we identify and respond swiftly and effectively to new developments (e.g. blockchain) which may threaten our business model. Due to the high number of change initiatives and the limited availability of staff and specific resources, the bank runs the risk of not responding quickly enough. ABN AMRO's current strategy is to focus on innovation and growth and, in particular, on digitalisation and fast delivery. To this end, our employees' expertise must be strengthened and broadened.
    - ▶ Due to the continued increase and professionalisation of external cyber threats, there is a risk that the organisation will not be able to keep pace with new security threats. This could result in a major security incident with a large financial and/or reputational impact. Full situational awareness is being promoted and investments in information security (such as DDOS shield and cloud brokerage) are being made to manage this high risk.



- ▶ The bank's reputation is influenced by society's perception of banking in general and of ABN AMRO in particular. This, combined with constant reorganisations in the financial industry, makes it more difficult to attract employees in areas that are critical to the bank. ABN AMRO's current strategy and its focus on an agile way of working, with passion and expertise, should help us to sustain and improve our attractiveness as an employer. Culture programmes on our new principles are being carried out to support staff in acting in accordance with our new approach. And Human Resources will focus more on attracting scarce and highly specialised talented employees and less on attracting staff that are easier to attract or replace.

The evaluation of the adequacy of internal risk management and control systems was regularly discussed with the Audit Committee and the Risk & Capital Committee in 2016 and was subsequently submitted to the Supervisory Board. Due to their 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. More information on the Group's risk management strategy, framework, governance and policies is provided in the Risk, funding & capital management section. Additional mandatory disclosures are provided in the Additional risk, funding & capital information section.

## Overview

2016 was a fairly calm year for the global economy. The Dutch economy grew by around 2%, matching the growth recorded in 2015. Both years saw growth in all areas of spending. Although global trade did not grow spectacularly Dutch exports did well. Household consumption rose by around 1.5%, which is not surprising considering the significant improvement in purchasing power in 2016. The increase in the number of employed people also stimulated consumption. The housing market continued its powerful upward spiral.

The improvement of the economy and Dutch housing market is reflected in a decrease in loan impairments and an overall improvement of the credit quality indicators of our loan portfolio.

We received approval from the regulator to use the Internal Model Approach (IMA) for the calculation of regulatory capital for market risk as of January 2016.

As a result, the market risk RWA (REA) was reported in 2016 on the basis of internal models instead of the standardised calculation. In addition, our VaR methodology was enhanced to cope better with low and negative interest rates and is pending approval from the regulator to be used for our VaR calculation.

At the end of 2016, we received permission from the ECB to apply the Basel II Advanced Measurement Approach. As of Q1 2017, we will use our internal AMA model for calculating regulatory capital for operational risk. Permission to apply the most advanced calculation method confirms the ECB's satisfaction with how we manage operational risks.

We participated in the 2016 EU-wide stress test conducted by the European Banking Authority (EBA). The stress test confirmed that ABN AMRO has a significant capital and liquidity buffer.

# Key developments

## Key figures

(in millions)	31 December 2016	31 December 2015
Total loans and receivables - customers, gross excluding Fair value adjustments <sup>1,2</sup>	266,551	275,881
- of which Residential mortgages <sup>1</sup>	149,255	148,465
- of which Consumer loans	12,539	15,147
- of which Corporate loans <sup>2</sup>	90,920	100,387
- of which Other loans and receivables - customers	13,838	11,881
On-balance sheet maximum exposure to credit risk <sup>1,2</sup>	383,122	400,578
Total Exposure at Default	383,118	369,169
Total risk weighted assets (REA)/total Exposure at Default	27.2%	29.3%
<b>RWA (REA)</b>		
Total RWA (REA)	104,215	108,001
- of which Credit risk <sup>3</sup>	83,140	86,063
- of which Operational risk	17,003	16,227
- of which Market risk	4,072	5,710
Fully-loaded CET1 ratio	17.0%	15.5%
Fully-loaded leverage ratio	3.9%	3.8%
<b>Credit quality indicators<sup>4</sup></b>		
Forbearance ratio <sup>2</sup>	3.3%	3.8%
Past due ratio <sup>2,5</sup>	1.4%	1.5%
Impaired ratio <sup>2,5</sup>	3.3%	3.3%
Coverage ratio <sup>2,5</sup>	38.4%	43.1%
Cost of risk (in bps) - underlying <sup>2,6</sup>	4	17
<b>Liquidity and funding indicators</b>		
Loan-to-Deposit ratio	112.7%	108.6%
LCR	>100%	>100%
NSFR	>100%	>100%

<sup>1</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> RWA (REA) for credit value adjustment (CVA) and default fund contribution (DFC) are included in credit risk. In 2016 CVA amounted to EUR 0.8 billion (2015: EUR 1.1 billion) and DFC amounted to EUR 0.6 billion (2015: EUR 0.3 billion).

<sup>4</sup> Ratios calculated on Loans and receivables - customers only.

<sup>5</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification in allowances for impairments within residential mortgages. For more information on the reclassification in allowances refer to the residential mortgages section.

<sup>6</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

## Change in definition of default and impaired

In order to simplify our reporting and improve comparability with our peers, ABN AMRO aligned the definition of default and impaired in the third quarter of 2016. As a result, defaulted clients without an impairment allowance are now also considered to be impaired.

The alignment led to an increase of the total impaired exposure of EUR 1.8 billion at 31 December 2015. As a result, the impaired and coverage ratio also changed. Furthermore, the past due but not impaired exposure declined. Total impairment allowances remained unchanged.

As the definition of default has not changed, there is no impact on the figures relating to regulatory capital.

The comparative figures for impaired and past due exposure have been adjusted accordingly. Due to alignment of the definition, an IBNI charge has been

reclassified to additions for residential mortgages. This reclassification was not restated for the comparative figures.

## Reconciliation table amended offsetting policy and aligned definition Default and Impaired

(in millions)	31 December 2015 after adjustment	31 December 2015 before adjustment
<b>Total loans and receivables - customers</b>		
Total loans and receivables - customers, gross excluding Fair value adjustments	275,881	258,824
Total carrying amount Loans and receivables - customers	276,375	259,319
Forborne Loans and receivables customers	10,504	9,065
Past due (but not impaired) Loans and receivables customers	4,203	4,858
Impaired Loans and receivables customers	9,037	6,973
<b>Credit quality indicators</b>		
Forbearance ratio	3.8%	3.5%
Past due ratio	1.5%	1.9%
Impaired ratio	3.3%	2.7%
Coverage ratio	43.1%	55.8%
Underlying cost of risk (year to date, in bps)	17	19
<b>Corporate loans</b>		
Corporate loans, gross excluding Fair value adjustments	100,387	84,864
Carrying amount Corporate loans	97,007	81,484
Forborne Corporate loans	7,715	6,276
Past due (but not impaired) Corporate loans	879	1,076
Impaired Corporate loans	6,179	4,872
<b>Credit quality indicators - Corporate loans</b>		
Forbearance ratio	7.7%	7.4%
Past due ratio	0.9%	1.3%
Impaired ratio	6.2%	5.7%
Coverage ratio	50.1%	63.6%
Underlying cost of risk (year to date in bps)	38	48

### Portfolio review

The residential mortgages portfolio grew to EUR 149.3 billion at 31 December 2016 (31 December 2015: EUR 148.5 billion) due to a rise in new mortgage production, partly offset by redemptions. Consumer loans declined to EUR 12.5 billion at year-end 2016 (31 December 2015: EUR 15.1 billion) as a result of a lower volume of client lending and reclassification of the private banking activities in Asia and the Middle East from consumer loans to assets held for sale. Corporate loans decreased to EUR 90.9 billion at year-end 2016 (31 December 2015: EUR 100.4 billion). This decline was primarily due to the amendment made

to the new offsetting policy on notional cash pooling implemented in Q2 2016. This amendment led to an increase in corporate loans and inflated the balance sheet. Following the adjustment to the policy, mitigating actions were taken to reduce the impact. As a result, the carrying amount has been reduced significantly (impact of EUR 1.7 billion at 31 December 2016 compared with EUR 15.5 billion at 31 December 2015). In addition, corporate loans decreased due to reclassification of the private banking activities in Asia and the Middle East, partly offset by increases due to ECT Clients.



### Regulatory capital

EAD increased to EUR 383.1 billion at year-end 2016 (31 December 2015: EUR 369.2 billion) driven by higher business volume within Corporate Banking, mainly related to Large Corporates and ECT Clients within International Clients. Total RWA (REA) decreased to EUR 104.2 billion at 31 December 2016 (31 December 2015: EUR 108.0 billion), mainly driven by credit risk and, to a lesser extent, market risk. The decrease was partly offset by operational risk.

Credit risk RWA (REA) declined on the back of Retail Banking, due mainly to higher collateral values and, to a lesser extent, improved credit quality, partly offset by an increase due to model changes. Private Banking decreased as a result of lower business volume. The decrease in credit risk RWA (REA) was partly offset by an increase in Corporate Banking resulting from higher business volume mainly related to ECT Clients within International Clients.

The decrease in RWA (REA) for market risk was mainly the result of the use of the Internal Model Approach (IMA) as from 1 January 2016. The decrease was partly offset by the effect of negative interest rates on our regulatory capital models, reflecting the fact that the models for interest

rate options were overly conservative. Improved valuation models have been developed and implemented, which will significantly lower the RWA figures for market risk.

### Credit quality indicators

Overall, the credit quality indicators improved as a result of improved economic conditions.

### Cost of risk

Total on-balance impairment charges decreased sharply to EUR 115 million in 2016 (2015: EUR 502 million). This decline was mainly the result of significantly lower additions and higher releases within Commercial Clients owing to the improvement of the Dutch economy, partly offset by additions within International Clients related to ECT Clients. As a result, the cost of risk was historically low at 4bps for full-year 2016 (2015: 17bps).

### Liquidity and funding

The LtD ratio increased to 113% at 31 December 2016 (31 December 2015: 109%). Main drivers are the reclassification of the bank's Private Banking operations in Asia and the Middle East to assets held for sale and loan growth within Corporate Banking.

## Key figures per business segment EDTF 7 EDTF 13

31 December 2016

(in millions)	Retail Banking	Private Banking	Corporate Banking	Group Functions	Total
Total assets	158,580	24,618	119,880	91,403	394,482
On-balance sheet maximum exposure to credit risk	157,614	17,731	117,880	89,897	383,122
Total Exposure at Default <sup>1</sup>	175,879	22,752	115,167	69,320	383,118
<b>RWA (REA)</b>					
Credit risk <sup>1</sup>	25,563	6,280	47,289	4,007	83,140
Operational risk	6,249	1,446	3,552	5,756	17,003
Market risk			4,072		4,072
<b>Total RWA (REA)</b>	<b>31,813</b>	<b>7,726</b>	<b>54,913</b>	<b>9,763</b>	<b>104,215</b>
Total RWA (REA)/Total Exposure at Default	18.1%	34.0%	47.7%	14.1%	27.2%
					2016
Average RWA (REA)	33,861	8,096	54,536	10,197	106,691
Cost of risk (in bps) - underlying <sup>2</sup>	5	13	3		4

<sup>1</sup> RWA (REA) for credit value adjustment (CVA) and default fund contribution (DFC) are included in credit risk. In 2016 CVA amounted to EUR 0.8 billion and DFC amounted to EUR 0.6 billion.

<sup>2</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

31 December 2015

(in millions)	Retail Banking	Private Banking	Corporate Banking	Group Functions	Total
Total assets <sup>1,2</sup>	157,330	24,171	132,878	92,994	407,373
On-balance sheet maximum exposure to credit risk <sup>1,2</sup>	156,815	20,834	131,326	91,603	400,578
Total Exposure at Default	174,229	22,105	103,443	69,392	369,169
<b>RWA (REA)</b>					
Credit risk <sup>3</sup>	28,896	6,852	45,867	4,447	86,063
Operational risk	5,875	1,373	3,537	5,441	16,227
Market risk			5,710		5,710
<b>Total RWA (REA)</b>	<b>34,771</b>	<b>8,226</b>	<b>55,115</b>	<b>9,888</b>	<b>108,001</b>
Total RWA (REA)/Total Exposure at Default	20.0%	37.2%	53.3%	14.3%	29.3%
					2015
Average Risk exposure amount	36,109	8,500	57,191	10,851	112,651
Cost of risk (in bps) - underlying <sup>4</sup>	6	-2	46		19

<sup>1</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> RWA (REA) for credit value adjustment (CVA) and default fund contribution (DFC) are included in credit risk. In 2015 CVA amounted to EUR 1.1 billion and DFC amounted to EUR 0.3 billion.

<sup>4</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.



## Reporting scope risk

(in millions)	31 December 2016			31 December 2015		
	Gross carrying amount	Loan impairment allowance	Carrying amount	Gross carrying amount	Loan impairment allowance	Carrying amount
<b>Loans and receivables - banks</b>	<b>13,488</b>	<b>3</b>	<b>13,485</b>	<b>15,682</b>	<b>2</b>	<b>15,680</b>
Residential mortgages <sup>1</sup>	152,328	258	152,069	151,866	324	151,543
Less: Fair value adjustment from hedge accounting on residential mortgages	3,073		3,073	3,401		3,401
<b>Residential mortgages, excluding fair value adjustments<sup>1</sup></b>	<b>149,255</b>	<b>258</b>	<b>148,997</b>	<b>148,465</b>	<b>324</b>	<b>148,142</b>
<b>Consumer loans</b>	<b>12,539</b>	<b>433</b>	<b>12,106</b>	<b>15,147</b>	<b>561</b>	<b>14,587</b>
Corporate loans <sup>2</sup>	92,641	2,895	89,746	101,835	3,380	98,454
Less: Fair value adjustment from hedge accounting on corporate loans	1,722		1,722	1,448		1,448
<b>Corporate loans, excluding fair value adjustments<sup>2</sup></b>	<b>90,920</b>	<b>2,895</b>	<b>88,025</b>	<b>100,387</b>	<b>3,380</b>	<b>97,007</b>
Other loans and receivables - customers <sup>3</sup>	13,838	81	13,757	11,882	90	11,792
Less: Fair value adjustment from hedge accounting on other loans and receivables - customers				1		1
<b>Other loans and receivables - customers, excluding fair value adjustments<sup>3</sup></b>	<b>13,838</b>	<b>81</b>	<b>13,757</b>	<b>11,881</b>	<b>90</b>	<b>11,791</b>
<b>Total loans and receivables - customers, excluding fair value adjustments<sup>1,2</sup></b>	<b>266,551</b>	<b>3,666</b>	<b>262,884</b>	<b>275,881</b>	<b>4,355</b>	<b>271,525</b>
Fair value adjustments on Loans and receivables - customers	4,794		4,794	4,850		4,850
<b>Total loans and receivables - customers<sup>1,2</sup></b>	<b>271,345</b>	<b>3,666</b>	<b>267,679</b>	<b>280,730</b>	<b>4,355</b>	<b>276,375</b>
<b>Total loans and receivables excluding fair value adjustments<sup>1,2</sup></b>	<b>280,039</b>	<b>3,669</b>	<b>276,369</b>	<b>291,563</b>	<b>4,357</b>	<b>287,205</b>
Total fair value adjustments on Loans and receivables	4,794		4,794	4,850		4,850
<b>Total loans and receivables<sup>1,2</sup></b>	<b>284,833</b>	<b>3,669</b>	<b>281,164</b>	<b>296,412</b>	<b>4,357</b>	<b>292,055</b>
Other			113,318			115,318
<b>Total assets<sup>1,2</sup></b>			<b>394,482</b>			<b>407,373</b>

<sup>1</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

The table above gives an overview of the figures reported in the consolidated balance sheet (net) and the figures reported in the Risk management section (gross) and excluding fair value adjustments.

## Economic and regulatory capital EDTF 7 EDTF 13

(in millions)	Retail Banking	Private Banking	Corporate Banking	Group Functions	Total
<b>31 December 2016</b>					
Credit risk	2,045	502	3,783	321	6,651
Operational risk	500	116	284	460	1,360
Market risk			326		326
<b>Regulatory capital<sup>1</sup></b>	<b>2,545</b>	<b>618</b>	<b>4,393</b>	<b>781</b>	<b>8,337</b>
Credit risk	2,166	463	4,301	1,170	8,100
Operational risk	385	197	460	171	1,213
Market risk			169		169
Business risk	304	265	632	6	1,207
Other risk types <sup>2</sup>	248	147	73	5,653	6,121
<b>Economic capital</b>	<b>3,103</b>	<b>1,072</b>	<b>5,635</b>	<b>7,000</b>	<b>16,810</b>
<b>31 December 2015</b>					
Credit risk	2,312	548	3,669	356	6,885
Operational risk	470	110	283	435	1,298
Market risk			457		457
<b>Regulatory capital<sup>1</sup></b>	<b>2,782</b>	<b>658</b>	<b>4,409</b>	<b>791</b>	<b>8,640</b>
Credit risk	2,915	504	4,347	987	8,752
Operational risk	301	206	538	214	1,259
Market risk			145		145
Business risk	353	322	514	7	1,195
Other risk types <sup>2</sup>	275	156	97	4,117	4,643
<b>Economic capital</b>	<b>3,843</b>	<b>1,187</b>	<b>5,640</b>	<b>5,324</b>	<b>15,995</b>

<sup>1</sup> Minimum regulatory capital (8% of total risk exposure amount), representing the absolute minimum amount of capital required by a bank to cover three major risk types a bank faces. However available total capital ratios are substantially higher, as explained in the capital section.

<sup>2</sup> Other risk types include market risk banking book (including interest rate risk) and pension risk.

Economic capital (EC) increased to EUR 16.8 billion at 31 December 2016 (31 December 2015: EUR 16.0 billion). The rise was driven by the other risk types, related to interest rate risk EC (EUR 1.3 billion), partly offset by a decrease in credit risk EC (EUR 0.6 billion).

The increase in interest rate risk EC was mainly driven by the effect of the continued low interest rate environment for residential mortgages. The lower residential mortgage rates led to more consumers fixing their interest rate for a longer term, which increased the interest rate sensitivity of the bank.

Credit risk EC declined as a result of positive developments within the Retail Banking mortgage portfolio, driven by the upturn in the Dutch economy and the strong housing market. This resulted in improved collateral values and, to a lesser extent, improved credit quality.

# Balance sheet composition

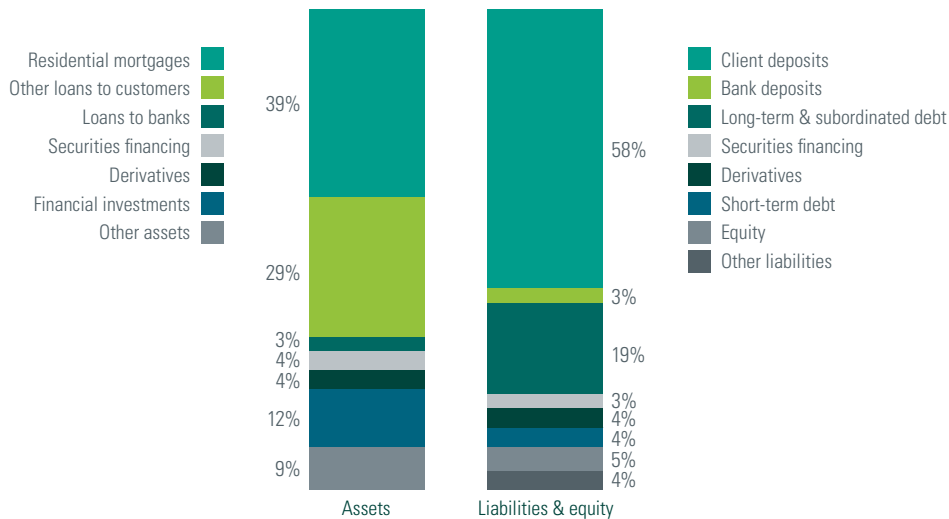
Limited assurance

## Connectivity of material topic 12

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on page 19
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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. The balance sheet composition reflects the bank's moderate risk profile.

## Balance sheet composition at 31 December 2016



- ▶ Strong focus on collateralised lending;
- ▶ Loan portfolio matched deposits, long-term debt and equity;
- ▶ Strategic focus to limit LtD ratio;
- ▶ Limited market risk and trading portfolios;
- ▶ Off-balance sheet commitments and contingent liabilities.

For more information with regard to the risk profile, please refer to the risk management strategy paragraph in the Risk approach chapter.



# Credit risk EDTF 26

## Credit risk exposure

### Credit risk overview Audited

(in millions)	31 December 2016	31 December 2015
<b>Total assets<sup>1,2</sup></b>	<b>394,482</b>	<b>407,373</b>
Less: items that are not subject to credit risk exposure <sup>3</sup>	11,360	6,795
<b>On-balance sheet maximum exposure to credit risk<sup>1,2</sup></b>	<b>383,122</b>	<b>400,578</b>
<b>Off-balance sheet</b>		
Committed credit facilities	27,299	21,559
Guarantees and other commitments	15,873	13,868
Revocable credit facilities	82,338	82,865
Total Off-balance sheet credit facilities and guarantees	125,511	118,292
<b>Maximum exposure to credit risk</b>	<b>508,633</b>	<b>518,870</b>
Adjustments on assets <sup>4</sup>	-1,430	-5,968
Valuation adjustments <sup>5</sup>	4,849	-7,615
Offsetting and netting	-31,974	-43,498
Off-balance sheet credit facilities and guarantees	-125,511	-118,292
Off-balance sheet exposure fraction expected to be drawn prior to default (Credit Conversion Factors)	28,551	25,672
<b>Total Exposure at Default</b>	<b>383,118</b>	<b>369,169</b>
Credit risk RWA (REA)/Total Exposure at Default	21.7%	23.3%

<sup>1</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> Items that are not subject to credit risk: more details are provided in additional Risk, funding & capital information section, table 'Maximum exposure to credit risk EU IFRS'.

<sup>4</sup> Main adjustments on assets are equity instruments, selected financial assets held for trading and fair value adjustments from hedge accounting.

<sup>5</sup> Adjustments on valuation include loan impairment allowances.

The table above shows maximum exposure to credit risk and reconciliation to the total Exposure at Default.


**Overall credit risk EAD and RWA** Pillar 3 EDTF 14 EDTF 15

31 December 2016

(in millions)	Original Exposure at Default	Netting/ Exposure at Default mitigation <sup>3</sup>	Exposure at Default	Average Exposure at Default	RWA (REA)	RWA (REA)/ Exposure at Default
<b>Credit risk IRB</b>						
Central governments and central banks	54,464	-5,589	60,054	56,986	1,001	1.7%
Institutions <sup>1</sup>	21,226	6,031	15,195	15,895	2,517	16.6%
Corporates	199,133	91,487	107,647	104,081	41,985	39.0%
Retail	179,546	5,702	173,844	173,310	23,366	13.4%
- of which secured by immovable property	157,957	-2,085	160,042	159,057	18,081	11.3%
- of which qualifying revolving exposures	12,357	6,363	5,994	6,377	2,534	42.3%
- of which other retail	9,232	1,424	7,808	7,876	2,750	35.2%
Credit valuation adjustment					804	
Securitisation positions	1,265		1,265	1,139	95	7.5%
<b>Subtotal</b>	<b>455,635</b>	<b>97,631</b>	<b>358,004</b>	<b>351,411</b>	<b>69,767</b>	<b>19.5%</b>
Equities not held for trading	1,299		1,299	1,263	5,293	407.5%
Other <sup>2</sup>	1,248		1,248	1,263	1,761	141.1%
<b>Total IRB</b>	<b>458,182</b>	<b>97,631</b>	<b>360,551</b>	<b>353,938</b>	<b>76,821</b>	<b>21.3%</b>
<b>Credit risk SA</b>						
Central governments and central banks	4,605	40	4,565	4,271	19	0.4%
Institutions <sup>1</sup>	5,465	43	5,422	5,855	280	5.2%
Corporates	5,441	2,063	3,378	3,598	2,599	76.9%
Retail	5,107	3,966	1,141	1,282	761	66.7%
Covered bonds						
Secured by mortgages on immovable property	5,189	33	5,156	4,182	1,009	19.6%
Exposures in default	688	637	51	54	58	114.5%
<b>Subtotal</b>	<b>26,495</b>	<b>6,781</b>	<b>19,714</b>	<b>19,241</b>	<b>4,726</b>	<b>24.0%</b>
Other <sup>2</sup>	4,178	1,325	2,853	2,903	1,593	55.8%
<b>Total SA</b>	<b>30,672</b>	<b>8,105</b>	<b>22,567</b>	<b>22,144</b>	<b>6,319</b>	<b>28.0%</b>
<b>Total</b>	<b>488,854</b>	<b>105,736</b>	<b>383,118</b>	<b>376,081</b>	<b>83,140</b>	<b>21.7%</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Other includes default fund contribution (DFC) under the IRB approach and non-credit obligation assets under the IRB and SA approach.

<sup>3</sup> Consists mainly of netting, secured funding trades, guarantees, credit conversion factors, and impairments under the Standardised Approach.

**Overall credit risk EAD and RWA** Pillar 3 EDTF 14 EDTF 15

31 December 2015

(in millions)	Original Exposure at Default	Netting/ Exposure at Default mitigation <sup>3</sup>	Exposure at Default	Average Exposure at Default	RWA (REA)	RWA (REA)/ Exposure at Default
<b>Credit risk IRB</b>						
Central governments and central banks	55,459	-3,433	58,892	50,582	978	1.7%
Institutions <sup>1</sup>	19,099	4,922	14,177	19,438	2,887	20.4%
Corporates	196,468	97,340	99,128	99,765	40,592	40.9%
Retail	179,737	5,608	174,129	174,878	26,631	15.3%
- of which secured by immovable property	159,573		159,573	160,366	20,269	12.7%
- of which qualifying revolving exposures	6,796		6,796	6,905	3,005	44.2%
- of which other retail	13,368	5,608	7,760	7,608	3,357	43.3%
Credit valuation adjustment					1,105	
Securitisation positions	1,125		1,125	1,268	84	7.5%
<b>Subtotal</b>	<b>451,889</b>	<b>104,437</b>	<b>347,452</b>	<b>345,931</b>	<b>72,277</b>	<b>20.8%</b>
Equities not held for trading	1,208		1,208	1,229	5,185	429.2%
Other <sup>2</sup>	1,286		1,286	1,299	1,491	115.9%
<b>Total IRB</b>	<b>454,383</b>	<b>104,437</b>	<b>349,946</b>	<b>348,459</b>	<b>78,953</b>	<b>22.6%</b>
<b>Credit risk SA</b>						
Central governments and central banks	2,978	20	2,958	2,849	132	4.5%
Institutions <sup>1</sup>	4,485	92	4,393	7,416	153	3.5%
Corporates	6,953	2,991	3,962	4,733	3,535	89.2%
Retail	5,617	4,259	1,358	2,076	793	58.4%
Covered bonds						
Secured by mortgages on immovable property	2,858	26	2,832	3,033	510	18.0%
Exposures in default	668	603	65	78	88	134.9%
<b>Subtotal</b>	<b>23,558</b>	<b>7,990</b>	<b>15,568</b>	<b>20,185</b>	<b>5,211</b>	<b>33.5%</b>
Other <sup>2</sup>	4,654	999	3,655	3,475	1,900	52.0%
<b>Total SA</b>	<b>28,213</b>	<b>8,990</b>	<b>19,223</b>	<b>23,661</b>	<b>7,110</b>	<b>37.0%</b>
<b>Total</b>	<b>482,595</b>	<b>113,427</b>	<b>369,169</b>	<b>372,120</b>	<b>86,063</b>	<b>23.3%</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Other includes default fund contribution (DFC) under the IRB approach and non-credit obligation assets under the IRB and SA approach.

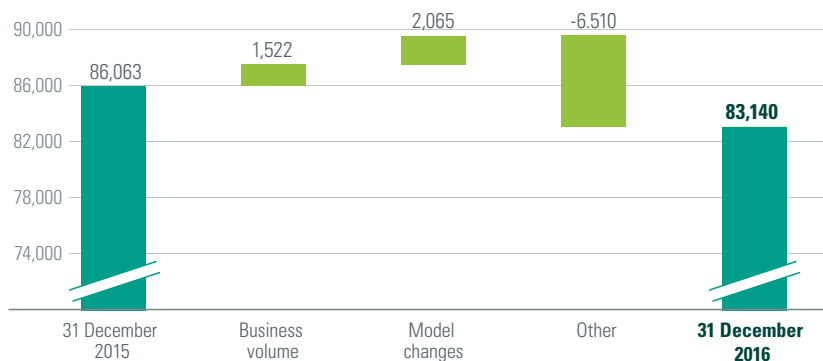
<sup>3</sup> Consists mainly of netting, secured funding trades, guarantees, credit conversion factors, and impairments under the Standardised Approach.

The main movements in credit risk EAD and RWA (REA) are discussed in the Key developments section.

In addition to these movements, the standardised EAD portfolio increased to EUR 22.6 billion at 31 December 2016 (31 December 2015: EUR 19.2 billion).

### RWA (REA) flow statement credit risk EDTF 16

(in millions)



RWA (REA) decreased to EUR 83.1 billion at 31 December 2016 (31 December 2015: EUR 86.1 billion). The decrease, visible in the category other, was mainly the result of lower RWA (REA) within Retail Banking, as a result of higher collateral values and, to lesser extent, improved credit quality. This decrease was partly offset

by an increase due to model changes. In addition, RWA (REA) decreased in Private Banking as a result of lower business volume. Corporate Banking recorded an increase in RWA mainly as a result of higher business volume, partly offset by improved credit quality.

### Credit quality by exposure class Audited Pillar 3

(in millions, Exposure at Default)	31 December 2016			
	Investment grade	Sub-investment grade	Impaired	Total
Central governments and central banks	59,870	184		60,054
Institutions <sup>1</sup>	14,567	598	30	15,195
Corporates	41,576	60,641	5,430	107,647
Retail	148,781	23,131	1,932	173,844
- of which secured by immovable property	141,736	16,958	1,348	160,042
- of which qualifying revolving exposures	2,691	3,070	233	5,994
- of which other retail	4,354	3,103	351	7,808
Securitisation positions	1,265			1,265
<b>Total IRB<sup>2</sup></b>	<b>266,058</b>	<b>84,554</b>	<b>7,392</b>	<b>358,004</b>
Total SA <sup>3</sup>				19,714
<b>Total</b>				<b>377,718</b>

(in millions, Exposure at Default)	31 December 2015			
	Investment grade	Sub-investment grade	Impaired	Total
Central governments and central banks	58,769	123		58,892
Institutions <sup>1</sup>	13,804	351	22	14,177
Corporates	37,131	56,787	5,211	99,128
Retail	140,275	31,295	2,559	174,129
- of which secured by immovable property	134,265	23,555	1,486	159,306
- of which qualifying revolving exposures	2,662	3,831	285	6,778
- of which other retail	3,348	3,909	788	8,045
Securitisation positions	1,125			1,125
<b>Total IRB<sup>2</sup></b>	<b>251,105</b>	<b>88,556</b>	<b>7,791</b>	<b>347,452</b>
Total SA <sup>3</sup>				15,568
<b>Total</b>				<b>363,020</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

<sup>3</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.

The composition of the credit quality of our portfolio improved in 2016. The investment grade portfolio rose to 74% of the portfolio, and the total IRB portfolio increased as well. The sub-investment portfolio decreased to 24%.

These improvements were the result of the continued recovery of the Dutch Economy, improved credit ratings of our clients, and new investment grade client lending (mainly ECT Clients).

## Counterparty credit risk Pillar 3 EDTF 29

### Counterparty risk by exposure class Pillar 3 EDTF 29

	31 December 2016			31 December 2015		
	Total	of which:		Total	of which:	
(in millions, Exposure at Default)		Derivatives	Securities financing transactions		Derivatives	Securities financing transactions
<b>Credit risk</b>						
Central governments and central banks	60,054	367	201	58,892	334	98
Institutions <sup>1</sup>	15,195	1,832	2,745	14,177	2,114	1,710
Corporates	107,647	2,902	1,335	99,128	3,148	1,756
Retail	173,844			174,129		
- of which secured by immovable property/retail mortgages	160,042			159,306		
- of which qualifying revolving exposures	5,994			6,778		
- of which other retail	7,808			8,045		
Securitisation positions	1,265			1,125		
<b>Total IRB<sup>2</sup></b>	<b>358,004</b>	<b>5,101</b>	<b>4,281</b>	<b>347,452</b>	<b>5,596</b>	<b>3,564</b>
<b>Total SA<sup>3</sup></b>	<b>19,714</b>	<b>1,519</b>	<b>2,481</b>	<b>15,568</b>	<b>1,417</b>	<b>2,156</b>
<b>Total</b>	<b>377,718</b>	<b>6,620</b>	<b>6,762</b>	<b>363,020</b>	<b>7,012</b>	<b>5,720</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

<sup>3</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.



## Credit risk concentration Audited Pillar 3

### Geographic concentration

The consolidated exposures in the table are allocated to the geographical regions where clients are domiciled.

The bank monitors and manages country risk based on the country of risk. The country of ultimate risk may be different from the country of domicile, e.g. when financing a project in another country than where the borrower is domiciled.

### Geographic concentration by EAD Audited Pillar 3

	31 December 2016					
(in millions, Exposure at Default)	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Central governments and central banks	30,466	23,578	3,477	1,999	533	60,054
Institutions <sup>1</sup>	3,417	7,153	1,699	2,534	393	15,195
Corporates	54,922	23,937	6,540	10,031	12,217	107,647
Retail	172,990	648	41	95	69	173,844
- of which secured by immovable property	159,524	364	36	79	40	160,042
- of which qualifying revolving exposures	5,924	58	2	3	7	5,994
- of which other retail	7,542	226	4	13	22	7,808
Securitisation positions	1,265					1,265
<b>Total IRB<sup>2</sup></b>	<b>263,060</b>	<b>55,316</b>	<b>11,757</b>	<b>14,659</b>	<b>13,212</b>	<b>358,004</b>
Total SA <sup>3</sup>	8,725	9,086	1,481	192	230	19,714
<b>Total</b>	<b>271,786</b>	<b>64,402</b>	<b>13,238</b>	<b>14,851</b>	<b>13,442</b>	<b>377,718</b>
Percentage of total	72.0%	17.1%	3.5%	3.9%	3.6%	100.0%

	31 December 2015					
	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Central governments and central banks	31,530	19,894	4,160	2,822	486	58,892
Institutions <sup>1</sup>	1,897	7,035	2,041	2,604	600	14,177
Corporates	52,876	21,719	5,175	8,157	11,201	99,128
Retail	173,273	651	44	87	74	174,129
- of which secured by immovable property	158,756	395	37	71	47	159,306
- of which qualifying revolving exposures	6,689	73	3	4	9	6,778
- of which other retail	7,828	183	4	12	18	8,045
Securitisation positions	1,125					1,125
<b>Total IRB<sup>2</sup></b>	<b>260,702</b>	<b>49,299</b>	<b>11,420</b>	<b>13,670</b>	<b>12,361</b>	<b>347,452</b>
Total SA <sup>3</sup>	5,490	8,511	1,077	95	395	15,568
<b>Total</b>	<b>266,192</b>	<b>57,810</b>	<b>12,497</b>	<b>13,765</b>	<b>12,756</b>	<b>363,020</b>
Percentage of total	73.3%	15.9%	3.4%	3.8%	3.5%	100.0%

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Total Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

<sup>3</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.

The bank's portfolio is largely concentrated in the Netherlands (72.0%). Businesses outside the Netherlands are primarily located in neighbouring countries in Europe. Specialised activities, such as Energy, Commodities & Transportation Clients (ECT Clients), Clearing, Asset-Based Financing, Securities Financing and Private Banking International, are also located outside Europe.

The Exposure at Default increased in the Netherlands to EUR 271.8 billion at 31 December 2016 (31 December 2015: EUR 266.2 billion) and was mainly the result of an increase in the exposure classes corporates and institutions as a result of higher business volume. The increase in EAD in exposure class corporates was related to higher business volume in International Clients and was visible in all regions.

## 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. In the risk appetite, thresholds for concentrations are based on relative risk, importance of the industry to the Dutch economy and expert opinion.

Industry concentration is presented both in terms of original obligor and in terms of resultant obligor. Original obligor refers to the counterparty with whom ABN AMRO originally has the contractual relationship, often referred to as the borrower. The resultant obligor is the counterparty to which ABN AMRO has the ultimate credit risk, often

referred to as the guarantor. The industry view, based on original obligor and resultant obligor, differs significantly for the real estate, healthcare and public administration industries. The government-guaranteed exposures are included in the original obligor view under the applicable industry sector. However, in the resultant obligor view these exposures are included in the public administration industry sector, as they concern government-related exposures.

The bank manages industry concentrations within the risk appetite by setting credit risk economic capital (EC) limits as a percentage of total credit risk EC per industry sector. The bank does not manage concentration based on EAD per industry sector.

### Industry concentration by EAD Audited Pillar 3

31 December 2016

(in millions, Exposure at Default)	Exposure at Default (original obligor)	Percentage of total	Exposure at Default (resultant obligor)	Percentage of total
<b>Industry sector</b>				
Banks	19,405	5.1%	18,020	4.8%
Financial services <sup>1</sup>	17,141	4.5%	16,514	4.4%
Industrial goods and services	23,203	6.1%	22,943	6.1%
Real estate	14,515	3.8%	12,854	3.4%
Oil and gas	14,563	3.9%	14,587	3.9%
Food and beverage	15,154	4.0%	15,094	4.0%
Retail	5,634	1.5%	5,585	1.5%
Basic resources	4,561	1.2%	4,550	1.2%
Healthcare	4,653	1.2%	4,737	1.3%
Construction and materials	3,606	1.0%	3,524	0.9%
Other <sup>2</sup>	17,599	4.7%	17,635	4.7%
<b>Subtotal Industry Classification Benchmark</b>	<b>140,035</b>	<b>37.1%</b>	<b>136,043</b>	<b>36.0%</b>
Private individuals (non-Industry Classification Benchmark)	182,597	48.3%	182,739	48.4%
Public administration (non-Industry Classification Benchmark)	55,087	14.6%	58,937	15.6%
<b>Subtotal non-Industry Classification Benchmark</b>	<b>237,683</b>	<b>62.9%</b>	<b>241,675</b>	<b>64.0%</b>
<b>Exposure at Default<sup>3</sup></b>	<b>377,718</b>	<b>100.0%</b>	<b>377,718</b>	<b>100.0%</b>

<sup>1</sup> Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.

<sup>2</sup> Other includes travel and leisure, utilities, personal and household goods, media, technology, automobile and parts, chemicals, telecommunication and insurance, in addition to unclassified.

<sup>3</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

**Industry concentration by EAD** Audited Pillar 3

31 December 2015

(in millions, Exposure at Default)	Exposure at Default (original obligor)	Percentage of total	Exposure at Default (resultant obligor)	Percentage of total
<b>Industry sector</b>				
Banks	16,230	4.5%	15,101	4.2%
Financial services <sup>1</sup>	14,982	4.1%	13,326	3.7%
Industrial goods and services	22,148	6.1%	21,932	6.0%
Real estate	13,244	3.6%	12,021	3.3%
Oil and gas	12,119	3.3%	12,011	3.3%
Food and beverage	13,924	3.8%	13,810	3.8%
Retail	5,132	1.4%	5,059	1.4%
Basic resources	4,378	1.2%	4,347	1.2%
Healthcare	4,871	1.3%	4,725	1.3%
Construction and materials	3,559	1.0%	3,460	1.0%
Other <sup>2</sup>	16,927	4.7%	17,583	4.8%
<b>Subtotal Industry Classification Benchmark</b>	<b>127,514</b>	<b>35.1%</b>	<b>123,375</b>	<b>34.0%</b>
Private individuals (non-Industry Classification Benchmark)	178,105	49.1%	178,276	49.1%
Public administration (non-Industry Classification Benchmark)	57,401	15.8%	61,369	16.9%
<b>Subtotal non-Industry Classification Benchmark</b>	<b>235,506</b>	<b>64.9%</b>	<b>239,645</b>	<b>66.0%</b>
<b>Exposure at Default<sup>3</sup></b>	<b>363,020</b>	<b>100.0%</b>	<b>363,020</b>	<b>100.0%</b>

<sup>1</sup> Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.

<sup>2</sup> Other includes travel and leisure, utilities, personal and household goods, media, technology, automobile and parts, chemicals, telecommunication and insurance, in addition to unclassified.

<sup>3</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

Almost half of the credit risk exposures in EaD is related to private individuals (non-Industry Classification Benchmark), which is mainly related to residential mortgage loans and, to a lesser extent, consumer loans. Private individuals increased to EUR 182.7 billion at 31 December 2016 (31 December 2015: EUR 178.3 billion) in the resultant obligor view.

Banks, financial services, oil and gas, food and beverages, and industrial goods and services increased as a result of higher business volume related to International Clients (mainly ECT Clients and Large Corporates).

**Credit risk mitigation** Audited EDTF 30
**Offsetting, netting, collateral and guarantees**
Audited EDTF 30

Collateral reporting is based on the net collateral value (NCV). NCV expresses the value of collateral in the event of a forced sale and is equal to the expected recovery value of the collateral pledged to the bank. Surplus collateral is the amount of over-collateralisation, calculated on an individual basis. A surplus for guarantees is not included as collateral as the debtor can only be liable for the maximum debt.

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

31 December 2016

(in millions)	Offset in the statement of financial position			Not offset in the statement of financial position					Net exposure <sup>7</sup>	
	Carrying amount before balance-sheet netting	Balance sheet netting with gross liabilities	Carrying amount	Master netting agreement <sup>6</sup>	Financial instruments collateral	Property & equipment	Other collateral and guarantees	Total risk mitigation		Surplus collateral <sup>6</sup>
<b>Financial assets held for trading</b>	<b>1,572</b>		<b>1,572</b>							<b>1,572</b>
<b>Derivatives</b>	<b>14,384</b>		<b>14,384</b>	<b>11,390</b>			<b>5</b>	<b>11,396</b>		<b>2,989</b>
<b>Securities financing</b>	<b>20,463</b>	<b>2,873</b>	<b>17,589</b>	<b>234</b>	<b>20,634</b>			<b>20,868</b>	<b>3,443</b>	<b>164</b>
Interest-bearing deposits	5,789	749	5,041	36	1,134			1,170	1,134	5,005
Loans and advances	5,162		5,162	4,187				4,187		976
Other	3,282		3,282				146	146		3,137
<b>Total loans and receivables - banks</b>	<b>14,234</b>	<b>749</b>	<b>13,485</b>	<b>4,223</b>	<b>1,134</b>		<b>146</b>	<b>5,502</b>	<b>1,134</b>	<b>9,117</b>
<b>Loans and receivables - customers</b>										
Residential mortgages <sup>1,2,3</sup>	149,954	958	148,997		2,047	180,013	6,279	188,339	50,979	11,637
Consumer loans <sup>1</sup>	12,141	35	12,106		3,381	5,028	27	8,436	3,583	7,253
Corporate loans <sup>1</sup>	93,458	5,434	88,025	3,086	28,136	43,807	15,225	90,253	25,591	23,363
Other loans and receivables - customers <sup>4</sup>	13,777	20	13,757	684	3,430	3,232	1,108	8,454	1,144	6,447
Fair value adjustment from hedge accounting	4,794		4,794							4,794
<b>Total Loans and receivables - customers<sup>1</sup></b>	<b>274,125</b>	<b>6,447</b>	<b>267,679</b>	<b>3,770</b>	<b>36,993</b>	<b>232,080</b>	<b>22,639</b>	<b>295,482</b>	<b>81,298</b>	<b>53,494</b>
<b>Other assets</b>	<b>2,299</b>		<b>2,299</b>				<b>55</b>	<b>55</b>		<b>2,244</b>
<b>Total on-balance sheet subject to netting and pledged agreements<sup>1</sup></b>	<b>327,077</b>	<b>10,069</b>	<b>317,008</b>	<b>19,617</b>	<b>58,761</b>	<b>232,080</b>	<b>22,845</b>	<b>333,303</b>	<b>85,874</b>	<b>69,580</b>
Assets not subject to netting and pledged agreements	77,473		77,473							77,473
<b>Total assets<sup>1</sup></b>	<b>404,550</b>	<b>10,069</b>	<b>394,482</b>	<b>19,617</b>	<b>58,761</b>	<b>232,080</b>	<b>22,845</b>	<b>333,303</b>	<b>85,874</b>	<b>147,053</b>
Total off-balance sheet	125,511		125,511		6,779	6,598	4,270	17,646	5,148	113,012
<b>Total on- and off-balance sheet<sup>1</sup></b>	<b>530,061</b>	<b>10,069</b>	<b>519,993</b>	<b>19,617</b>	<b>65,540</b>	<b>238,678</b>	<b>27,115</b>	<b>350,949</b>	<b>91,022</b>	<b>260,066</b>

<sup>1</sup> Carrying amount includes Loan impairment allowances.

<sup>2</sup> In 2016 the bank concluded that partial derecognition should be applied for certain savings mortgages. The adjustment of the carrying amounts before balance sheet netting is EUR 6.3 billion negative in 2016 (2015: EUR 6.4 billion negative). This adjustment does not impact the reported carrying amounts after balance sheet netting.

<sup>3</sup> The impact of the netting adjustment is included. More information is provided in note 1 Accounting policies in the Annual financial statements.

<sup>4</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

<sup>5</sup> 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.

<sup>6</sup> Surplus collateral is the amount of over-collateralisation, calculated on an individual basis.

<sup>7</sup> 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 and collateral & guarantees** Audited EDTF 30

31 December 2015

(in millions)	Offset in the statement of financial position			Not offset in the statement of financial position					Net exposure <sup>10</sup>	
	Carrying amount before balance-sheet netting	Balance sheet netting with gross liabilities	Carrying amount	Master netting agreement <sup>8</sup>	Financial instruments collateral	Property & equipment	Other collateral and guarantees	Total risk mitigation		Surplus collateral <sup>9</sup>
<b>Financial assets held for trading</b>	<b>1,687</b>		<b>1,687</b>							<b>1,687</b>
<b>Derivatives</b>	<b>19,138</b>		<b>19,138</b>	<b>14,907</b>				<b>14,907</b>		<b>4,231</b>
<b>Securities financing</b>	<b>23,405</b>	<b>3,343</b>	<b>20,062</b>	<b>361</b>	<b>21,859</b>			<b>22,219</b>	<b>2,358</b>	<b>201</b>
Interest-bearing deposits	5,283	453	4,831	7	1,668			1,675	1,332	4,488
Loans and advances	8,114		8,114	7,275	74			7,349		765
Other	2,735		2,735				4	4		2,732
<b>Total loans and receivables - banks<sup>1</sup></b>	<b>16,133</b>	<b>453</b>	<b>15,680</b>	<b>7,282</b>	<b>1,742</b>		<b>4</b>	<b>9,027</b>	<b>1,332</b>	<b>7,984</b>
<b>Loans and receivables - customers</b>										
Residential mortgages <sup>2,3,4,5</sup>	148,712	570	148,142		1,693	170,418	7,887	179,999	45,877	14,020
Consumer loans <sup>2</sup>	14,902	316	14,587		6,474	5,419	53	11,946	4,540	7,181
Corporate loans <sup>2,6</sup>	98,690	1,683	97,007	3,920	45,243	42,594	13,006	104,763	24,891	17,135
Other loans and receivables - customers <sup>7</sup>	11,956	165	11,791	748	2,590	3,006	1,406	7,750	842	4,883
Fair value adjustment from hedge accounting	4,850		4,850							4,850
<b>Total Loans and receivables - customers<sup>1,2,3,6</sup></b>	<b>279,110</b>	<b>2,734</b>	<b>276,375</b>	<b>4,668</b>	<b>56,001</b>	<b>221,437</b>	<b>22,352</b>	<b>304,458</b>	<b>76,151</b>	<b>48,068</b>
<b>Other assets</b>	<b>1,899</b>		<b>1,899</b>				<b>161</b>	<b>161</b>		<b>1,737</b>
<b>Total on-balance sheet subject to netting and pledged agreements<sup>2,3,6</sup></b>	<b>341,371</b>	<b>6,530</b>	<b>334,841</b>	<b>27,217</b>	<b>79,601</b>	<b>221,437</b>	<b>22,517</b>	<b>350,772</b>	<b>79,841</b>	<b>63,909</b>
Assets not subject to netting and pledged agreements	72,533		72,533							72,533
<b>Total assets<sup>2,3,6</sup></b>	<b>413,903</b>	<b>6,530</b>	<b>407,373</b>	<b>27,217</b>	<b>79,601</b>	<b>221,437</b>	<b>22,517</b>	<b>350,772</b>	<b>79,841</b>	<b>136,441</b>
Total off-balance sheet	118,292		118,292		5,226	5,710	1,643	12,578	5,435	111,149
<b>Total on- and off-balance sheet<sup>2,3,6</sup></b>	<b>532,196</b>	<b>6,530</b>	<b>525,665</b>	<b>27,217</b>	<b>84,827</b>	<b>227,147</b>	<b>24,160</b>	<b>363,351</b>	<b>85,275</b>	<b>247,590</b>

<sup>1</sup> As of year-end 2015 a refined methodology for collateral reporting has been applied.

<sup>2</sup> Carrying amount includes Loan impairment allowances.

<sup>3</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>4</sup> In 2016 the bank concluded that partial derecognition should be applied for certain savings mortgages. The adjustment of the carrying amounts before balance sheet netting is EUR 6.3 billion negative in 2016 (2015: EUR 6.4 billion negative). This adjustment does not impact the reported carrying amounts after balance sheet netting.

<sup>5</sup> The impact of the netting adjustment is included. More information is provided in note 1 Accounting policies in the Annual financial statements.

<sup>6</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>7</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

<sup>8</sup> 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.

<sup>9</sup> Surplus collateral is the amount of over-collateralisation, calculated on an individual basis.

<sup>10</sup> 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 total loans and receivables - customers increased to EUR 53.5 billion at 31 December 2016 (31 December 2015: EUR 48.1 billion). This was mainly due to increased net exposure in corporate loans and other loans and receivables-customers, partially offset by residential mortgages.

The net exposure of residential mortgages significantly decreased, arriving at EUR 11.6 billion at 31 December 2016 (31 December 2015: EUR 14.0 billion). This was the result of an increase in property and equipment resulting from a rise in housing prices.

The total risk mitigation for consumer loans decreased by EUR 3.5 billion, mainly due to the reclassification of the bank's Private Banking operations in Asia and the Middle East from consumer loans to assets held for sale. The reclassification had limited impact on the net exposure.

Corporate loans showed a strong decrease in financial instruments to EUR 28.1 billion at 31 December 2016 (31 December 2015: EUR 45.2 billion). The strong decline was mainly attributable to the adjustment of the offsetting policy in Q2 2016 (impact of EUR 1.7 billion at 31 December 2016, compared with EUR 15.5 billion at 31 December 2015). The net exposure increased to EUR 23.4 billion at 31 December 2016 (31 December 2015: EUR 17.1 billion). This was primarily due to higher exposure levels within International Clients relating to large corporate and investment grade Commodities Clients. These clients generally have a low risk profile, and it is common practice for them to have non-collateralised loans.

The net exposure of other loans and receivables – customers increased to EUR 6.4 billion (31 December 2015: EUR 4.9 billion), mainly due to clearing activities.

### Financial liabilities: offsetting, netting and collateral & guarantees Audited

(in millions)	31 December 2016							Net exposure
	Offset in the statement of financial position			Not offset in the statement of financial position				
	Carrying amount before balance-sheet netting	Balance sheet netting with gross assets	Carrying amount	Master netting agreement <sup>1</sup>	Financial instruments collateral	Surplus collateral	Total risk mitigation	
<b>Financial liabilities held for trading</b>	<b>791</b>		<b>791</b>					<b>791</b>
<b>Derivatives</b>	<b>14,526</b>		<b>14,526</b>	<b>13,113</b>			<b>13,113</b>	<b>1,414</b>
<b>Securities financing</b>	<b>14,499</b>	<b>2,873</b>	<b>11,625</b>	<b>235</b>	<b>13,589</b>	<b>3,289</b>	<b>17,114</b>	<b>1,090</b>
Deposits	13,797	403	13,394	3,210			3,210	10,185
Other	25		25					25
<b>Due to banks</b>	<b>13,823</b>	<b>403</b>	<b>13,419</b>	<b>3,210</b>			<b>3,210</b>	<b>10,210</b>
Deposits	235,550	6,792	228,758	3,059			3,059	225,698
Other borrowings								
<b>Due to customers</b>	<b>235,550</b>	<b>6,792</b>	<b>228,758</b>	<b>3,059</b>			<b>3,059</b>	<b>225,698</b>
<b>Other liabilities</b>	<b>6,503</b>		<b>6,503</b>					<b>6,503</b>
<b>Total liabilities subject to netting arrangements</b>	<b>285,691</b>	<b>10,069</b>	<b>275,623</b>	<b>19,617</b>	<b>13,589</b>	<b>3,289</b>	<b>36,495</b>	<b>245,705</b>
Remaining liabilities not subject to netting	99,922		99,922					99,922
<b>Total liabilities</b>	<b>385,613</b>	<b>10,069</b>	<b>375,544</b>	<b>19,617</b>	<b>13,589</b>	<b>3,289</b>	<b>36,495</b>	<b>345,627</b>

<sup>1</sup> 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 and collateral & guarantees** Audited

31 December 2015

	Offset in the statement of financial position			Not offset in the statement of financial position				Net exposure
	Carrying amount before balance-sheet netting	Balance sheet netting with gross assets	Carrying amount	Master netting agreement <sup>1</sup>	Financial instruments collateral	Surplus collateral	Total risk mitigation	
(in millions)								
<b>Financial liabilities held for trading</b>	<b>459</b>		<b>459</b>					<b>459</b>
<b>Derivatives</b>	<b>22,425</b>		<b>22,425</b>	<b>19,754</b>			<b>19,754</b>	<b>2,671</b>
<b>Securities financing</b>	<b>14,715</b>	<b>3,343</b>	<b>11,372</b>	<b>131</b>	<b>13,682</b>	<b>3,718</b>	<b>17,532</b>	<b>1,277</b>
Deposits	15,053	449	14,604	3,849			3,849	10,756
Other	26		26					26
<b>Due to banks</b>	<b>15,079</b>	<b>449</b>	<b>14,630</b>	<b>3,849</b>			<b>3,849</b>	<b>10,781</b>
Deposits	249,931	2,738	247,192	3,483			3,483	243,709
Other borrowings	160		160					160
<b>Due to customers</b>	<b>250,091</b>	<b>2,738</b>	<b>247,353</b>	<b>3,483</b>			<b>3,483</b>	<b>243,869</b>
<b>Other liabilities</b>	<b>5,729</b>		<b>5,729</b>					<b>5,729</b>
<b>Total liabilities subject to netting arrangements</b>	<b>308,498</b>	<b>6,530</b>	<b>301,968</b>	<b>27,217</b>	<b>13,682</b>	<b>3,718</b>	<b>44,617</b>	<b>264,786</b>
Remaining liabilities not subject to netting	87,821		87,821					87,821
<b>Total liabilities</b>	<b>396,319</b>	<b>6,530</b>	<b>389,789</b>	<b>27,217</b>	<b>13,682</b>	<b>3,718</b>	<b>44,617</b>	<b>352,607</b>

<sup>1</sup> 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 impaired loans

### Forborne exposures

Audited

The following table provides an overview of forborne assets, broken down into performing and non-performing assets, specified by type of forbearance measure.

Clients (potentially) in financial difficulty, for whom contract amendments have been made since 1 January 2012 that are considered concessions on the part of the bank, are accounted for as forborne assets. Contracts that were in a recovery phase at the reporting date are not considered forborne.

## Overview of forborne assets Audited

31 December 2016

(in millions)	Gross carrying amount	Performing assets <sup>3</sup>			Total performing forborne assets	Non-performing assets <sup>3</sup>			Total non-performing forborne assets	Total forborne assets	Forbearance ratio
		Temporary modification	Permanent modification	Refinancing		Temporary modification	Permanent modification	Refinancing			
<b>Loans and receivables - banks</b>	<b>13,488</b>										<b>0.0%</b>
<b>Loans and receivables - customers</b>											
Residential mortgages <sup>1</sup>	149,255	817	12	107	936	208	7	23	237	1,173	0.8%
Consumer loans	12,539	127	35	122	283	91	11	134	237	519	4.1%
Corporate loans <sup>1</sup>	90,920	1,554	1,207	817	3,578	625	1,234	1,222	3,080	6,658	7.3%
Other loans and receivables - customers <sup>2</sup>	13,838	121	117	2	240	54	62	2	119	359	2.6%
<b>Total Loans and receivables - customers</b>	<b>266,551</b>	<b>2,618</b>	<b>1,370</b>	<b>1,048</b>	<b>5,037</b>	<b>978</b>	<b>1,314</b>	<b>1,381</b>	<b>3,673</b>	<b>8,710</b>	<b>3.3%</b>
<b>Total</b>	<b>280,039</b>	<b>2,618</b>	<b>1,370</b>	<b>1,048</b>	<b>5,037</b>	<b>978</b>	<b>1,314</b>	<b>1,381</b>	<b>3,673</b>	<b>8,710</b>	<b>3.1%</b>

<sup>1</sup> Gross carrying amount excludes fair value adjustments from hedge accounting.

<sup>2</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

<sup>3</sup> For reporting purposes, the classification of (non-) performing forborne assets is based on the impaired status of the client.

## Overview of forborne assets Audited

31 December 2015

(in millions)	Gross carrying amount	Performing assets <sup>6</sup>			Total performing forborne assets	Non-performing assets <sup>6,7</sup>			Total non-performing forborne assets	Total forborne assets	Forbearance ratio
		Temporary modification	Permanent modification	Refinancing		Temporary modification	Permanent modification	Refinancing			
<b>Loans and receivables - banks</b>	<b>15,682</b>										<b>0.0%</b>
<b>Loans and receivables - customers</b>											
Residential mortgages <sup>1,2</sup>	148,465	1,122	23	204	1,349	354	14	39	408	1,757	1.2%
Consumer loans <sup>1,3</sup>	15,147	174	77	42	293	105	72	179	355	648	4.3%
Corporate loans <sup>1,4</sup>	100,387	2,074	1,533	1,496	5,102	634	938	1,041	2,613	7,715	7.7%
Other loans and receivables - customers <sup>1,5</sup>	11,881	110	39		148	109	124	2	235	383	3.2%
<b>Total Loans and receivables - customers<sup>1,2,4,5</sup></b>	<b>275,881</b>	<b>3,481</b>	<b>1,671</b>	<b>1,741</b>	<b>6,893</b>	<b>1,202</b>	<b>1,148</b>	<b>1,262</b>	<b>3,611</b>	<b>10,504</b>	<b>3.8%</b>
<b>Total<sup>1,4</sup></b>	<b>291,563</b>	<b>3,481</b>	<b>1,671</b>	<b>1,741</b>	<b>6,893</b>	<b>1,202</b>	<b>1,148</b>	<b>1,262</b>	<b>3,611</b>	<b>10,504</b>	<b>3.6%</b>

<sup>1</sup> Gross carrying amount excludes fair value adjustments from hedge accounting.

<sup>2</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> Within consumer loans a reclassification was made from performing refinancing to non-performing refinancing. Comparative figures before 30 September 2016 have been adjusted (31 December 2015 EUR 132 million).

<sup>4</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>5</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

<sup>6</sup> For reporting purposes, the classification of (non-) performing forborne assets is based on the impaired status of the client.

<sup>7</sup> As of 31 March 2016, contracts can discontinue the forborne status as a result of passing the probation period (i.e. ceased to be forborne). Ceased to forborne contracts are still included in the year-end 2015 figures.



The total forborne portfolio decreased significantly to EUR 8.7 billion at year-end 2016 (31 December 2015: EUR 10.5 billion). This decline was mainly attributable to developments within the corporate loans and residential mortgages portfolio.

Total forborne assets within residential mortgages decreased to EUR 1.2 billion at year-end 2016 (31 December 2015: EUR 1.8 billion). The performing forborne portfolio declined by EUR 0.4 billion, mainly as a result of forborne contracts that passed the probation period (cease to be forborne). The non-performing forborne portfolio decreased to EUR 0.2 billion at 31 December 2016 (31 December 2015: EUR 0.4 billion). This decline was mainly due to the recovery strategy which was applied to these forborne contracts. Total inflow of new forborne exposure was very limited in 2016.

Forborne corporate loans decreased to EUR 6.7 billion at year-end 2016 (31 December 2015: EUR 7.7 billion). The decline related to developments within the performing forborne portfolio, which decreased mainly as a result of the outflow of forborne exposure due to forborne contracts that passed the probation period (cease to be forborne). To a lesser extent, the decline in performing forborne corporate loans related to new offsetting agreements. The non-performing forborne corporate loans increased by EUR 0.5 billion, mainly due to an inflow of new forborne clients, primarily related to the oil and gas industry and to a lesser extent to the industrial goods and services sector.

### Past due exposures Audited

When a counterparty is past due or exceeds its credit limit, all loans and receivables (total gross carrying amount) in the related credit arrangement are considered past due.

### Ageing of past due not classified as impaired Audited

(in millions)	Carrying amount		Days past due				31 December 2016	
			<= 30	> 30 & <= 60	> 60 & <= 90	>90	Total past due but not impaired	Past due ratio
	Gross	Assets not classified as impaired						
<b>Securities financing</b>	<b>17,590</b>	<b>17,589</b>						<b>0.0%</b>
<b>Loans and receivables - banks</b>	<b>13,488</b>	<b>13,488</b>						<b>0.0%</b>
<b>Loans and receivables - customers</b>								
Residential mortgage <sup>1</sup>	149,255	147,998	1,897	190	39	8	2,134	1.4%
Consumer loans	12,539	11,800	230	121	51	86	488	3.9%
Corporate loans <sup>1</sup>	90,920	84,225	343	106	52	93	594	0.7%
Other loans and receivables - customers <sup>1,2</sup>	13,838	13,616	242	75	50	19	386	2.8%
<b>Total Loans and receivables - customers</b>	<b>266,551</b>	<b>257,639</b>	<b>2,712</b>	<b>492</b>	<b>192</b>	<b>206</b>	<b>3,602</b>	<b>1.4%</b>
<b>Other assets</b>	<b>2,303</b>	<b>2,291</b>	<b>136</b>	<b>20</b>	<b>16</b>	<b>13</b>	<b>185</b>	<b>8.0%</b>
<b>Total</b>	<b>299,932</b>	<b>291,007</b>	<b>2,848</b>	<b>513</b>	<b>208</b>	<b>219</b>	<b>3,788</b>	<b>1.3%</b>

<sup>1</sup> Gross carrying amount excludes fair value adjustments from hedge accounting.

<sup>2</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

**Ageing of past due not classified as impaired** Audited

31 December 2015

(in millions)	Carrying amount		Days past due <sup>5</sup>				Total past due but not impaired <sup>5</sup>	Past due ratio <sup>5</sup>
	Gross <sup>5</sup>	Assets not classified as impaired <sup>5</sup>	<= 30	> 30 & <= 60	> 60 & <= 90	>90		
<b>Securities financing</b>	<b>20,073</b>	<b>20,062</b>						<b>0.0%</b>
<b>Loans and receivables - banks</b>	<b>15,682</b>	<b>15,680</b>						<b>0.0%</b>
<b>Loans and receivables - customers</b>								
Residential mortgage <sup>1,2</sup>	148,465	146,954	2,164	239	51		2,455	1.7%
Consumer loans <sup>1</sup>	15,147	14,119	301	115	28	75	520	3.4%
Corporate loans <sup>1,3</sup>	100,387	94,208	610	117	6	146	879	0.9%
Other loans and receivables - customers <sup>1,4</sup>	11,881	11,563	185	27	15	124	350	2.9%
<b>Total Loans and receivables - customers<sup>1,2,3</sup></b>	<b>275,881</b>	<b>266,844</b>	<b>3,260</b>	<b>498</b>	<b>100</b>	<b>345</b>	<b>4,203</b>	<b>1.5%</b>
<b>Other assets</b>	<b>1,903</b>	<b>1,892</b>	<b>180</b>	<b>33</b>	<b>20</b>	<b>9</b>	<b>242</b>	<b>12.7%</b>
<b>Total<sup>1,2</sup></b>	<b>313,538</b>	<b>304,478</b>	<b>3,440</b>	<b>531</b>	<b>120</b>	<b>354</b>	<b>4,445</b>	<b>1.4%</b>

<sup>1</sup> Gross carrying amount excludes fair value adjustments from hedge accounting.

<sup>2</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>4</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

<sup>5</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification in allowances for impairments for residential mortgages.

The total past due exposure on loans and receivables decreased to EUR 3.6 billion at 31 December 2016 (31 December 2015: EUR 4.2 billion). The decline was attributable to the residential mortgages and the corporate loans portfolio.

The decrease in corporate loans past due was mainly attributable to the <= 30 days past due bucket and also related to the improved economic circumstances in the Netherlands.

Past due exposure on residential mortgages decreased to EUR 2.1 billion at 31 December 2016 (31 December 2015: EUR 2.5 billion), as a result of the continued upturn of the Dutch economy and active management of the portfolio in arrears.

**Impaired exposures** Audited**Coverage and impaired ratio** Audited

31 December 2016

(in millions)	Gross carrying amount	Impaired exposures	Allowances for Impairments for identified credit risk <sup>3</sup>	Coverage ratio	Impaired ratio
<b>Securities financing</b>	<b>17,590</b>				<b>0.0%</b>
<b>Loans and receivables - banks</b>	<b>13,488</b>				<b>0.0%</b>
<b>Loans and receivables - customers</b>					
Residential mortgages <sup>1</sup>	149,255	1,257	-209	16.7%	0.8%
Consumer loans	12,539	738	-387	52.4%	5.9%
Corporate loans <sup>1</sup>	90,920	6,695	-2,761	41.2%	7.4%
Other loans and receivables - customers <sup>1,2</sup>	13,838	222	-68	30.7%	1.6%
<b>Total Loans and receivables - customers</b>	<b>266,551</b>	<b>8,912</b>	<b>-3,425</b>	<b>38.4%</b>	<b>3.3%</b>
<b>Other assets</b>	<b>2,303</b>	<b>12</b>	<b>-5</b>	<b>37.5%</b>	<b>0.5%</b>
<b>Total on-balance sheet</b>	<b>299,932</b>	<b>8,925</b>	<b>-3,430</b>	<b>38.4%</b>	<b>3.0%</b>
Total off-balance sheet	125,518	134		0.1%	0.1%
<b>Total</b>	<b>425,449</b>	<b>9,059</b>	<b>-3,430</b>	<b>37.9%</b>	<b>2.1%</b>

<sup>1</sup> Gross carrying amount excludes fair value adjustments from hedge accounting.

<sup>2</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

<sup>3</sup> Amounts excluding Incurred But Not Identified (IBNI).

**Coverage and impaired ratio** Audited

31 December 2015

(in millions)	Gross carrying amount	Impaired exposures <sup>6</sup>	Allowances for Impairments for identified credit risk <sup>5,6</sup>	Coverage ratio <sup>6</sup>	Impaired ratio <sup>6</sup>
<b>Securities financing</b>	<b>20,073</b>	<b>11</b>	<b>-11</b>	<b>100.0%</b>	<b>0.1%</b>
<b>Loans and receivables - banks</b>	<b>15,682</b>	<b>2</b>	<b>-2</b>	<b>100.0%</b>	<b>0.0%</b>
<b>Loans and receivables - customers</b>					
Residential mortgages <sup>1,2</sup>	148,465	1,511	-245	16.2%	1.0%
Consumer loans <sup>1</sup>	15,147	1,028	-471	45.8%	6.8%
Corporate loans <sup>1,3</sup>	100,387	6,179	-3,098	50.1%	6.2%
Other loans and receivables - customers <sup>1,4</sup>	11,881	318	-78	24.7%	2.7%
<b>Total Loans and receivables - customers<sup>1,2,3</sup></b>	<b>275,881</b>	<b>9,037</b>	<b>-3,892</b>	<b>43.1%</b>	<b>3.3%</b>
<b>Other assets</b>	<b>1,903</b>	<b>11</b>	<b>-4</b>	<b>36.9%</b>	<b>0.6%</b>
<b>Total on-balance sheet<sup>1,2,3</sup></b>	<b>313,538</b>	<b>9,060</b>	<b>-3,908</b>	<b>43.1%</b>	<b>2.9%</b>
Total off-balance sheet	118,300	117		0.1%	0.1%
<b>Total<sup>1,2,3</sup></b>	<b>431,838</b>	<b>9,177</b>	<b>-3,909</b>	<b>42.6%</b>	<b>2.1%</b>

<sup>1</sup> Gross carrying amount excludes fair value adjustments from hedge accounting.

<sup>2</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

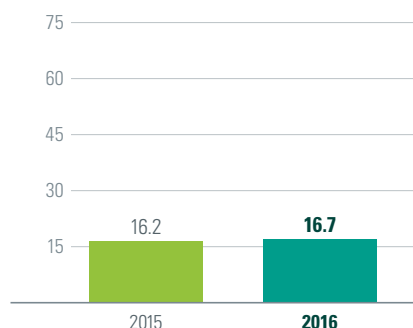
<sup>4</sup> Other loans and receivables - customers consists of Government and official institutions, Financial lease receivables and Factoring.

<sup>5</sup> Amounts excluding Incurred But Not Identified (IBNI).

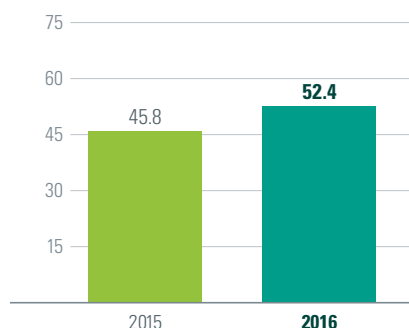
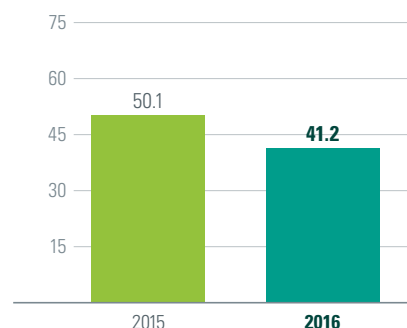
<sup>6</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification in allowances for impairments for residential mortgages.

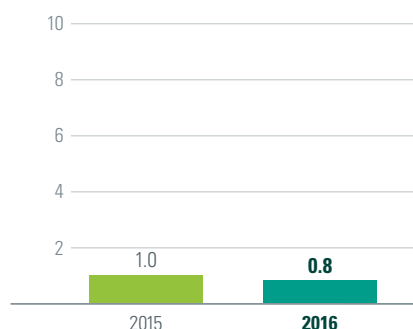
**Coverage ratio<sup>1</sup>** Audited

Residential mortgages (in %)

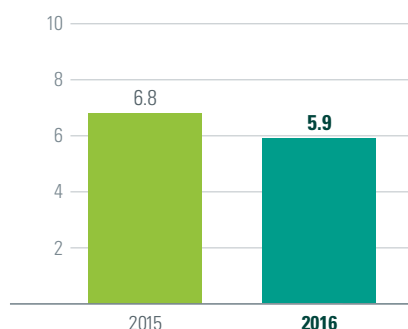
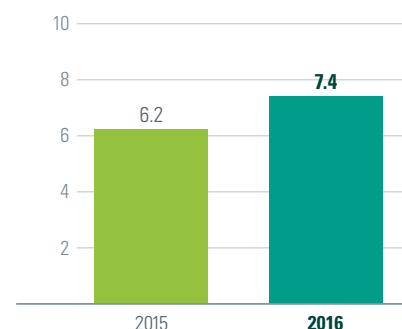


Consumer loans (in %)


 Corporate loans (in %)<sup>2</sup>

**Impaired ratio<sup>1</sup>** Audited

 Residential mortgages (in %)<sup>3</sup>


Consumer loans (in %)


 Corporate loans (in %)<sup>2</sup>


<sup>1</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. For comparison reasons the historical periods before 30 September 2016 have been adjusted excluding the reclassification in allowances for impairments within residential mortgages. For more information on the reclassification in allowances refer to the residential mortgages section.

<sup>2</sup> ABN AMRO amended its offsetting policy in Q2 2016. The year-end 2015 figures have been adjusted accordingly.

<sup>3</sup> Netting for bank saving mortgages is no longer applied, hence the bank saving mortgages are presented gross. Comparing figures have been adjusted accordingly.

As of 30 September 2016, ABN AMRO aligned its definitions of default and impaired in the third quarter of 2016. As a result, defaulted clients without an impairment allowance are now also considered impaired. The comparative figures for the impaired portfolio at 31 December 2015 have been restated accordingly. Due to this change, there has been a reclassification of allowances for impairments for residential mortgages. The IBNI allowances for exposures at default without an impairment allowance, totalling around EUR 32 million at 30 September 2016, were reclassified as allowances for impairment for identified credit risk. Please note that this impact on allowances for impairments has not been restated for the comparative figures.

Impaired exposures for total loans and receivables - customers at year-end 2016 were slightly lower than at year-end 2015. At portfolio level, the impaired residential mortgages and consumer loans decreased, offset by corporate loans. Allowances for impairments decreased to EUR 3.4 billion at 31 December 2016 (31 December 2015: EUR 3.9 billion), mainly in the Commercial Clients portfolio, reflecting the upturn of the Dutch economy.

The impaired residential mortgages decreased to EUR 1.3 billion at 31 December 2016 (31 December 2015: EUR 1.5 billion), driven by a continuously lower inflow and a high level of outflow from the impaired portfolio. The growing outflow of clients to the performing portfolio together with a higher demand for houses, enabling faster settlement of files in long-term arrears, resulted in the high outflow.

The decline of the impaired portfolio in combination with an increased mortgage portfolio resulted in the impaired ratio at year-end 2016 improving to 0.8% (31 December 2015: 1.0%). Allowances for impairments decreased by 15% due to the improvement of the Dutch housing market, resulting in a coverage ratio of 16.7% at 31 December 2016 (31 December 2015: 16.2%). Note that if the impact for default and impaired alignment had been adjusted historically, the coverage ratio for 31 December 2015 would have been 18.5%.

As a result of write-offs and files returning to the normal portfolio, impaired exposure as well as allowances for impairments for consumer loans declined in 2016. In combination with a smaller portfolio, this led to an improved impaired ratio of 5.9% and an increased coverage ratio of 52.4% at 31 December 2016 (31 December 2015: 6.8% and 45.8%).

Impaired corporate loans rose to EUR 6.7 billion (31 December 2015: EUR 6.2 billion), primarily due to impaired files in the ECT Clients portfolio related to the oil and gas industry, and a single large file in the Commercial Clients portfolio. The ECT Clients exposures have a relatively low coverage ratio as these exposures are largely collateralised. The additions were offset by several reversals noted in the Commercial Clients portfolio (with a higher coverage ratio). As a result, we noted a higher impaired ratio of 7.4% and a lower coverage ratio of 41.2% (31 December 2015: 6.2% and 50.1%).

The impaired ratio for other loans and receivables improved to 1.6% (31 December 2015: 2.7%), mainly due to full repayments of impairment loans in combination with an increased portfolio. The coverage ratio increased to 30.7% at 31 December 2016 (31 December 2015: 24.7%).

### Loan impairment charges and allowances Audited Pillar 3 EDTF 28

(in millions)	Securities financing	Banks	Corporate loans <sup>1</sup>	Residential mortgages	Consumer loans	Other loans	Total
<b>Balance at 1 January 2016</b>	<b>11</b>	<b>2</b>	<b>3,470</b>	<b>324</b>	<b>561</b>	<b>1</b>	<b>4,368</b>
Impairment charges for the period		2	886	115	184	2	1,189
Reversal of impairment allowances no longer required	-2	-2	-828	-34	-127		-993
Recoveries of amounts previously written-off			-17	-24	-40		-82
<b>Total impairment charges on loans and other receivables</b>	<b>-2</b>		<b>42</b>	<b>56</b>	<b>17</b>	<b>2</b>	<b>115</b>
Amount recorded in interest income from unwinding of discounting			-47	-40	-8		-94
Currency translation differences			20				20
Amounts written-off (net)	-8		-595	-89	-146		-837
Reserve for unearned interest accrued on impaired loans			76	2	14		92
Other adjustments			7	5	-5	-1	6
<b>Balance at 31 December 2016</b>		<b>3</b>	<b>2,973</b>	<b>258</b>	<b>433</b>	<b>2</b>	<b>3,670</b>

<sup>1</sup> Corporate loans includes Financial lease receivables and Factoring.

**Individual and collective loan impairment allowances** Audited

(in millions)	31 December 2016						Total
	Securities financing	Banks	Corporate loans <sup>1</sup>	Residential mortgages	Consumer loans	Other loans	
Individual impairment			2,583	51	150		2,785
Collective impairment		3	390	207	283	2	885
<b>Balance at 31 December 2016</b>		<b>3</b>	<b>2,973</b>	<b>258</b>	<b>433</b>	<b>2</b>	<b>3,670</b>
Carrying amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance			6,695	1,257	738	222	8,912

<sup>1</sup> Corporate loans includes Financial lease receivables and Factoring.

**Loan impairment charges and allowances** Audited Pillar 3 EDTF 28

(in millions)	Securities financing	Banks	Corporate loans <sup>1</sup>	Residential mortgages <sup>2</sup>	Consumer loans	Other loans	Total
<b>Balance at 1 January 2015</b>	11		3,439	538	654	129	4,771
Impairment charges for the period		1	1,096	137	160		1,394
Reversal of impairment allowances no longer required			-643	-99	-76		-818
Recoveries of amounts previously written off			-7	-25	-42		-74
<b>Total impairment charges on loans and other receivables</b>			<b>446</b>	<b>14</b>	<b>43</b>		<b>502</b>
Amount recorded in interest income from unwinding of discounting			-45	-50	-10		-105
Currency translation differences	1		79			2	82
Amounts written off (net)			-629	-174	-150		-953
Reserve for unearned interest accrued on impaired loans			59		12		71
Other adjustments		2	123	-5	12	-131	
<b>Balance at 31 December 2015</b>	<b>11</b>	<b>2</b>	<b>3,470</b>	<b>324</b>	<b>561</b>	<b>1</b>	<b>4,368</b>

<sup>1</sup> Corporate loans includes Financial lease receivables and Factoring.

<sup>2</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification from IBNI to allowances for impairments for identified credit risk within residential mortgages.

## Individual and collective loan impairment allowances Audited

31 December 2015

(in millions)	Securities financing	Banks	Corporate loans <sup>1</sup>	Residential mortgages	Consumer loans	Other loans	Total
Individual impairment	11	2	2,860	16	197		3,085
Collective impairment		1	610	307	364	1	1,283
<b>Balance at 31 December 2015</b>	<b>11</b>	<b>2</b>	<b>3,470</b>	<b>324</b>	<b>561</b>	<b>1</b>	<b>4,368</b>
Carrying amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	11	2	6,179	1,511	1,028	318	9,049

<sup>1</sup> Corporate loans includes Financial lease receivables and Factoring.

## Loan impairment charges on- and off-balance sheet Audited

(in millions)	2016	2015
On-balance sheet	115	502
Off-balance sheet		3
<b>Total impairment charges on loans and other receivables</b>	<b>114</b>	<b>505</b>

Total on-balance impairment charges dropped sharply to EUR 115 million in 2016 (2015: EUR 502 million). This decrease was driven by corporate loans.

Impairment charges for corporate loans decreased sharply to EUR 42 million in 2016 (2015: EUR 446 million), mainly as a result of significantly lower additions and higher releases within Commercial Clients following from the improvement of the Dutch economy. The decline in Commercial Clients was slightly offset by International Clients, mainly due to additions related to the Energy and Transportation sectors within ECT Clients.

Impairment charges for residential mortgages increased to EUR 56 million in 2016 (2015: EUR 14 million), mainly impacted by lower IBNI releases and, to a lesser extent, higher additions.

Consumer loans declined to EUR 17 million in 2016 (2015: EUR 43 million), benefiting from the upturn of the Dutch economy.



## Forborne, past due and impaired loans split by geography and industry Pillar 3

### Forborne, past due and impaired loans split by geography Pillar 3

31 December 2016					
(in millions)	Forborne exposure	Exposures past due, but not impaired	Impaired exposures	Allowances for impairments <sup>1</sup>	Impairment charges for the period <sup>1</sup>
The Netherlands	6,460	3,248	6,254	-2,282	123
Rest of Europe	739	515	947	-334	84
USA	389		357	-97	60
Asia	309	20	187	-96	18
Rest of the world	812	5	1,179	-621	51
<b>Total On-balance</b>	<b>8,710</b>	<b>3,788</b>	<b>8,925</b>	<b>-3,430</b>	<b>335</b>
Off-balance			134		
<b>Total</b>	<b>8,710</b>	<b>3,788</b>	<b>9,059</b>	<b>-3,430</b>	<b>335</b>

31 December 2015					
	Forborne exposure	Exposures past due, but not impaired <sup>2,3</sup>	Impaired exposures <sup>2,3</sup>	Allowances for impairments <sup>1</sup>	Impairment charges for the period <sup>1</sup>
The Netherlands	9,280	3,980	7,315	-2,804	582
Rest of Europe	511	419	784	-377	61
USA	72		64	-49	5
Asia	189	1	111	-67	38
Rest of the world	452	44	787	-612	42
<b>Total On-balance</b>	<b>10,504</b>	<b>4,445</b>	<b>9,060</b>	<b>-3,908</b>	<b>728</b>
Off-balance			117		
<b>Total</b>	<b>10,504</b>	<b>4,445</b>	<b>9,177</b>	<b>-3,909</b>	<b>728</b>

<sup>1</sup> Amounts excluding Incurred But not Identified (IBNI).

<sup>2</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification in allowances for impairments for residential mortgages.

<sup>3</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

The largest decline in forborne exposure was observed for the Netherlands, which amounted to EUR 6.5 billion at year-end 2016 (31 December 2015: EUR 9.3 billion). This decline was mainly the result of forborne contracts that passed the probation period (cease to be forborne) within corporate loans and residential mortgages and, to a lesser extent, to the application of a recovery strategy to forborne contracts within the corporate loans portfolio. Forborne exposure mainly increased within the US and the rest of the world, which was primarily the result of an inflow of new forborne corporate loans related to the industrial goods and services sector and the oil and gas sector.

The decline in past due but not impaired exposure was mainly visible in the Netherlands. This was driven by the decline in past due exposure for domestic Commercial Clients and residential mortgages.

Impaired exposures decreased mainly in the Netherlands, due to the decline in residential mortgages, consumer loans and the domestic commercial clients portfolio. The increases outside the Netherlands were mainly related to ECT Clients related files as well to FX currency impact (mainly USD).

**Forborne, past due and impaired loans split by industry** Pillar 3

31 December 2016

(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 <sup>4</sup>	Impairment charges for the period <sup>4</sup>
<b>Industry sector</b>									
Banks	19,405		0.0%		0.0%		0.0%		-4
Financial services <sup>1</sup>	17,141	90	0.5%	49	0.3%	782	4.6%	-655	-19
Industrial goods and services	23,203	2,271	9.8%	290	1.2%	1,786	7.7%	-602	190
Real estate	14,515	604	4.2%	137	0.9%	606	4.2%	-202	-37
Oil and gas	14,563	1,213	8.3%	3	0.0%	890	6.1%	-188	102
Food and beverage	15,154	1,049	6.9%	105	0.7%	676	4.5%	-170	-23
Retail	5,634	462	8.2%	157	2.8%	541	9.6%	-195	-22
Basic resources	4,561	222	4.9%	5	0.1%	489	10.7%	-197	14
Healthcare	4,653	171	3.7%	21	0.4%	204	4.4%	-139	-23
Construction and materials	3,606	459	12.7%	60	1.7%	483	13.4%	-238	21
Other <sup>2</sup>	17,599	534	3.0%	343	2.0%	625	3.6%	-254	-14
<b>Subtotal Industry Classification Benchmark</b>	<b>140,035</b>	<b>7,074</b>	<b>5.1%</b>	<b>1,169</b>	<b>0.8%</b>	<b>7,084</b>	<b>5.1%</b>	<b>-2,841</b>	<b>186</b>
Private individuals (non-Industry Classification Benchmark)	182,597	1,635	0.9%	2,618	1.4%	1,975	1.1%	-589	149
Public administration (non-Industry Classification Benchmark)	55,087			1					
<b>Subtotal non-Industry Classification Benchmark</b>	<b>237,683</b>	<b>1,635</b>	<b>0.7%</b>	<b>2,619</b>	<b>1.1%</b>	<b>1,975</b>	<b>0.8%</b>	<b>-589</b>	<b>149</b>
<b>Total<sup>3</sup></b>	<b>377,718</b>	<b>8,710</b>	<b>2.3%</b>	<b>3,788</b>	<b>1.0%</b>	<b>9,059</b>	<b>2.4%</b>	<b>-3,430</b>	<b>335</b>

<sup>1</sup> Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.

<sup>2</sup> Other includes, personal and household goods, media, technology, automobiles and parts, chemicals, telecommunication and insurance, in addition to unclassified.

<sup>3</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

<sup>4</sup> Amounts excluding Incurred But Not Identified (IBNI).

**Forborne, past due and impaired loans split by industry** Pillar 3

31 December 2015

(in millions)	Exposure at Default	Forborne exposures	Forborne ratio (EAD)	Exposures past due, but not impaired <sup>5</sup>	Past due ratio (EAD) <sup>5</sup>	Impaired exposures <sup>5</sup>	Impaired ratio (EAD) <sup>5</sup>	Allowances for impairments for identified credit risk <sup>6</sup>	Impairment charges for the year <sup>6</sup>
<b>Industry sector</b>									
Banks	16,230		0.0%		0.0%	12	0.1%	-12	
Financial services <sup>1,2</sup>	14,982	113	0.8%	79	0.5%	947	6.3%	-696	14
Industrial goods and services <sup>2</sup>	22,148	2,198	9.9%	338	1.5%	1,392	6.3%	-608	78
Real estate <sup>2</sup>	13,244	863	6.5%	250	1.9%	852	6.4%	-324	13
Oil and gas <sup>2</sup>	12,119	707	5.8%	6	0.0%	185	1.5%	-73	13
Food and beverage <sup>2</sup>	13,924	1,151	8.3%	179	1.3%	719	5.2%	-246	52
Retail <sup>2</sup>	5,132	1,374	26.8%	123	2.4%	695	13.5%	-282	93
Basic resources <sup>2</sup>	4,378	307	7.0%	40	0.9%	430	9.8%	-223	57
Healthcare <sup>2</sup>	4,871	316	6.5%	25	0.5%	234	4.8%	-167	102
Construction and materials <sup>2</sup>	3,559	474	13.3%	34	1.0%	591	16.6%	-285	80
Other <sup>3</sup>	16,927	677	4.0%	401	2.4%	672	4.0%	-295	71
<b>Subtotal Industry Classification Benchmark</b>									
	<b>127,514</b>	<b>8,179</b>	<b>6.4%</b>	<b>1,476</b>	<b>1.2%</b>	<b>6,730</b>	<b>5.3%</b>	<b>-3,210</b>	<b>574</b>
Private individuals (non-Industry Classification Benchmark)									
	178,105	2,325	1.3%	2,969	1.7%	2,447	1.4%	-698	154
Public administration (non-Industry Classification Benchmark) <sup>2</sup>									
	57,401					1			
<b>Subtotal non-Industry Classification Benchmark</b>									
	<b>235,506</b>	<b>2,325</b>	<b>1.0%</b>	<b>2,970</b>	<b>1.3%</b>	<b>2,448</b>	<b>1.0%</b>	<b>-698</b>	<b>154</b>
<b>Total<sup>4</sup></b>	<b>363,020</b>	<b>10,504</b>	<b>2.9%</b>	<b>4,445</b>	<b>1.2%</b>	<b>9,177</b>	<b>2.5%</b>	<b>-3,909</b>	<b>728</b>

<sup>1</sup> Financial services include asset managers, credit card companies and providers of personal financial services and securities and brokers.

<sup>2</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> Other includes, personal and household goods, media, technology, automobiles and parts, chemicals, telecommunication and insurance, in addition to unclassified.

<sup>4</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

<sup>5</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification in allowances for impairments for residential mortgages.

<sup>6</sup> Amounts excluding Incurred But Not Identified (IBNI).

The largest decrease in forborne assets was recorded in the retail sector, mainly as a result of new offsetting agreements. Within the private individuals sector, total forborne exposures decreased to EUR 1.6 billion at year-end 2016 (31 December 2015: EUR 2.3 billion),

and was primarily related to forborne contracts that passed the probation period (cease to be forborne). The largest increase in forborne assets was observed within the oil and gas industry, as a result of an inflow of new forborne contracts.



The main contributors to the decline in exposures past due but not impaired were private individuals, real estate and food and beverage. The decrease was primarily related to the continued upturn of the Dutch economy.

Real estate benefited from the improved economic conditions as well as repayments, causing impaired exposures to decline. The releases in the allowances for impairments for real estate were mainly attributable to the improved underlying collateral values.

Impaired exposures and allowances for impairments for private individuals dropped significantly, mainly as a result of a continued high level of outflow from, and lower inflow into, the impaired portfolio for residential mortgages.

Increases in impaired exposure and allowances for impairments at industry level were recorded mainly in the oil and gas sector due to ECT Clients-related files. These new files are currently being restructured and mitigating actions are being taken. Industrial goods and services rose mainly due to a single file in the Commercial Clients portfolio.

## 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 continued its strong recovery in 2016. Housing transactions and house prices rose again, although these improvements were more visible in larger cities in the urban agglomeration. The continued improvement was mainly attributable to low mortgage interest rates, as well as insufficient residential construction activity combined with favourable Dutch economic conditions. The economic upturn also improved confidence among home buyers.

The number of transactions in the Dutch housing market went up by more than 20% compared with 2015, according to Statistics Netherlands (CBS). The CBS housing price index rose by an average of 5.1% year-on-year. A record

total of 214,793 houses were sold in 2016, the highest number since CBS and the Land Registry (Kadaster) started joint publication in 1995.

The maximum amount for government-guaranteed loans (NHG) was set at EUR 245,000 at 1 July 2015 (and was slightly increased to EUR 247,450 as of 1 January 2017). The government is restricting home financing by reducing the maximum Loan-to-Market Value (LtMV) of a mortgage loan from 102% in 2016 and 101% in 2017, and ultimately to 100% in 2018. Since 2013, new mortgages must be fully redeemed during the term of the loan based on an annuity or linear scheme in order to be eligible for tax deductibility. Mortgage loans that already existed at 31 December 2012 are not affected by this new legislation.

For all mortgage loans, new and existing, tax deductibility will be gradually further reduced in the next 25 years from a maximum of 52% to 38%. In 2017, the maximum bracket for deduction of interest will be lowered to 50.0% (2016: 50.5%). In the improved economic circumstances, the housing market had no problem absorbing the restrictions.

ABN AMRO's market share in new mortgage production came to 21.9%<sup>1</sup> in 2016 (2015: 19.9%). The strength of the Dutch housing market is reflected in ABN AMRO's new mortgage production (28% higher than in 2015). The NHG proportion of new mortgage production decreased further to 20% in 2016, compared with 40% in 2015. The percentage of NHG in total new production declined considerably since the last reduction of the NHG limit on 1 July 2015.

Total redemptions in 2016 amounted to EUR 13.3 billion (2015: EUR 12.4 billion). Full redemptions increased as a result of clients refinancing mortgage loans at current historically low mortgage interest rates. Contractual repayments gradually grew, in accordance with current tax regulations. Extra repayments amounted to EUR 2.4 billion in 2016, which was fairly stable compared with 2015 after EUR 2.7 billion in the peak year 2014. Incentives for the current extra redemptions are still the very low interest rates on savings and an increased awareness among homeowners of the possibility of residual debt at the end of their loan term.

<sup>1</sup> Source: Calculated based on information provided by the Dutch Land Registry (Kadaster), 2016.

## Residential mortgage indicators

(in millions)	31 December 2016	31 December 2015
Gross carrying amount excluding fair value adjustment from hedge accounting <sup>1</sup>	149,255	148,465
- of which Nationale Hypotheek Garantie (NHG) <sup>1</sup>	39,293	39,706
Fair value adjustment from hedge accounting <sup>1</sup>	3,073	3,401
Gross carrying amount <sup>1</sup>	152,328	151,866
Exposure at Default <sup>2</sup>	165,199	162,405
RWA (REA) <sup>2</sup>	19,090	20,779
RWA (REA)/Exposure at Default	11.6%	12.8%
Forbearance ratio	0.8%	1.2%
Past due ratio <sup>1,3</sup>	1.4%	1.7%
Impaired ratio <sup>1,3</sup>	0.8%	1.0%
Coverage ratio <sup>3</sup>	16.7%	16.2%
Cost of risk (year to date, in bps) <sup>4</sup>	4	1
Average LtMV (indexed)	76%	80%
Average LtMV - excluding NHG loans (indexed)	73%	76%
Total risk mitigation <sup>5</sup>	188,339	179,999
Total risk mitigation/gross carrying amount <sup>6</sup>	123.6%	118.5%

<sup>1</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> The RWA (REA) 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.

<sup>3</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparing figures have been adjusted excluding the reclassification in allowances for impairments for residential mortgages.

<sup>4</sup> Annualised impairment charges on loans and receivables - customers for the period divided by the average loans and receivables - customers on the basis of gross carrying amount and excluding fair value adjustment from hedge accounting.

<sup>5</sup> As of 31 March 2016, ABN AMRO revised the allocation of collateral values for residential mortgages. The year-end 2015 figures have been adjusted for comparison purposes.

<sup>6</sup> Gross carrying amount including fair value adjustment

The gross carrying amount of the residential mortgage portfolio amounted to EUR 149.3 billion at 31 December 2016 (31 December 2015: EUR 148.5 billion). New mortgage production increased substantially, partly offset by repayments. NHG-guaranteed loans remained relatively stable at 26% of the residential mortgage portfolio compared with 2015.

The RWA (REA) for the residential mortgage portfolio decreased to EUR 19.1 billion at the end of 2016 (31 December 2015: EUR 20.8 billion) and was related to updated indexation factors leading to higher collateral values in combination with fewer clients in arrears, partly offset by model changes. Exposure at Default (EaD) increased to EUR 165.2 billion at 31 December 2016 (31 December 2015: EUR 162.4 billion) in line with the growing loan portfolio.

The forbearance ratio decreased from 1.2% at 31 December 2015 to 0.8% at 31 December 2016, mainly as a result of clients that passed the probation period combined with the recovery strategy, which was applied to non-performing forborne clients. The past due ratio improved to 1.4% at year-end 2016 (31 December 2015 1.7%) due to fewer clients going into arrears and more clients recovering from arrears.

As of 30 September 2016, ABN AMRO aligned the definitions of default and impaired. As a result, defaulting clients without an impairment allowance are now also considered impaired. The comparative figures for the impaired portfolio for 31 December 2015 have been restated accordingly. Due to this change, there has been a reclassification in allowances for impairments for residential mortgages. The IBNI allowances for exposures at default without an impairment allowance, totalling EUR 32 million, were reclassified as allowances for impairment for identified credit risk. This impact on allowances for impairments has not been restated for the comparative figures.

The impaired ratio improved to 0.8% at 31 December 2016 (31 December 2015: 1.0%). The coverage ratio came to 16.7% at 31 December 2016 (31 December 2015: 16.2%). Both the impaired portfolio and allowances for credit risk decreased as a result of the improvement of the Dutch economy. If the impact on allowances for impairments were to be adjusted historically, the coverage ratio would have been 18.5% at 31 December 2015.

Cost of risk remained low at 4bps at 31 December 2016, but was higher than at 31 December 2015 (1bps).

The increased cost of risk can be explained by lower IBNI releases.

The risk profile of the residential mortgage portfolio proved to be low in the years of economic downturn and has improved since 2014.

Rising house prices and restrictions on the maximum Loan-to-Market Value (LtMV) for new residential mortgages resulted in a further improvement of the average LtMV of the mortgage portfolio to 76% at 31 December 2016 (31 December 2015: 80%). The same trend is seen for the LtMVs excluding NHG. Extra repayments on residential mortgage loans have a small impact on the highest LtMV categories. Approximately 14% of the extra repayments are related to mortgages with an LtMV > 100%.

The long-term LtMV of the bank's portfolio is expected to decrease further, as a result of the regulatory reduction of the maximum LtMV on mortgage loans, increasing house prices and redemptions.

## Residential mortgages to indexed market value

(in millions)	Gross carrying amount		Percentage of total	
			- of which guaranteed <sup>4</sup>	- of which unguaranteed
<b>Loan-to-Market Value category<sup>1,2,3</sup></b>				
<b>31 December 2016</b>				
<50%	26,021	17.4%	1.9%	15.5%
50% - 80%	47,631	31.9%	6.4%	25.5%
80% - 90%	23,498	15.7%	5.5%	10.2%
90% - 100%	25,498	17.1%	7.0%	10.1%
100% - 110%	15,596	10.4%	3.6%	6.9%
110% - 120%	6,999	4.7%	1.4%	3.2%
>120%	2,110	1.4%	0.5%	1.0%
Unclassified	1,904	1.3%		
<b>Total</b>	<b>149,255</b>	<b>100.0%</b>		
<b>31 December 2015</b>				
<50%	24,907	16.8%	1.8%	15.0%
50% - 80%	40,192	27.1%	5.1%	22.0%
80% - 90%	18,471	12.4%	3.6%	8.8%
90% - 100%	25,236	17.0%	7.0%	10.0%
100% - 110%	19,173	12.9%	5.1%	7.8%
110% - 120%	12,775	8.6%	2.9%	5.7%
>120%	5,764	3.9%	1.3%	2.6%
Unclassified	1,947	1.3%		
<b>Total</b>	<b>148,465</b>	<b>100%</b>		

<sup>1</sup> ABN AMRO calculates the Loan-to-Market Value using the indexation of the CBS (Statistics Netherlands).

<sup>2</sup> As of 31 March 2016, we revised our allocation of collateral values for residential mortgages. The year-end 2015 figures have been adjusted for comparison purposes.

<sup>3</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>4</sup> NHG guarantees.

The gross carrying amount of mortgages with an LtMV above 100% decreased to EUR 24.7 billion at 31 December 2016 (31 December 2015: EUR 37.7 million).

The number of mortgages in the higher LtMV bucket range is decreasing mainly due to indexation of the value

of the underlying collateral in combination with no new inflow into these buckets as a result of current regulations for tax deductions. Note that LtMVs of more than 100% do not necessarily indicate that these clients are in financial difficulties. However, ABN AMRO advises clients not to maintain loans at high LtMV levels.

### Breakdown of residential mortgage portfolio by loan type 2

(in millions)	31 December 2016		31 December 2015	
	Gross carrying amount	Percentage of total	Gross carrying amount	Percentage of total
Interest only (partially)	47,798	32%	47,943	32%
Interest only (100%)	29,638	20%	32,076	22%
Redeeming mortgages (annuity/linear)	26,883	18%	18,569	13%
Savings	20,860	14%	23,272	16%
Life (investment)	15,451	10%	17,787	12%
Other <sup>2</sup>	8,625	6%	8,818	6%
<b>Total</b>	<b>149,255</b>	<b>100%</b>	<b>148,465</b>	<b>100%</b>

<sup>1</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

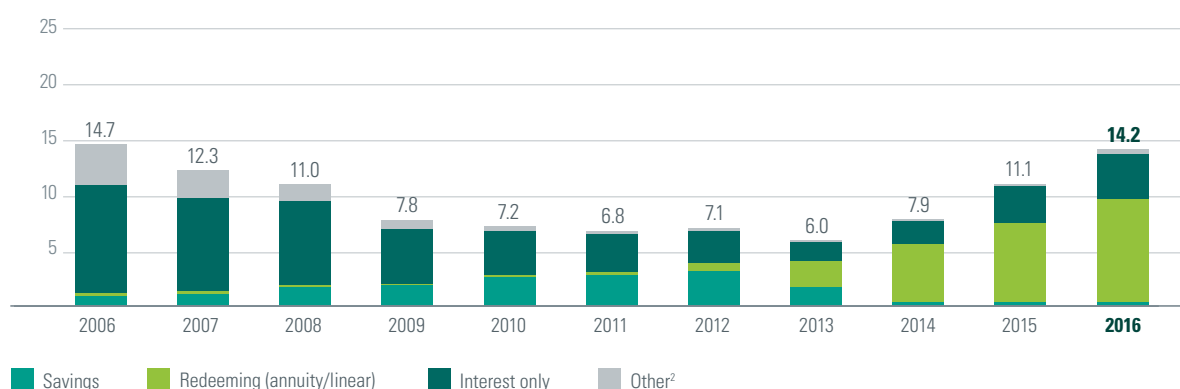
<sup>2</sup> Other includes hybrid, other and unclassified mortgage types. The hybrid portfolio consists of a combination of savings and investment mortgages.

The change in tax regulations is reflected in the composition of the mortgage portfolio. The proportion of redeeming mortgages increased to 18% of the residential

mortgage portfolio at 31 December 2016 (31 December 2015: 13%). Redeeming mortgages is the only category that grew in volume.

### Breakdown of residential mortgage portfolio by year of last modification<sup>1</sup>

(in millions)



<sup>1</sup> Includes the new mortgage production and all mortgages with a modification date.

<sup>2</sup> 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 Dutch tax regulations implemented in 2013 are clearly visible in the breakdown by year of loan modification. Mortgage loan type originations that took place in 2016 (defined as new production and mortgages with a loan type modification) breaks down into 28.8%

interest-only, 65.8% redeeming mortgages and 2.8% savings mortgages. Interest-only and savings mortgages can still be produced for clients who wish to refinance loans that originated before 2013.

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

	31 December 2016 Percentage of total	31 December 2015 Percentage of total
<b>Loan-to-Market Value category<sup>1</sup></b>		
<50%	9%	9%
50% - 70%	6%	6%
70% - 100%	4%	6%
>100%	0%	1%
<b>Total<sup>2</sup></b>	<b>20%</b>	<b>22%</b>

<sup>1</sup> Loan-to-Market Value is calculated using the indexation of the CBS (Central Bureau of Statistics).

<sup>2</sup> Percentages of the total mortgage portfolio.

The table above shows the breakdown of the LtMV for the 100% interest-only part of the mortgage portfolio. On 31 December 2016, 0.46% of the total mortgage portfolio had an LtMV above 100% and was 100% interest-only compared with 0.74% at year-end 2015.

This is a very small part of the total mortgage portfolio. LtMV above 100% is decreasing as a result of higher house prices and limited inflow in this loan type category under the current mortgage acceptance rules.

### Energy, Commodities & Transportation Clients (ECT)

#### ECT portfolio composition

(in billions)	31 December 2016				31 December 2015			
	Energy	Commodities	Transportation	Total ECT clients	Energy	Commodities	Transportation	Total ECT clients
<b>On-balance sheet exposure loans and receivables customers</b>	<b>6.0</b>	<b>14.5</b>	<b>10.2</b>	<b>30.8</b>	<b>4.7</b>	<b>11.1</b>	<b>9.3</b>	<b>25.0</b>
Guarantees and letters of credit	0.9	7.2	0.2	8.4	0.7	5.5	0.2	6.3
<b>Subtotal</b>	<b>6.9</b>	<b>21.8</b>	<b>10.4</b>	<b>39.1</b>	<b>5.3</b>	<b>16.5</b>	<b>9.5</b>	<b>31.4</b>
Undrawn committed credit facilities	2.8	2.5	1.1	6.5	2.3	2.4	1.9	6.7
<b>Total</b>	<b>9.8</b>	<b>24.3</b>	<b>11.5</b>	<b>45.6</b>	<b>7.6</b>	<b>19.0</b>	<b>11.4</b>	<b>38.0</b>
RWA (REA) (in billions)				14.4				12.2
RWA (REA) (in %)	21%	58%	21%	100%	19%	59%	22%	100%
Exposure at Default (in billions)				39.1				32.0
Exposure at Default (in %)	19%	53%	28%	100%	18%	51%	31%	100%





ABN AMRO provides financial solutions and support to clients across the entire value chain of the Energy, Commodities & Transportation (ECT) industry. ECT Clients finances and serves corporate clients that are internationally active in Energy (upstream, offshore, midstream, floating production (FPSO/FSO) and corporate lending), Commodities (energy, agricultural and metals) and Transportation (ocean-going vessels and containers).

ECT Clients operates in cyclical sectors. This cyclical nature is reflected in our lending policies, financing structures, advance rates and risk management. As some clients in the ECT sectors currently face challenging market circumstances, such as low oil prices and weak dry bulk and container markets, they are continuously subject to stringent credit monitoring and close risk management attention. In addition, ABN AMRO periodically performs sensitivity analyses and stress testing exercises to gain insight into the credit performance under different price scenarios, economic scenarios and risk measures.

The vast majority of the ECT Clients loan book is US-dollar denominated. ECT Clients provides financing, generally secured by either commodities for which liquid markets exist, first-priority ship mortgages or pledged contracted project cash flows. Conservative advance rates are applied for secured lending, taking into account through-the-cycle asset values. In addition, ECT Clients provides unsecured balance sheet financing to investment grade rated counterparties in the ECT industry.

Prices for most commodities rose substantially over 2016. At the same time, price levels for a number of major commodities are still substantially below the historical 5-year average and investments are only gradually recovering. Moreover, circumstances in a number of shipping markets and offshore services remain challenging given structural overcapacity and decreased demand.

Despite these adverse market conditions, ECT Clients pursues its controlled growth strategy. Portfolio growth is driven by new client acquisitions and broadening and deepening of existing client relations in selectively chosen markets. ECT Clients has also expanded its scope to adjacent business sectors, such as utilities, renewables and natural resources.

#### **On-balance sheet exposure**

The ECT Clients total loan portfolio amounted to EUR 30.8 billion in on-balance sheet exposure at 31 December 2016 (31 December 2015: EUR 25.0 billion). The on-balance sheet exposure increased by 23.0% over 2016 driven by growth in all three ECT segments.

Growth in 2016, especially over the fourth quarter, was supported by an increase in oil prices, leading to higher utilisation of credit lines for Commodities Clients, and the strengthening of the US dollar. Including these effects, the ECT Clients on-balance portfolio grew by EUR 5.8 billion in 2016. Oil prices increased by 50% in 2016. This explains EUR 2.6 billion of the year's growth. The EUR-USD exchange rate was volatile over the year. The US dollar appreciated by 3.2% against the euro over 2016. FX effects accounted for a growth of EUR 0.8 billion over 2016. Excluding oil prices and FX effects, the ECT Clients portfolio grew by EUR 2.4 billion in 2016.

Commodities Clients remained the largest sector of ECT Clients, accounting for EUR 14.5 billion of the ECT Clients on balance sheet exposure, up 31% from EUR 11.1 billion at 31 December 2015. Loans (on-balance) to Transportation Clients accounted for EUR 10.2 billion at 31 December 2016 (31 December 2015: EUR 9.3 billion). Energy Clients' share in the on-balance sheet exposure was EUR 6.0 billion at 31 December 2016 (31 December 2015: EUR 4.7 billion).

#### **Off-balance-sheet exposure**

The off-balance-sheet exposure, consisting mainly of short-term letters of credit secured by commodities, guarantees and availability under committed credit lines, increased by 14.2%, arriving at EUR 14.9 billion at 31 December 2016, including EUR 9.7 billion in Commodities Clients, EUR 3.7 billion in Energy Clients and EUR 1.3 billion in Transportation Clients.

#### **Impairment charges**

Due to challenging markets in 2016, ECT Clients' impairment charges for the full year amounted to EUR 209 million (2015: EUR 128 million), with Energy accounting for EUR 104 million, Commodities for EUR 46 million and Transportation for EUR 59 million.

### Oil price risk on ECT Clients exposure

The breakdown below shows the composition of our direct and indirect oil and gas-related exposure.

Energy Clients portfolio of EUR 6.9bn	Description	ECT Clients Exposure	Risk Profile
<b>Trade Finance</b> Commodities Energy Clients	<ul style="list-style-type: none"> <li>Trade related exposure; majority is short-term and a substantial part is self-liquidating trade finance, generally for major trading companies</li> <li>Facilities are mostly secured and either pre-sold or price hedged, not exposing the bank to oil price risk</li> </ul>	Roughly 34% of ECT Clients, in which Commodities Energy is the largest part	Not directly exposed to oil price risk
<b>Floating Production Storage &amp; Offloading</b> Energy Clients	<ul style="list-style-type: none"> <li>Floating Production Storage &amp; Offloading vessels are developed for exploitation of oil and gas fields</li> <li>Financing structures rely on long term contracts with investment grade major oil companies</li> </ul>		
<b>Corporate Lending</b> Energy Clients	<ul style="list-style-type: none"> <li>Corporate Loans in oil &amp; gas sector: predominantly loans to investment grade integrated oil companies</li> </ul>		
<b>Midstream</b> Energy Clients	<ul style="list-style-type: none"> <li>E.g. pipelines, tank farms, LNG terminals, etc.</li> <li>These assets typically generate revenues from medium to long-term tariff based contracts, not directly affected by oil price movements</li> </ul>		
<b>Offshore Drilling Companies</b> Energy Clients	<ul style="list-style-type: none"> <li>Loans to finance drilling rigs</li> <li>Generally backed by 3-7 year charter contracts and corporate guaranteed</li> </ul>	Roughly 4.5% of ECT Clients	Exposed to oil price risk. In part mitigated by management, technology, low costs and contracts
<b>Other Offshore Companies</b> Energy Clients	<ul style="list-style-type: none"> <li>Diversified portfolio of companies active in pipe laying, heavy lifting, subsea services, wind park installation, etc. Corporate guaranteed</li> </ul>		
<b>Upstream (Reserve Base Lending)</b> Energy Clients	<ul style="list-style-type: none"> <li>Financing based on borrower's oil &amp; gas assets. Loans secured by proven developed reserves of oil &amp; gas. Includes smaller independent oil &amp; gas producers</li> <li>Majority of clients are active in both oil and gas. Loans are typically senior secured and have loss absorbing capital structures in place (junior debt, second lien, equity)</li> </ul>	Roughly 3.5% of ECT Clients	Exposure to oil price risk. Risk mitigants may include protection, i.e. low advance rates and loss absorbing capital structures
<b>Total Oil &amp; Gas related exposures</b>	<ul style="list-style-type: none"> <li>Total Oil &amp; Gas exposure, of on-balance sheet exposure + issued LCs and Guarantees, has grown in line with the overall growth in ECT Clients' portfolio since the beginning of 2015</li> </ul>	Roughly 42% of ECT Clients <sup>2</sup>	

<sup>1</sup> The allocation of clients into Energy Clients sub-segment has been based on management views for managerial purposes. Clients can have activities that could be mapped in other sectors.

<sup>2</sup> 42% of the subtotal of ECT clients (EUR 39.1 billion).

ECT Clients is exposed to the oil and gas market, mainly through Energy/Clients and Commodity clients active in energy markets. Market circumstances were challenging in 2016 for companies operating in oil and gas-related sectors. We apply close risk monitoring to our clients in these markets as well as frequent price sensitivity analysis to assess the potential impact of oil price fluctuations.

## Real estate

### Commercial real estate vs. industry

The Dutch commercial real estate market showed further signs of improvement in 2016, due mainly to high demand from investors. This demand resulted in a total investment volume of EUR 12.8 billion in Dutch commercial real estate in 2016. This is an increase in volume compared with 2015 (EUR 11.6 billion) and even exceeded the former record year of 2007 (EUR 12.0 billion). The increase was due largely to several large deals that have been closed, mainly in the fourth quarter of 2016. Investor demand is increasing for both prime as well as non-prime offices, driven mainly by the current low interest rate environment. The total investment volume in offices in 2016 was EUR 5.5 billion (2015: EUR 3.8 billion). Structural vacancy in the office market is gradually being absorbed, due to the large number of transformations to hotels and residential properties. The total vacancy rate decreased by 2.0% y-o-y (12.0% year-end 2016 and 14.0% year-end 2015).

The retail segment also showed signs of improvement in 2016. After a decline in Q1, consumer confidence recovered in Q2 – Q4 to its highest level in nine-and-a-half years. This optimism was translated into rising retail sales, which led to a decrease in the level of vacancy rates. Investment activity in logistical real estate remained robust in 2016, with a total volume of EUR 1.4 billion, equalling the figure for 2015. The Dutch housing market continued its remarkably strong recovery in 2016, mainly due to economic growth, low mortgage interest rates and the highest level of confidence since 2004. House prices grew by 5.1% in 2016. Investments in the residential segment increased from EUR 2.8 billion in 2015 to EUR 3.2 billion in 2016.

### Real estate industry sector

The EAD of ABN AMRO's real estate financing as shown in the industry concentration table, according to the ICB Industry code real estate, amounted to EUR 14.5 billion at year-end 2016 (31 December 2015: EUR 13.2 billion).

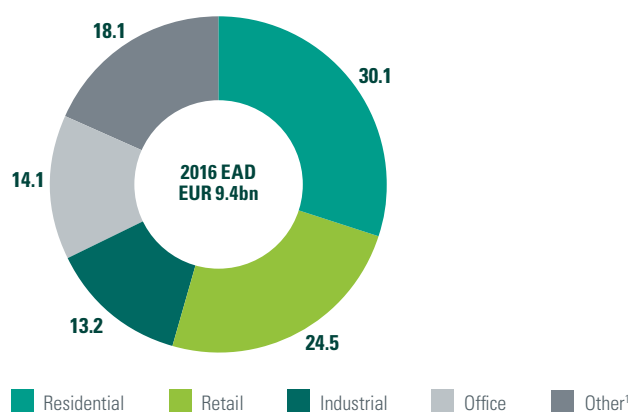
Exposures to social housing corporations are included in this real estate exposure for an amount of EUR 2.8 billion, including EUR 1.7 billion guaranteed by the Waarborgfonds Sociale Woningbouw (WSW, a state agency). WSW provides guarantees to lenders granting loans to housing associations for social housing projects and other properties with a social or public function.

The impaired exposure in the sector real estate amounted to EUR 606 million at 31 December 2016 (31 December 2015: EUR 852 million). Specific loan impairment charges amounted to a release of EUR 37 million in 2016 compared with an addition of EUR 13 million in 2015. The coverage ratio was 33% at 31 December 2016 (31 December 2015: 38%).

### ABN AMRO Commercial Real Estate

The commercial real estate portfolio amounted to EUR 9.4 billion EaD at year-end 2016, and is divided over the following asset types.

Asset type  
(in %)



<sup>1</sup> Other asset types includes mixed objects, hotels & horeca facilities and parking real estate.

ABN AMRO Commercial Real Estate portfolio has relatively low Loan-to-Values (2016: 53.8%). Loans are largely based on Dutch property. The loan portfolio consists mainly of



investment loans which are well diversified across different asset types. Real estate loans may include additional collateral, e.g. parent company guarantees.

### Commercial real estate vs. industry real estate

Commercial real estate (CRE) is defined as 'land or property owned by project developers or investors with the purpose to develop, to trade or to rent the land or property'. The credit quality of the counterparty depends on the cash flows generated by the real estate.

Although largely overlapping, the real estate Industry Classification Benchmark (ICB) categorisation is not identical to that for commercial real estate. The main differences between real estate and CRE are:

- ▶ Social housing corporations are not included in CRE;
- ▶ Corporate unsecured real estate financing is not included in CRE;
- ▶ CRE Exposures < EUR 500,000 are excluded;
- ▶ Private individual exposures are not included in real estate.

CRE is mainly originated by the Corporate Banking business and, to a lesser extent, Retail Banking and Private Banking.

### ABN AMRO Clearing

ABN AMRO Clearing provides 24-hour/5-day execution, clearing and settlement services across all assets classes. Coverage is global, with connections to over 150 liquidity centres across Europe, the US, Brazil and Asia Pacific. ABN AMRO Clearing's clients receive access to the market infrastructure as well as securities lending, settlement, custody and asset servicing. With this offering, the bank targets three types of client groups: Professional Trading Groups (market makers), Prime Clients (hedge funds) and Corporate Hedgers (corporates). ABN AMRO Clearing has market shares of 25% or higher on many of the major derivatives exchanges on which it operates, resulting in a global top three position based on turnover and market share.

### Managing risks

ABN AMRO Clearing plays an important facilitating and processing role in the global capital markets, creating efficiency in the value chains of everyday products and making the financial system more efficient, transparent and robust. Sound risk management is a cornerstone of ABN AMRO Clearing's business model. ABN AMRO Clearing Bank's risk appetite is set with a view to maintaining a moderate risk profile, in line with ABN AMRO's corporate strategy. It takes into account all the risk types to which the bank is exposed in its daily operations, including credit, market, operational, liquidity and business risk. Accurate identification and control of these risks constitutes an important part of ABN AMRO Clearing's day-to-day operations. To cover the different time zones, local risk centres have been put in place, supported and governed by the various risk functions at headquarters. The risk appetite statement sets limits on its overall risk-taking capacity across these risk types. A designated committee, the Clearing Business Risk Committee, monitors the risk appetite by benchmarking actual and expected risk profiles every month, so that corrective actions can be defined if and when necessary.

ABN AMRO Clearing is part of ABN AMRO's risk governance. As such, ABN AMRO Clearing works according to the three lines of defence model (3LoD), the risk decision framework and the product approval process. The Clearing Business Risk Committee supports the governance of the three lines of defence. In this committee all three lines discuss the design, existence and operating effectiveness of the control framework and individual risks. Over the last years ABN AMRO Clearing has suffered very little operational or credit losses. In 2016, ABN AMRO Clearing did not suffer any credit losses on the total outstanding credit limits of EUR 35 billion (2015: EUR 30 billion).



### Credit and market risk

Local risk management employees monitor client activity on a daily and intraday basis to ensure that all clients stay within the agreed market and credit risk parameters. ABN AMRO Clearing is not involved in any proprietary trading activities and hence does not run direct market risk. It may encounter indirect market risk as a result of its clearing and financing activities:

1. As a third-party clearing member, ABN AMRO Clearing explicitly guarantees the fulfilment of obligations towards clearing houses and other third parties arising from clients' transactions. In the event of a client defaulting, it has the legal obligation to settle all of the client's positions with the relevant clearing houses, possibly at a loss.
2. ABN AMRO Clearing provides clients with credit lines to leverage business opportunities and to enable them to hedge their derivatives inventory with shares and bonds.

To manage the above, all client exposures are fully collateralised.

### Operational and business risk

ABN AMRO Clearing is exposed to operational risk arising from business processes and the IT infrastructure. As the bank is a highly IT-intensive organisation, business continuity management, business information security and IT security are key topics on the operational risk agenda. A full operational risk control framework is implemented in order to identify, measure, manage and monitor operational and regulatory risks. Dedicated staff members continuously monitor the bank's operational risk profile. Staff proactively perform risk assessments, monitor controls, keep track of up-to-date operating policies and procedures, and ensure proper follow-up of the implementation of audit points. They also perform disaster recovery rehearsals to test business continuity and follow up on operational losses/near misses.

### Liquidity risk

Liquidity risk is the risk that a financial institution will not meet its financial obligations on time. It is the risk of having insufficient funds to meet margin calls with brokers or clearing houses or failing to settle other transaction types within agreed timeframes. In conjunction with ABN AMRO Bank, ABN AMRO Clearing continuously evaluates its liquidity needs on a global level and implements mitigating actions to avoid any temporary liquidity shortfall.

# 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 different assets and liabilities of the balance sheet are sensitive.

## Total market risk exposure

### Market risk exposure traded and non-traded risk EDTF 22

(in millions)	31 December 2016			31 December 2015		
	Carrying amount	Market risk measure		Carrying amount	Market risk measure	
		Traded risk	Non-traded risk		Traded risk	Non-traded risk
<b>Assets subject to market risk</b>						
Cash and balances at central banks	21,861		21,861	26,195		26,195
Financial assets held for trading	1,607	1,607		1,706	1,706	
Derivatives	14,384	11,475	2,909	19,138	14,735	4,403
Financial investments	45,497		45,497	40,542		40,542
Securities financing	17,589		17,589	20,062		20,062
Loans and receivables - banks	13,485		13,485	15,680		15,680
Loans and receivables - customers	267,679		267,679	276,375		276,375
Other assets	12,380		12,380	7,676		7,676
<b>Total assets</b>	<b>394,482</b>	<b>13,082</b>	<b>381,400</b>	<b>407,373</b>	<b>16,440</b>	<b>390,933</b>
<b>Liabilities subject to market risk</b>						
Financial liabilities held for trading	791	791		459	459	
Derivatives	14,526	9,557	4,970	22,425	12,958	9,466
Securities financing	11,625		11,625	11,372		11,372
Due to banks	13,419		13,419	14,630		14,630
Due to customers	228,758		228,758	247,353		247,353
Issued debt	81,278		81,278	76,207		76,207
Subordinated liabilities	11,171		11,171	9,708		9,708
Other liabilities	13,976		13,976	7,635		7,635
<b>Total liabilities</b>	<b>375,544</b>	<b>10,347</b>	<b>365,197</b>	<b>389,789</b>	<b>13,418</b>	<b>376,371</b>
Equity	18,937		18,937	17,584		17,584
<b>Total liabilities and equity</b>	<b>394,482</b>	<b>10,347</b>	<b>384,134</b>	<b>407,373</b>	<b>13,418</b>	<b>393,956</b>

<sup>1</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

Activities in the trading book are sensitive to multiple risk factors. As stated in the paragraphs on market risk in the trading book, the overall sensitivity to these risk factors is carefully managed to remain within the bank's risk

appetite. Most assets and liabilities in the banking book are to a large extent sensitive to interest rate risk. 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 earnings decline because of unfavourable market movements. The market risk of the banking book consists predominantly of interest rate risk. Interest rate risk arises from holding loans with interest rate maturities that are different from the interest rate maturities of the savings and funding of the bank.

The assets have on average a longer behavioural maturity than the liabilities, especially savings. ABN AMRO uses a

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

### Market risk exposure

The table below shows the interest rate risk metrics at year-end 2016 and 2015.

### Interest rate risk metrics

	31 December 2016	31 December 2015
NII-at-risk (in %)	-0.4	-1.3
Duration of equity (in years)	4.1	3.6

NII-at-Risk is defined as the worst outcome of two scenarios: a gradual increase in interest rates and a gradual decline in interest rates by 200bps, both over a 1-year period. In the falling rate scenario, a floor of -100bps on market rates is applied, as well as a floor of 0bps on retail deposits.

The NII-at-Risk in 2016 improved to -0.4% (approximately EUR -24 million) and reflects a reduction of NII in the falling rates scenario. During 2016 ABN AMRO implemented a number of refinements to the NII-at-Risk methodology. As part of these refinements we also lowered the floor applied to market rates from to -100bps in order to present a more prudent outcome in the falling rates scenario. In a scenario reflecting a rise in interest rates NII would increase by 0.6% (approximately EUR 32 million).

Please note that whereas in the previous year we reported NII-at-Risk as a positive number if this meant a loss in NII, in the current year we report a loss in NII as a negative number.

## Market risk in the trading book

### Market risk exposure EDTF 23

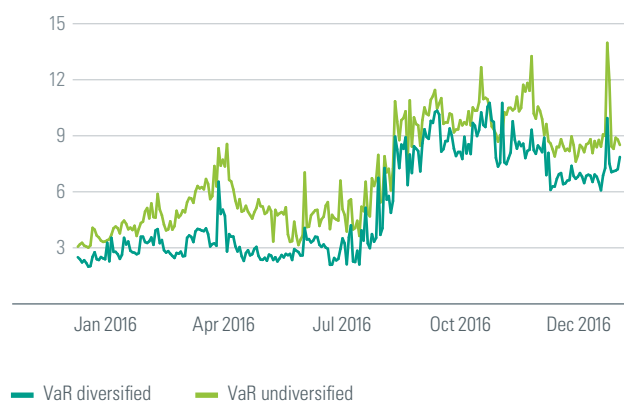
ABN AMRO applies a diversified portfolio VaR approach. This approach takes into account the fact that returns across risk factors may offset one another to a certain extent and consequently reduce risk. As long as those returns are not perfectly correlated to one another,

VaR figures based on a diversified portfolio approach will be lower compared with the figures when 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 graph below shows the total VaR ('VaR diversified') and aggregation of the stand-alone risk factors ('VaR undiversified').

### VaR diversified and undiversified EDTF 23

(in millions)



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

(in millions)	2016		2015	
	Diversified	Undiversified	Diversified	Undiversified
VaR at last trading day of period	7.2	8.4	3.0	3.4
Highest VaR	10.8	14.0	12.7	14.8
Lowest VaR	1.9	3.0	1.1	2.1
Average VaR	5.2	6.9	4.9	6.3

During 2016, the average diversified 1-day VaR at a 99% confidence level increased by EUR 0.3 million to EUR 5.2 million, compared with EUR 4.9 million in 2015. The highest VaR in 2016 was EUR 10.8 million, compared with EUR 12.7 million in 2015. Average undiversified VaR, being the sum of VaR across the FX, Equity, Interest Rates and Commodity risk factors, decreased from EUR 14.8 million in 2015 to EUR 14.0 million in 2016. While the risk profile remained stable and moderate, this increase was driven by a low interest rate environment since the ECB

introduced quantitative easing in Q1 2015, which was accentuated following the Brexit referendum in June 2016. Although the VaR methodology was enhanced to better cope with low and negative interest rates, the valuation model for interest rate derivatives did not perform well with negative interest rates and generated overstated VaR numbers. The valuation models for interest rates options were enhanced in Q4 2016 and are pending approval from the regulator to be used for VaR calculation.

## Regulatory capital market risk

### Capital requirement and risk exposure amount

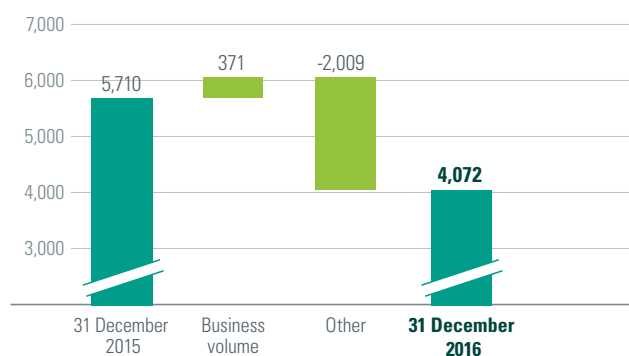
(in millions)	31 December 2016		31 December 2015	
	Capital requirement	RWA (REA)	Capital requirement	RWA (REA)
Position risk in traded debt instruments (SA)		5	128	1,600
Position risk in equities (SA)			2	23
Commodity risk (SA)			7	88
Add-on (SA)			320	4,000
Internal model approach	325	4,067		
<b>Total</b>	<b>326</b>	<b>4,072</b>	<b>457</b>	<b>5,710</b>

The above table shows the composition of ABN AMRO's trading books, broken down by risk factor and required regulatory capital/risk amount.

In 2016, RWA (REA) for market risk dropped significantly to EUR 4.1 billion at 31 December 2016 (31 December 2015: EUR 5.7 billion). This decline was mainly the result of the use of the Internal Model Approach (IMA) as from 1 January 2016.

### RWA (REA) flow statement market risk EDTF 16

(in millions)



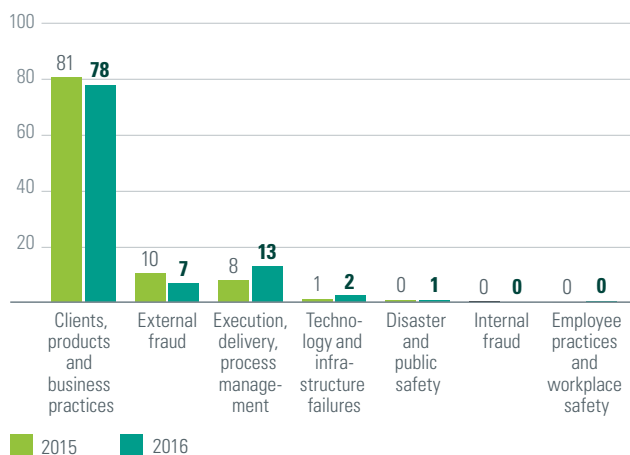


# Operational risk

## Operational risk by risk type

### Operational losses by event category<sup>1</sup>

Distribution (% of total loss amount)



<sup>1</sup> Operational losses are presented excluding provisioned claims.

A considerable amount of the bank's operational losses were related to settled claims. In adherence with the advice of the committee of independent experts established by the Dutch Minister of Finance on the reassessment of SME interest rate derivatives, the bank is in the process of settling claims related to these derivatives. The settled claims are classified as operational losses in the event category Clients, Products and Business Practices. Therefore, this is the category with the largest loss amount. Apart from settlement of claims, the largest loss amount is in the category Execution, Delivery and Process Management. Excluding the settlement of claims, the operational losses of the bank were limited in 2016 compared with 2015. ABN AMRO 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 Annual Financial Statements).

### Cybercrime

ABN AMRO is faced with the constant threat of cybercrime by organised crime groups, activists and/or ill-intentioned employees. We therefore continuously monitor this threat

and adjust the bank's defences where necessary. The volume of phishing, malware and card theft attacks remained stable in 2016 compared with 2015.

We continued to strengthen our security controls, resulting in very low losses despite the persistent volume of attacks. Operational losses as a result of external fraud through digital client channels decreased in 2016 compared with 2015. Compared with 2012 (baseline: 100), the level of fraud losses was 4 in 2016 (2014 and 2015: 7). Dutch banks work together through the Dutch Banking Association and the Dutch Payments Association to safeguard Dutch society's shared interest in secure payments. Dutch banks have agreed not to compete in matters of security. Individual banks do not report figures on losses due to fraud related to internet banking, skimming and debit cards; these figures are reported jointly.

### Business continuity

Business continuity mitigation controls are in place, such as crisis management, business relocation plans and IT disaster recovery plans, to address incidents and crises threatening the continuity of critical business processes. As in previous years, in 2016 ABN AMRO's crisis management organisation proved to be stable and able to respond to incidents and to assure recovery of these business processes within an acceptable timeframe.

### Stability of digital services

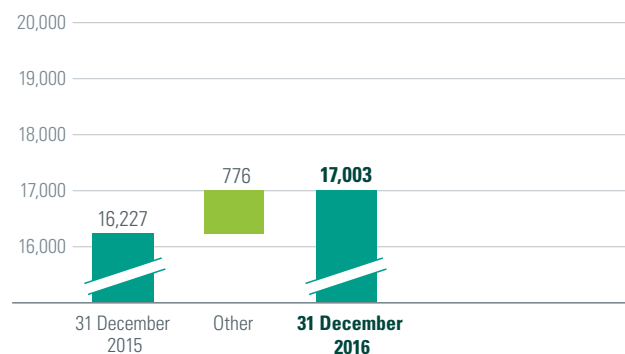
Availability of the bank's internet banking services during peak hours was 99.87% on average in 2016.

### Regulatory capital Pillar 3

At the end of 2016, ABN AMRO received permission from the ECB to apply the Basel II Advanced Measurement Approach. As of Q1 2017, we will use our internal AMA model for calculating regulatory capital. The permission to apply the most advanced calculation method indicates the ECB's satisfaction with the way we manage operational risks.

The bank's own funds for operational risks in 2016 were still calculated based on the Standardised Approach (TSA). Under the TSA, gross income figures are mapped to a set of prescribed Basel II business lines, such as Retail Banking, Payments and Trading & Sales. Depending on the business line, a percentage (predefined by the directives) is applied for calculating capital for that business line. The TSA capital for the bank is the sum of the TSA capital for each business line.

**RWA (REA) flow statement operational risk** EDTF 16  
(in millions)



RWA (REA) for operational risk increased by EUR 0.8 billion compared with year-end 2015, arriving at EUR 17.0 billion at 31 December 2016, as a result of the annual revision of calculations.

# Liquidity risk

## Liquidity risk management

### Liquidity risk indicators

	31 December 2016	31 December 2015
Survival period (moderate stress)	> 12 months	>12 months
Loan-to-Deposit ratio (in %)	112.7%	108.6%
Available liquidity buffer (in billions)	78.9	82.8
<b>Basel III</b>		
LCR ratio	>100%	>100%
NSFR ratio	>100%	>100%

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) both remained above 100% during 2016. This is in line with the bank's targeted early compliance with future regulatory requirements.

The survival period reflects the period that the bank's liquidity position is expected to remain positive in an internally developed (moderate) stress scenario in which wholesale funding markets deteriorate and retail and commercial clients withdraw a proportion of their deposits. The survival period was consistently >12 months during 2016.

### Loan-to-Deposit ratio Audited EDTF 18

(in millions)	31 December 2016	31 December 2015
<b>Loans and receivables - customers</b>	<b>267,679</b>	276,375
<b>Deductions</b>		
Selected current accounts related to ABN AMRO Clearing Bank	6,003	4,799
Fair value adjustment from hedge accounting	4,794	4,849
Total deductions	-10,797	-9,648
<b>Adjusted Loans and receivables - customers<sup>1</sup></b>	<b>256,881</b>	<b>266,727</b>
<b>Due to customers<sup>1</sup></b>		
Debt certificates issued through Groenbank BV	52	55
<b>Deductions</b>		
Deposits from Dutch State Treasury Agency (DSTA)	-800	-1,750
<b>Adjusted Due to customers<sup>1</sup></b>	<b>228,009</b>	<b>245,658</b>
<b>Loan-to-Deposit ratio (LtD)</b>	<b>112.7%</b>	<b>108.6%</b>

<sup>1</sup> In 2016 the bank concluded that partial derecognition should be applied for certain savings mortgages. The adjustment of the carrying amounts before balance sheet netting is EUR 6.3 billion negative per 31 December 2016 (31 December 2015: EUR 6.4 billion negative). This adjustment does not impact the reported carrying amounts after balance sheet netting. The impact of the netting adjustment is also included. More information is provided in note 1 Accounting policies of the Consolidated Annual Financial Statements.

The accounting policies for notional cash pooling balances and bank saving mortgages were modified in 2016.

Applying these changes retrospectively has led to an increase of EUR 3.5 billion in loans and receivables - customers and due to customers for 31 December 2016 (31 December 2015: EUR 17.1 billion).

Net of notional cash pooling and bank savings mortgages, adjusted loans and receivables - customers increased to EUR 253.4 billion at 31 December 2016 (31 December 2015:

EUR 249.7 billion). Adjusted due to customers decreased to EUR 224.5 billion at 31 December 2016 (31 December 2015: EUR 228.6 billion).

The LtD ratio increased to 113% at 31 December 2016 (31 December 2015: 109%). This increase was driven mainly by Private Banking Asia being classified as held for sale (other assets/liabilities) and loan growth in Corporate Banking.

### Liquidity buffer composition Audited EDTF 18

(in billions, liquidity value)	31 December 2016			31 December 2015		
	Liquidity buffer	LCR eligible		Liquidity buffer	LCR eligible	
		Level 1	Level 2		Level 1	Level 2
Cash & Central Bank deposits <sup>1</sup>	21.5	21.5		24.4	24.4	
Government bonds	33.5	33.9	0.6	26.0	26.9	
Covered bonds	2.2	1.7	0.4	1.4		1.3
RMBS retained	11.5			24.0		
Third party RMBS	1.5		1.3	0.7		0.6
Other	8.8	7.6	1.7	6.3	2.5	0.8
<b>Total</b>	<b>78.9</b>	<b>64.6</b>	<b>3.9</b>	<b>82.8</b>	<b>53.8</b>	<b>2.7</b>

<sup>1</sup> 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 RMBS. Most of the securities in the liquidity buffer, with the exception of retained RMBS, 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 deviates from Basel III regulations. This explains the differences between the liquidity values. Government bonds, for example, will be subject to a higher internal haircut than the haircut based on Basel III regulations. As a result, the value of government bonds for the liquidity buffer is lower than the value that qualifies for the LCR.

The liquidity buffer decreased by EUR 3.9 billion to EUR 78.9 billion at 31 December 2016 compared with EUR 82.8 billion at 31 December 2015. This was driven mainly by a decrease in retained RMBS due to further optimisation of our liquidity position. Part of our cash position has been converted into financial investments, explaining the decrease in cash and increase in financial investments. In addition, government bonds increased due partly to the inclusion of off-balance sheet positions consisting of LCR eligible government bonds.

**Liquidity buffer currency diversification** Audited EDTF 18

(in billions, liquidity value)	31 December 2016	31 December 2015
EUR	71.3	77.9
USD	5.7	2.4
GBP	0.3	0.3
Other	1.7	2.2
<b>Total</b>	<b>78.9</b>	<b>82.8</b>

The table above shows the breakdown per currency of the liquidity buffer. The currency composition of our buffer reflects the composition of our balance sheet. This allows for optimal liquidity risk management. The USD position increased by USD 3.3 billion to USD 5.7 billion at 31 December 2016. This increase was driven by further

alignment in scope of the liquidity buffer and the LCR buffer. Local USD investments qualifying for the the LCR are now also included in the liquidity buffer.

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

**Liquidity buffer composition - monthly average** Audited

(in billions, liquidity value)	2016	2015
Cash & Central Bank deposits	19.3	11.1
Government bonds	31.2	26.8
Covered bonds	1.8	1.7
RMBS retained	21.1	29.8
Third party RMBS	1.5	0.8
Other	8.1	7.0
<b>Total</b>	<b>82.9</b>	<b>77.2</b>

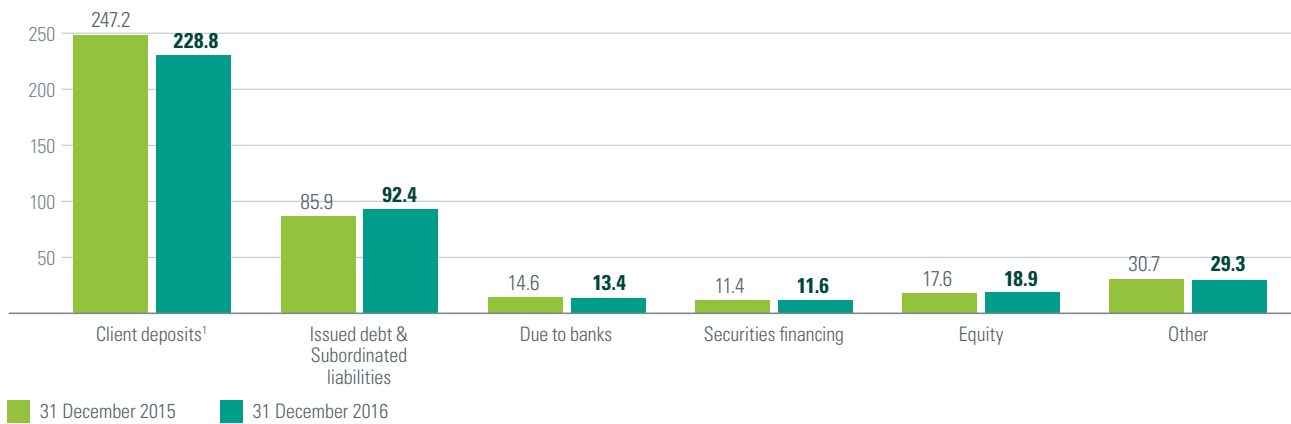
# Funding

## 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)

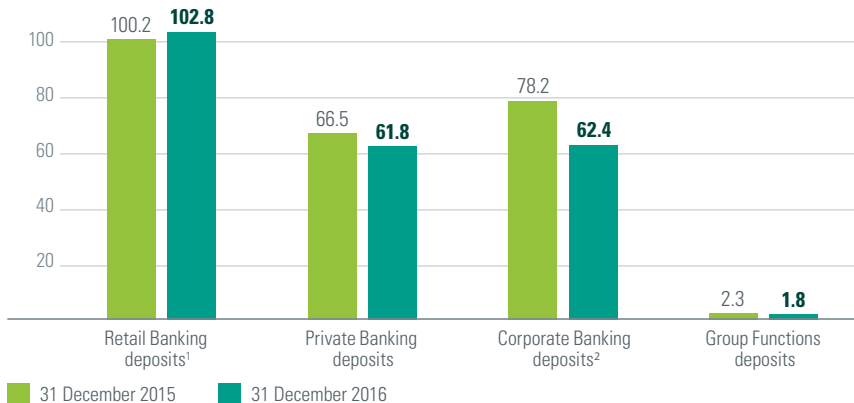


<sup>1</sup> The impact of the netting adjustments is included. More information is provided in note 1 Accounting policies of the Consolidated Annual Financial Statements.

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

## Breakdown of client deposits Audited | EDTF 21

(in billions)



<sup>1</sup> The impact of bank savings mortgages is included. More information is provided in note 1 Accounting policies of the Consolidated Annual Financial Statements.

<sup>2</sup> The impact of the offsetting changes on notional cash pooling is included. More information is provided in note 1 Accounting policies of the Consolidated Annual Financial Statements.

As previously explained, the decrease in Private Banking deposits was driven by the private banking activities in Asia and the Middle East being classified as held for sale (other liabilities) in December 2016. The decrease in client deposits at Corporate Banking was mainly due to the change in accounting policies for notional cash pooling balances.

The increase in issued debt is explained later in this chapter.

## Available funding instruments Audited EDTF 21

A key goal of the funding strategy is to diversify funding sources. The available funding programmes allow us to issue various instruments in different currencies and markets. This enables us to diversify our investor base. A description of capital and funding instruments issued by ABN AMRO is provided on our website, [abnamro.com/en/investor-relations](http://abnamro.com/en/investor-relations). We continuously assess our wholesale funding base in order to determine the optimal use of funding sources. Wholesale funding breaks down into the following categories:

## Overview of funding types Audited EDTF 21

(in millions)	31 December 2016	31 December 2015
Euro Commercial Paper	2,501	1,326
London Certificates of Deposit	8,843	3,744
French Certificats de Dépôt	651	164
US Commercial Paper	4,710	4,585
<b>Total Commercial Paper/Certificates of Deposit</b>	<b>16,705</b>	<b>9,820</b>
Senior unsecured (medium-term notes)	32,815	37,404
Covered bonds	29,355	25,956
Securitisations	2,350	2,968
Saving certificates	52	59
<b>Total issued debt</b>	<b>81,278</b>	<b>76,207</b>
Subordinated liabilities	11,171	9,708
<b>Total wholesale funding</b>	<b>92,450</b>	<b>85,915</b>
Other long-term funding <sup>1</sup>	5,843	6,813
<b>Total funding instruments<sup>2</sup></b>	<b>98,292</b>	<b>92,728</b>
- of which issued debt matures within one year	27,754	19,607

<sup>1</sup> Includes long-term repo (recorded in Securities financing), TLTRO funding (recorded in Due to banks) and funding with the Dutch State as counterparty (recorded in Due to customers).

<sup>2</sup> Includes FX effects, fair value adjustments and interest movements.

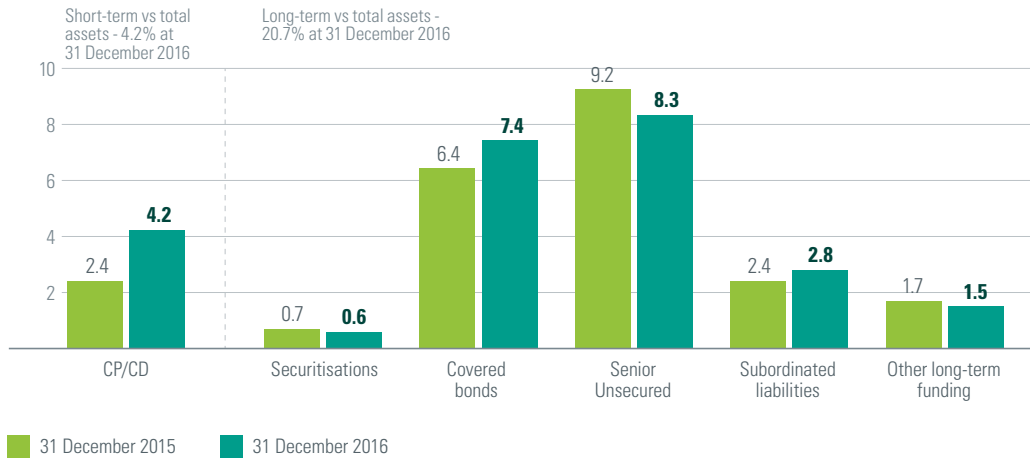
Total wholesale funding (issued debt and subordinated liabilities) increased to EUR 92.5 billion at 31 December 2016 (31 December 2015: EUR 85.9 billion). The rise was due mainly to an increase in commercial paper and certificates of deposit, within our targeted bandwidth for short-term funding, allowing us to steer our liquidity ratios more efficiently. The covered bonds issued are in line with the growing volume of mortgages with long-term fixed interest rate periods. Long-term covered bonds mitigate

liquidity repricing risk resulting from mortgages with long-term fixed interest rate periods. The average maturity of the covered bonds issued in 2016 is 13 years. Furthermore, we voluntarily repaid TLTRO I and participated in TLTRO II, both for EUR 4.0 billion.

The following graph shows the development of wholesale funding types relative to the balance sheet total at 31 December 2016 and 31 December 2015.

### Funding vs balance sheet total Audited EDTF 21

(as % of total assets)



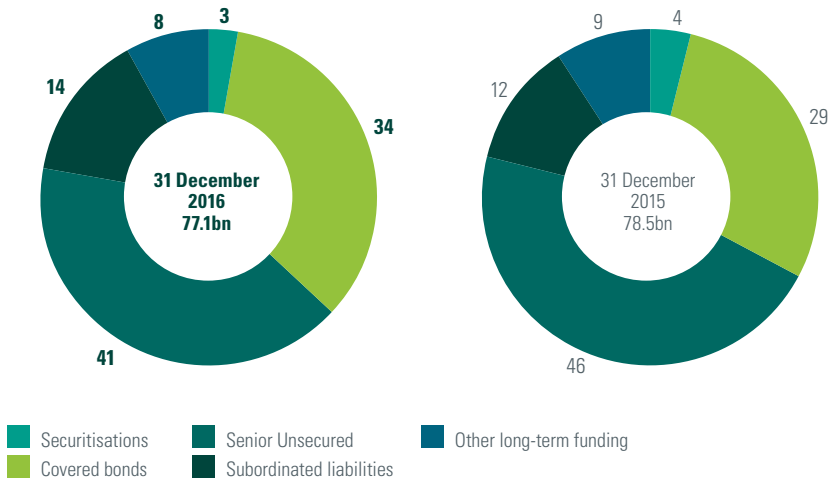
### Long-term funding components Audited EDTF 21

The following graph shows an overview of the outstanding long-term funding at 31 December 2016 and 31 December 2015. The information presented is based

on notional values and therefore differs from the information above due to discrepancies between notional value and issue price and fair value hedge accounting adjustments.

### Long-term funding components Audited EDTF 21

(in %)



### Funding issuance in 2016 Audited EDTF 21

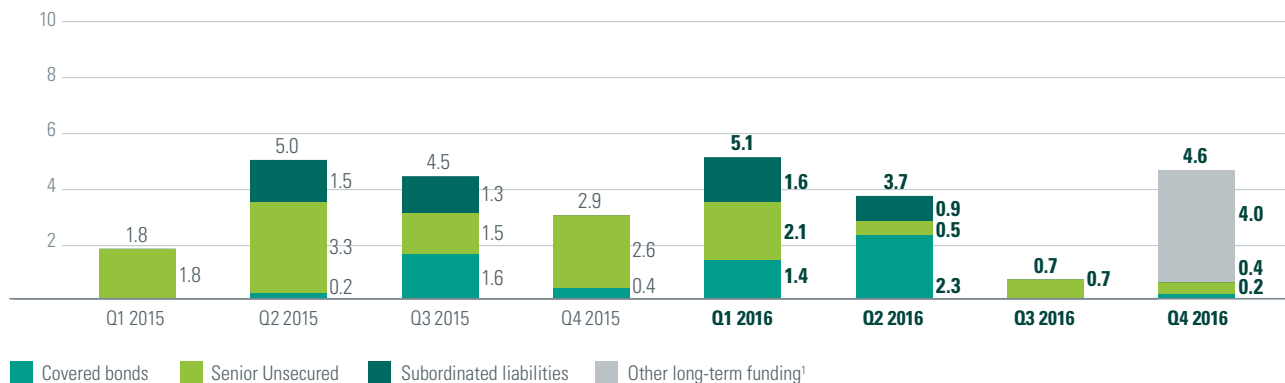
ABN AMRO executed a successful funding strategy in 2016, reflected in issuance in different currencies and a presence in almost all markets. Total long-term funding raised in 2016 amounted to EUR 14.0 billion. This includes

EUR 3.9 billion of covered bonds, EUR 2.4 billion of Tier 2 capital instruments, EUR 3.7 billion of senior unsecured funding, and EUR 4.0 billion TLTRO II. Senior unsecured funding includes the issuance of an EUR 0.5 billion green bond.



### Long-term funding raised in 2015 and 2016 Audited EDTF 21

(notional amounts at issuance, in billions)

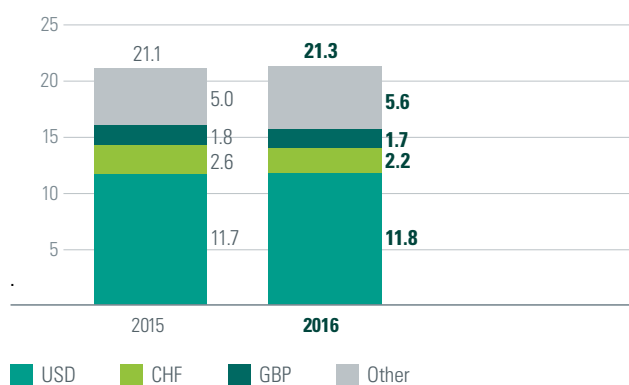


<sup>1</sup> Other long-term funding includes TLTRO II, long-term repos and funding with the Dutch State as counterparty.

Long-term funding in non-euro currencies rose to 28% of total outstanding long-term funding compared with 27% at 31 December 2015. In 2016, the bank raised 77% of long-term funding in EUR and the remainder in USD, GBP, JPY, AUD, CHF, SGD and SEK. 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

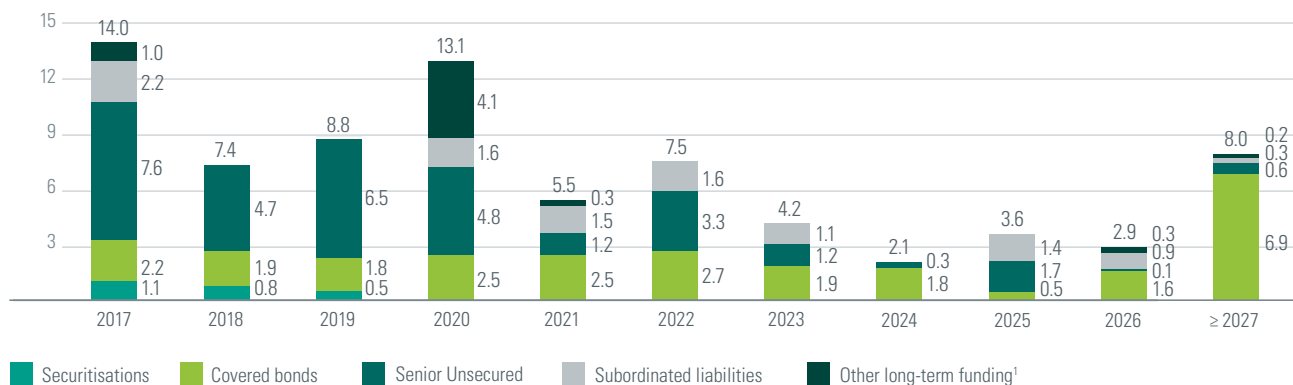
We enhanced the maturity profile of our long-term wholesale funding predominantly by spreading out redemptions of funding instruments over time. ABN AMRO focuses continuously on optimising its wholesale maturity profile and on maintaining its diverse funding base.

The average maturity of newly issued funding increased to 8.4 years (up from 7.5 years in 2015), while the average maturity of outstanding long-term funding increased to 4.7 years at year-end 2016 (up from 4.6 years at year-end 2015). This was caused mainly by the issuance of long-term covered bonds, in line with the growing volume of mortgages with long-term fixed interest rate periods.

The maturity calendar assumes redemption on the earliest possible call date or the legal maturity date. Early redemption of subordinated instruments is subject to the approval of the regulators. However, this does not mean that the instruments will be called at the earliest possible call date. TLTRO II is recorded at a maturity of four years, but has a voluntary repayment option after two years.

**Maturity calendar at 31 December 2016** Audited | EDTF 21

(notional amounts, in billions)



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

**Maturity calendar**

31 December 2016

(notional amounts, in billions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	≥ 2027	Total
Senior unsecured	7.6	4.7	6.5	4.8	1.2	3.3	1.2	0.3	1.7	0.1	0.6	31.9
Covered bonds	2.2	1.9	1.8	2.5	2.5	2.7	1.9	1.8	0.5	1.6	6.9	26.4
Securitisations	1.1	0.8	0.5									2.4
Subordinated liabilities	2.2			1.6	1.5	1.6	1.1		1.4	0.9	0.3	10.6
Other long-term funding¹	1.0			4.1	0.3					0.3	0.2	5.8
<b>Total</b>	<b>14.0</b>	<b>7.4</b>	<b>8.8</b>	<b>13.1</b>	<b>5.5</b>	<b>7.5</b>	<b>4.2</b>	<b>2.1</b>	<b>3.6</b>	<b>2.9</b>	<b>8.0</b>	<b>77.1</b>

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

# Capital

## Capital structure Audited

ABN AMRO's solid capital position ensures that the bank is compliant with the fully-loaded capital requirements of the Capital Requirements Directive IV (CRD IV). The overall capital base increased over the year, primarily due to profit accumulation and capital issuances. The bank strives to

optimise its capital structure in anticipation of pending regulatory requirements. The capital structure consists mainly of common equity and loss-absorbing capital to cover unexpected losses. The subordination of capital instruments provides further protection to senior creditors.

## Regulatory capital structure Audited Pillar 3

(in millions)	31 December 2016	31 December 2015
<b>Total Equity - EU IFRS</b>	<b>18,937</b>	<b>17,584</b>
Cash flow hedge reserve	843	1,056
Dividend reserve	-414	-414
Capital securities	-993	-993
Other regulatory adjustments	-598	-466
<b>Common Equity Tier 1</b>	<b>17,775</b>	<b>16,768</b>
Innovative hybrid capital instruments		700
Capital securities	993	993
Other regulatory adjustments	-164	-234
<b>Tier 1 capital</b>	<b>18,605</b>	<b>18,226</b>
Subordinated liabilities Tier 2	7,150	4,938
Excess Tier 1 instrument recognised as Tier 2 capital		300
Other regulatory adjustments	-118	-33
<b>Total regulatory capital<sup>1</sup></b>	<b>25,637</b>	<b>23,431</b>

<sup>1</sup> DNB requires Dutch banks to disclose the Basel I floor in accordance with CRR article 500. In 2016 the Basel I floor was calculated by multiplying Basel I RWA (REA) of EUR 198.4 billion by 8% times 80% (31 December 2015: EUR 184.0 billion). After adjusting for IRB provision shortfall, this results in a minimum required amount of own funds of EUR 12.4 billion as per 31 December 2016 (31 December 2015: EUR 11.6 billion). ABN AMRO comfortably meets this requirement.

**Regulatory capital flow statement** Audited EDTF 11

(in millions)	2016	2015
<b>Common Equity Tier 1 capital</b>		
<b>Balance at 1 January</b>	<b>16,768</b>	<b>15,426</b>
Addition of net profit attributable to shareholders	1,805	1,919
Reserved dividend	-414	-414
Interim dividend paid	-376	-350
Other, including regulatory adjustments	-8	186
<b>Balance at end of period</b>	<b>17,775</b>	<b>16,768</b>
<b>Additional Tier 1 capital</b>		
<b>Balance at 1 January</b>	<b>1,459</b>	<b>559</b>
New issued Tier 1 eligible capital instruments		993
Redeemed Tier 1 eligible capital instruments	-700	
Other, including regulatory adjustments	71	-93
<b>Balance at end of period</b>	<b>829</b>	<b>1,459</b>
<b>Tier 1 capital</b>	<b>18,605</b>	<b>18,226</b>
<b>Tier 2 capital</b>		
<b>Balance at 1 January</b>	<b>5,205</b>	<b>5,663</b>
New issued Tier 2 eligible capital instruments	2,508	2,859
Redeemed Tier 2 ineligible capital instruments	-203	-759
Other, including regulatory adjustments	-477	-2,559
<b>Balance at end of period</b>	<b>7,032</b>	<b>5,205</b>
<b>Total regulatory capital</b>	<b>25,637</b>	<b>23,431</b>

**RWA (REA)** Audited

(in millions)	31 December 2016	31 December 2015
<b>Credit risk</b>	<b>83,140</b>	86,063
- of which standardised	6,319	7,110
- of which advanced	76,821	78,953
<b>Operational risk</b>	<b>17,003</b>	16,227
- of which standardised	17,003	16,227
- of which advanced		
<b>Market risk</b>	<b>4,072</b>	5,710
- of which standardised	5	5,710
- of which advanced	4,067	
<b>Total RWA (REA)</b>	<b>104,215</b>	<b>108,001</b>

## Main developments in capital position EDTF 11

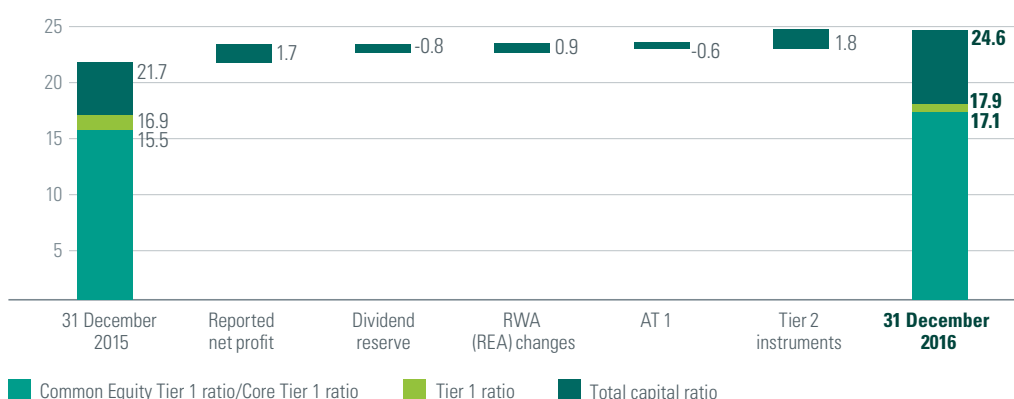
At 31 December 2016, the phase-in CRD IV Common Equity Tier 1 (CET1), Tier 1 and total capital ratios were 17.1%, 17.9% and 24.6% respectively. All capital ratios were well above regulatory minimum requirements and in line with the bank's risk appetite and strategic ambitions.

ABN AMRO's capital position strengthened compared to 31 December 2015, driven by profit accumulation, a decrease in RWA and Tier 2 issuances.

The following chart shows the primary drivers of the capital ratios in 2016.

### Developments impacting capital ratios in 2016 EDTF 11

(in %)



### Developments impacting capital ratios in 2016

EDTF 11

#### Common Equity Tier 1 capital

Common Equity Tier 1 capital increased in 2016 primarily due to profit accumulation. Net reported profit attributable to the shareholders of ABN AMRO in 2016 amounted to EUR 1,762 million. Net profit after dividend allocation is included in Common Equity Tier 1 capital, in accordance with regulations and ABN AMRO's dividend policy.

ABN AMRO is required in 2017 to meet a minimum CET1 ratio of 9.0% on a consolidated basis, which includes a 1.25% capital conservation buffer and a 1.5% systemic risk buffer (SRB). ABN AMRO is comfortably above the 9.0% minimum, with phase-in CET1 at 17.1% at 31 December 2016. The MDA trigger level for ABN AMRO Bank N.V. is 9.0% of CET1 capital, to be increased by any AT1 or Tier 2 capital shortfall. At the end of 2016 the AT1 shortfall was 0.7%, implying an MDA trigger level of 9.7% for 2017. Based on full phase-in of the systemic risk buffer (from 1.5% in 2017 to 3.0% in 2019) and the capital conservation buffer (from 1.25% in 2017 to 2.5% in 2019), the fully-loaded MDA trigger level is expected to increase to 11.75% in 2019, assuming no AT1 or Tier 2 capital shortfall.

### Additional Tier 1

ABN AMRO currently has a EUR 1.0 billion AT1 instrument outstanding, which was issued in September 2015. The AT1 instrument has triggers at the Group level (7% CET1), the sub-consolidated level (5.125% CET1) and the solo level (5.125% CET1). If the CET1 ratio breaks through the trigger level, the AT1 will be temporarily written down. Based on December 2016 figures, ABN AMRO is comfortably above the trigger levels, with the Group level CET1 ratio at 17.1%, the sub-consolidated CET1 ratio at 17.1% and the solo CET1 ratio at 15.7%. Available Distributable Items (ADI) totalled EUR 16.3 billion at 31 December 2016.

### Tier 2 capital

The fully-loaded total capital ratio increased by 4.0 percentage points compared with 31 December 2015. Over 2016, profit accumulation, four T2 capital issuances (EUR 1.0 billion 12-year callable, USD 0.3 billion 15-year bullet in Taiwan's Formosa market, SGD 0.45 billion 10-year callable instrument and a USD 1.0 billion 10-year bullet) and a EUR 3.8 billion lower RWA level more than compensated for the redemption of a GBP 150 million Tier 2 instrument and a EUR 1.0 billion Tier 1 instrument (EUR 700 million of which was eligible for Tier 1 and EUR 300 million was eligible for Tier 2 capital at 31 December 2015).

### Risk-weighted assets

Capital ratios are supported by a decrease in group level RWA (REA) compared with December 2015. Total RWA (REA) decreased by EUR 3.8 billion, amounting to EUR 104.2 billion at 31 December 2016, compared with EUR 108.0 billion at 31 December 2015. This decrease was primarily driven by lower credit risk. More information on RWA (REA) is provided in the Risk sections of this report.

## Further information on share capital, dividend and capital instruments Pillar 3

### Share capital

The share capital remained unchanged in 2016. At 31 December 2016, the authorised share capital amounted to EUR 4,700 million distributed over 4,500 million class A ordinary shares and 200 million class B ordinary shares. The class A and B ordinary shares both have a nominal value of EUR 1.00 each.

At 31 December 2016, 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

ABN AMRO proposes a final cash dividend of EUR 414 million or EUR 0.44 per share. Together with the interim cash dividend of EUR 376 million, this will bring the total dividend for 2016 to EUR 790 million or EUR 0.84 per share and the payout ratio to 45% of reported net earnings after deduction of AT1 coupon payments. In 2015, ABN AMRO paid a 40% dividend of EUR 0.81 per share, or EUR 764 million, of which EUR 350 million (EUR 0.37 per share) was interim dividend and EUR 414 million (EUR 0.44 per share) was final dividend.



## Capital instruments

### Capital instruments Audited

(in millions)	ISIN/CUSIP	Maturity date	First possible call date	31 December 2016		31 December 2015	
				Nominal amount	Carrying amount	Nominal amount	Carrying amount
<b>Tier 1</b>							
EUR 1,000 million 4.31% per annum	XS0246487457	Perpetual	March 2016			1,000	1,042
EUR 1,000 million 5.75% per annum	XS1278718686	Perpetual	September 2020	1,000	993	1,000	993
<b>Total Tier 1 capital instruments</b>				<b>1,000</b>	<b>993</b>	<b>2,000</b>	<b>2,035</b>
<b>Tier 2</b>							
GBP 150 million (originally GBP 750 million) 5.00% per annum	XS0244754254	Perpetual				204	213
EUR 1,228 million 6.375% per annum	XS0619548216	April 2021		1,228	1,475	1,228	1,489
USD 595 million 6.250% per annum	XS0619547838	April 2022		563	615	546	606
USD 113 million 7.75% per annum	US00080QAD79/ USN0028HAP03	May 2023		107	110	93	101
EUR 1,000 million 7.125% per annum	XS0802995166	July 2022		1,000	1,146	1,000	1,121
USD 1,500 million 6.25% per annum	XS0827817650	September 2022	September 2017	1,421	1,438	1,377	1,392
SGD 1,000 million 4.7% per annum	XS0848055991	October 2022	October 2017	655	658	649	640
EUR 1,500 million 2.875% per annum	XS1253955469	June 2025	June 2020	1,500	1,552	1,500	1,537
USD 1,500 million 4.75% per annum	US00080QAF28/ XS1264600310	July 2025		1,421	1,459	1,204	1,250
EUR 1,000 million 2.875% per annum	XS1346254573	January 2028	January 2023	1,000	1,039		
SGD 450 million 4.7% per annum	XS1341466487	April 2026	April 2021	295	294		
USD 300 million 5.6% per annum	XS1385037558	April 2031		284	273		
USD 1,000 million 4.8% per annum	US0008DAL47/ XS1392917784	April 2026		947	898		
EUR various smaller instruments		2015 - 2020		212	214	313	316
<b>Total Tier 2 capital instruments</b>				<b>10,634</b>	<b>11,171</b>	<b>8,113</b>	<b>8,666</b>
<i>Of which eligible for regulatory capital:</i>							
Basel III, Tier 1				1,000			
Basel III, Tier 2				7,150		4,938	
Basel III, Excess Tier 1 instrument recognised as Tier 2 capital						2,000	

**Movements in subordinated liabilities** Audited

(in millions)	2016	2015
	Carrying amount	Carrying amount
<b>Balance as at 1 January</b>	9,708	8,328
Issuance	2,660	2,839
Redemption	-1,363	-1,740
Foreign exchange differences	194	271
Other	-29	11
<b>Balance as at 31 December</b>	<b>11,171</b>	<b>9,708</b>

**Minimum capital requirement**Audited Pillar 3 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 (REA) and minimum capital requirements per risk type, category of exposure and regulatory approach.



**Minimum capital requirements**
Audited Pillar 3 EDTF 9 EDTF 14

(in millions)	31 December 2016		31 December 2015	
	Capital requirement	RWA (REA)	Capital requirement	RWA (REA)
<b>Credit risk IRB</b>				
Central governments and central banks	80	1,001	78	978
Institutions <sup>1</sup>	201	2,517	231	2,887
Corporates	3,359	41,985	3,247	40,592
Retail	1,869	23,366	2,130	26,631
- of which secured by immovable property/ retail mortgages	1,446	18,081	1,622	20,269
- of which qualifying revolving exposures	203	2,534	240	3,005
- of which other retail	220	2,750	269	3,357
Equities not held for trading	423	5,293	415	5,185
Securitisation positions	8	95	7	84
Credit valuation adjustment	64	804	88	1,105
Other <sup>2</sup>	141	1,761	119	1,491
<b>Total credit risk IRB</b>	<b>6,146</b>	<b>76,821</b>	<b>6,316</b>	<b>78,953</b>
<b>Credit risk SA</b>				
Central governments and central banks	2	19	11	132
Institutions <sup>1</sup>	22	280	12	153
Corporates	208	2,599	283	3,535
Retail	61	761	63	793
Secured by mortgages on immovable property	81	1,009	41	510
Exposures in default	5	58	7	88
Other <sup>2</sup>	127	1,593	152	1,900
<b>Total credit risk SA</b>	<b>506</b>	<b>6,319</b>	<b>569</b>	<b>7,110</b>
<b>Other risks</b>				
Market risk	326	4,072	457	5,710
- of which Standardised Approach		5	457	5,710
- of which Internal Model Approach	325	4,067		
Operational risk	1,360	17,003	1,298	16,227
- of which Standardised Approach	1,360	17,003	1,298	16,227
<b>Total other risks</b>	<b>1,686</b>	<b>21,075</b>	<b>1,755</b>	<b>21,938</b>
<b>Total</b>	<b>8,337</b>	<b>104,215</b>	<b>8,640</b>	<b>108,001</b>

<sup>1</sup> Institutions include exposures to banks and investment companies, regional and local governments and pension funds.

<sup>2</sup> Other includes non-credit obligations.

## Main regulatory developments

### Basel III/CRD IV EDTF 9

The Capital Requirements Directive IV (CRD IV) and the Capital Requirements Regulation (CRR) set the framework for the implementation of Basel III in the European Union. CRD IV and CRR were phased in on 1 January 2014 and are expected to be fully effective by January 2019.

ABN AMRO is already managing its regulatory capital adequacy position in anticipation of Basel III fully-loaded requirements. ABN AMRO is compliant with the more restrictive fully-loaded capital requirements. In addition to Basel III fully-loaded requirements, the European Commission has recently issued draft texts to amend CRD IV and CRR.

## Basel IV

Commonly referred to as Basel IV, the Basel Committee on Banking Supervision has presented two consultative documents on a revision of the Standardised Approach and the design of a capital floor framework based on this revised Standardised Approach. This framework will replace the current transitional floor based on the Basel I standard. The aim of the revised capital floor framework is to enhance the reliability and comparability of risk-weighted capital ratios. The revision of the Standardised Approach for Residential Real Estate and SMEs in combination with the revision of the capital floors could lead to a significant increase in risk-weighted assets for ABN AMRO.

Regulatory developments, such as the Basel proposal (especially with respect to the risk-weighting of mortgages and corporate loans) and increasing capital requirements set by the regulators, could have a significant impact on the bank's capital position going forward. Hence, ABN AMRO will continue to focus on capital efficiency and further strengthen its capital position.

## MREL

The Bank Recovery and Resolution Directive (BRRD) provides authorities with more comprehensive and effective

measures to deal with failing banks. Implementation of the BRRD in the European Union began in 2015 and the bail-in framework has been applicable since January 2016. Implementation of the bail-in framework has led to the introduction of additional loss-absorbing measures, such as the Minimum Requirement for own funds and Eligible Liabilities (MREL).

ABN AMRO monitors the pending regulatory requirements in relation to MREL and aims for an MREL of at least 8% by year-end 2018. Final MREL terms, as well as bank-specific MREL requirements, will determine what precise measures we will undertake to comply with these requirements. At 31 December 2016, the Group had a 7.4% MREL (solely based on own funds and other subordinated liabilities). MREL increased by 0.6 percentage point compared with 31 December 2015, primarily driven by Tier 2 issuances and profit accumulation over 2016.

ABN AMRO aims for an MREL of at least 8% in 2018 through profit retention, balance sheet management, issuance of new subordinated capital instruments and potentially non-preferred senior debt, thereby increasing its buffer of loss-absorbing instruments.

## MREL

(in millions)	31 December 2016	31 December 2015
Regulatory capital	25,637	23,431
Other MREL eligible capital <sup>1</sup>	3,376	3,162
Total assets <sup>2</sup>	394,482	390,317
MREL <sup>3</sup>	7.4%	6.8%

<sup>1</sup> Other MREL eligible capital includes subordinated liabilities that are not included in regulatory capital.

<sup>2</sup> For management view purposes, the historical periods before 31 December 2016 have not been adjusted for the revised accounting relating to the netting. Further details are provided in note 1 Accounting policies of the Consolidated Annual Financial Statements.

<sup>3</sup> MREL is calculated as total regulatory capital plus other MREL eligible subordinated liabilities divided by total IFRS assets.

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

	Phase-in	Fully-loaded
<b>31 December 2016</b>		
Common Equity Tier 1 capital	17,775	17,761
Common Equity Tier 1 ratio	17.1%	17.0%
Tier 1 capital	18,605	18,749
Tier 1 ratio	17.9%	18.0%
Total regulatory capital	25,637	24,107
Total capital ratio	24.6%	23.1%
RWA (REA)	104,215	104,215
Leverage ratio (CDR)	3.9%	3.9%

The CRR fully-loaded Common Equity Tier 1 ratio at 31 December 2016 was 17.0%, slightly lower than the CRR phase-in Common Equity Tier 1 ratio of 17.1%.

Under the CRD IV/CRR fully-loaded rules for capital deductions, prudential filters and RWA (REA), the impact on the capital ratios is as follows:

- ▶ RWA (REA) are equivalent to those under phase-in rules;
- ▶ The amount of Common Equity Tier 1 capital is approximately equal to the amount under the phase-in rules since the fully-loaded impact on Common Equity Tier 1 capital deductions is largely neutral;
- ▶ Total capital is expected to decrease by EUR 1.5 billion, resulting in a decline in the total capital ratio of 1.5 percentage points, from 24.6% to 23.1%. This is primarily due to the loss of eligibility of non-CRR compliant Tier 2 capital instruments.

### Leverage ratio

The CRR introduced a non-risk based leverage ratio which will be monitored until 2017 and further refined and calibrated before becoming a binding measure as from 2018. The Commission Delegated Regulation (CDR), applicable since 1 January 2015, amended the definition of the leverage ratio to enhance comparability of leverage ratio disclosures. ABN AMRO aims for a leverage ratio of at least 4% by year-end 2018, to be achieved through profit retention, the issuance of AT1 instruments and management of the exposure measure.

The fully-loaded leverage ratio increased by 0.1 percentage point to 3.9% at 31 December 2016 over the full year (31 December 2015: 3.8%). The increase can be attributed to profit accumulation, which more than offsets a EUR 15 billion increase in the exposure measure.

On 6 April 2016, the Basel Committee issued a consultative document on the revision to the Basel III leverage ratio framework. Among the areas subject to proposed revision in this consultative document are the change in calculation of the derivative exposure and the credit conversion factors for off-balance sheet items. The revised calculation method of derivative exposure is also mentioned in a draft CRR regulation published in December 2016, which could result in a decrease of the exposure measure for clearing guarantees. This decrease would amount to approximately EUR 40-50 billion, or a 35-45 bps increase in the fully-loaded leverage ratio. An adjustment of credit conversion factors for off-balance sheet exposures, for example unconditionally cancellable commitments, would partly offset this potential increase.



(in millions)	31 December 2016		31 December 2015
	Phase-in	Fully-loaded	Fully-loaded
<b>Tier 1 capital</b>	<b>18,605</b>	<b>18,749</b>	<b>17,688</b>
<b>Exposure measure (CDR)</b>			
On-balance sheet exposures	394,482	394,482	405,840
Off-balance sheet items	32,420	32,420	29,183
On-balance sheet netting	13,539	13,539	11,098
Derivative exposure	50,248	50,248	31,541
Securities financing exposures	2,686	2,686	1,317
Other regulatory measures	-13,364	-13,269	-14,322
<b>Exposure measure</b>	<b>480,011</b>	<b>480,106</b>	<b>464,657</b>
<b>Leverage ratio (CDR)</b>	<b>3.9%</b>	<b>3.9%</b>	<b>3.8%</b>

# Sustainability risk Limited assurance

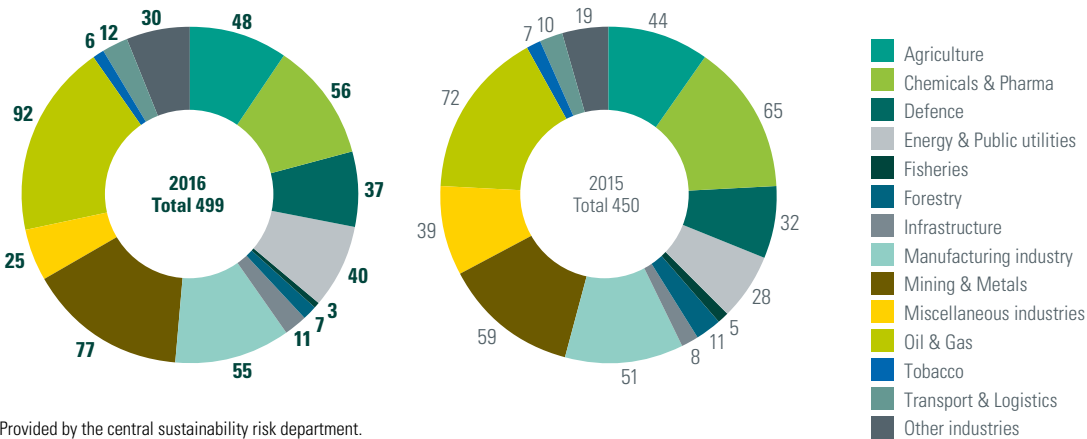
## Connectivity of material topic 16

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on <a href="#">page 19</a>
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## Advice on increased sustainability risk

Certain industries face more sustainability risks than others and the nature of the risks they face vary as well. Our Sustainable Banking department provides advice regarding clients operating in industries with a higher sustainability risk. The following graphs present a breakdown of the advice given per industry, together with the type of advice and the conclusion.

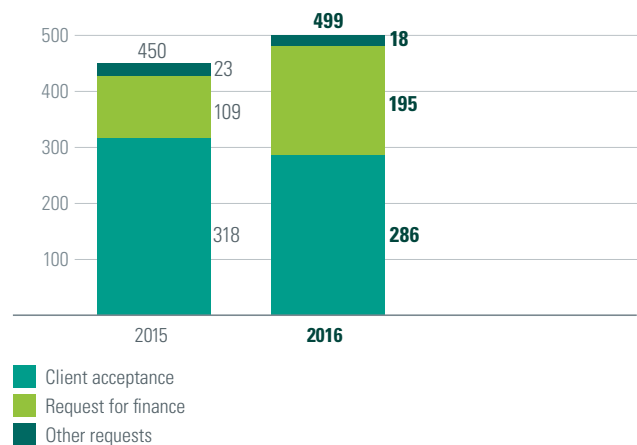
### Global advice<sup>1</sup>



<sup>1</sup> Provided by the central sustainability risk department.

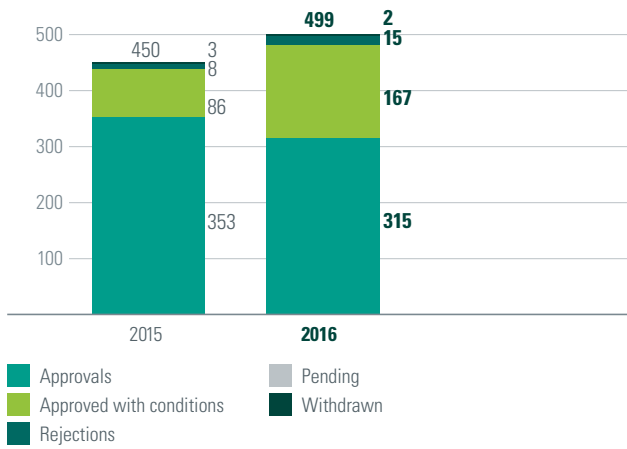
The number of cases for which the Central Sustainability Risk department provided advice, increased slightly from 450 in 2015 to a total of 499 in 2016. The types of advice and conclusion are presented below. Of the 499 cases for which advice was given in 2016, we rejected 15 cases and approved 315. In 167 cases, we approved the request subject to certain conditions. In these cases, we engaged with our clients and negotiated for improvement. A total of 179 clients were subject to specific human rights due diligence, compared with 160 clients in 2015 ([Human Rights Report 2016](#)).

### Type of advice





### Conclusion of advice



### Effectiveness of sustainability risk management

We believe that we are in control of sustainability risk. The Sustainable Banking department advised negatively on around 3% of the total cases. First line relationship managers are aware of the bank’s sustainability risk policies and predominantly file credit applications that comply with these policies. In addition, we further developed our framework and performed sustainability assessments for more than 3,470 transactions using the GSRI tool, 1,927 of which were assessed on our ESE standards due to an increased sustainability risk level. An area requiring further improvement is more stringent follow-up on conditions for improvement and transparency in engagement trajectories with clients.

- Introduction
- Strategy
- Business
- Risk, funding & capital**
- Leadership
- Governance
- Annual Financial Statements
- Other



# Additional risk, funding & capital disclosures

The following section includes additional disclosures on risk, funding and capital. This information is provided according to EU IFRS, Pillar 3, EDTF and market discipline. This required information is a supplement to the core analysis provided in the Risk, funding & capital review section and provides additional or more detailed information.

## Credit risk exposure

The following table presents the EU IFRS view on maximum exposure to credit risk. The financial instruments subject to credit risk are presented in accordance with EU IFRS

at carrying amounts, without consideration of collateral or other credit enhancements. As such, the table does not represent the Group's risk management view.

**Maximum exposure to credit risk EU IFRS** Audited

(in millions)	31 December 2016	31 December 2015
<b>Cash and balances at central banks</b>	<b>21,861</b>	<b>26,195</b>
Financial assets held for trading	1,607	1,706
Less: equity securities	35	19
<b>Financial assets held for trading</b>	<b>1,572</b>	<b>1,687</b>
<b>Derivatives</b>	<b>14,384</b>	<b>19,138</b>
Financial investments	45,497	40,542
Less: equity instruments	468	367
Less: private equities and venture capital	731	577
Less: Equity securities	45	54
<b>Financial investments</b>	<b>44,253</b>	<b>39,543</b>
<b>Securities financing</b>	<b>17,589</b>	<b>20,062</b>
<b>Loans and receivables - banks</b>	<b>13,485</b>	<b>15,680</b>
<b>Loans and receivables - customers<sup>1,2</sup></b>	<b>267,679</b>	<b>276,375</b>
Other assets	6,050	4,893
Less: Unit-linked investments	3,275	2,543
Less: Other	476	452
<b>Other assets</b>	<b>2,299</b>	<b>1,899</b>
<b>On-balance sheet maximum exposure to credit risk<sup>1,2</sup></b>	<b>383,122</b>	<b>400,578</b>
<b>Off-balance sheet</b>		
Committed credit facilities	27,299	21,559
Guarantees and other commitments	15,873	13,868
Revocable credit facilities <sup>3</sup>	82,338	82,865
<b>Off-balance sheet credit facilities and guarantees</b>	<b>125,511</b>	<b>118,292</b>
<b>Maximum exposure to credit risk</b>	<b>508,633</b>	<b>518,870</b>

<sup>1</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> Although not committed, ABN AMRO has the opinion that revocable credit facilities give rise to credit risk. These are not included as committed credit facilities in note 33.



## Maturity distribution by exposure class Pillar 3

31 December 2016

(in millions, Exposure at Default)	Less than one year	Between one year and five years	More than five years	Total
Central governments and central banks	33,235	9,495	17,325	60,054
Institutions <sup>1</sup>	10,012	3,841	1,342	15,195
Corporates	50,073	41,138	16,436	107,647
Retail	9,639	5,257	158,947	173,844
- of which secured by immovable property	1,953	4,053	154,036	160,042
- of which qualifying revolving exposures	3,013		2,981	5,994
- of which other retail	4,673	1,204	1,930	7,808
Securitisation positions			1,265	1,265
<b>Total IRB<sup>2</sup></b>	<b>102,960</b>	<b>59,730</b>	<b>195,314</b>	<b>358,004</b>
Total SA <sup>3</sup>	3,884	2,757	13,074	19,714
<b>Total</b>	<b>106,843</b>	<b>62,487</b>	<b>208,388</b>	<b>377,718</b>
Percentage of total	28%	17%	55%	100%

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

<sup>3</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.

## Maturity distribution by exposure class Pillar 3

31 December 2015

(in millions, Exposure at Default)	Less than one year	Between one year and five years	More than five years	Total
Central governments and central banks	34,315	9,635	14,942	58,892
Institutions <sup>1</sup>	8,583	2,108	3,486	14,177
Corporates	45,375	35,347	18,406	99,128
Retail	10,025	5,152	158,952	174,129
- of which retail mortgages	1,525	4,028	153,753	159,306
- of which qualifying revolving exposures	3,593		3,185	6,778
- of which other retail	4,907	1,124	2,014	8,045
Securitisation positions			1,125	1,125
<b>Total IRB<sup>2</sup></b>	<b>98,298</b>	<b>52,242</b>	<b>196,912</b>	<b>347,452</b>
Total SA <sup>3</sup>	3,103	1,352	11,113	15,568
<b>Total</b>	<b>101,401</b>	<b>53,594</b>	<b>208,025</b>	<b>363,020</b>
Percentage of total	28%	15%	57%	100%

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

<sup>3</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.

## Regulatory gross and net exposure by risk-weight under the Standardised Approach

These tables provide a breakdown of the regulatory gross and net credit exposure by risk weight for our credit portfolio exposures treated under the Standardised Approach, according to Basel-defined exposure classes.

### SA approach: regulatory gross and net credit exposure by risk-weight Pillar 3

(in millions, Exposure at Default)	Risk weight											31 December 2016	
		0%	2%	10%	20%	35%	50%	75%	100%	150%	Other risk weights	Total EAD	
<b>Regulatory gross exposure</b>													
Central governments and central banks		4,516										89	4,605
Institutions <sup>1</sup>			4,777		202		45					441	5,465
Corporates								6	4,044			1,391	5,441
Retail								4,802				305	5,107
Covered bonds													
Secured by real estate						854				245		4,090	5,189
Exposures in default										650	37		688
Other		598								787		2,793	4,178
<b>Total<sup>2</sup></b>		<b>5,114</b>	<b>4,777</b>		<b>202</b>	<b>854</b>	<b>45</b>	<b>4,809</b>	<b>5,726</b>	<b>37</b>		<b>9,108</b>	<b>30,672</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.

(in millions, Exposure at Default)	Risk weight											31 December 2016		Total RWA (REA)
		0%	2%	10%	20%	35%	50%	75%	100%	150%	Other risk weights	Total EAD		
<b>Regulatory net exposure</b>														
Central governments and central banks		4,536										29	4,565	19
Institutions <sup>1</sup>			4,777		201		32					413	5,422	280
Corporates						7		4	1,977			1,391	3,378	2,599
Retail								898				244	1,141	761
Covered bonds														
Secured by real estate						822			244			4,090	5,156	1,009
Exposures in default										36	15		51	58
Other		598								787		1,468	2,853	1,593
<b>Total SA<sup>2</sup></b>		<b>5,134</b>	<b>4,777</b>		<b>201</b>	<b>829</b>	<b>32</b>	<b>901</b>	<b>3,044</b>	<b>15</b>		<b>7,635</b>	<b>22,567</b>	<b>6,319</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.

**SA approach: regulatory gross and net credit exposure by risk-weight** Pillar 3

(in millions, Exposure at Default)	Risk weight	31 December 2015										Other risk weights	Total EAD
		0%	2%	10%	20%	35%	50%	75%	100%	150%			
<b>Regulatory gross exposure</b>													
Central governments and central banks	2,786								114			78	2,979
Institutions <sup>1</sup>		4,094		255								136	4,485
Corporates								3	6,085		1	865	6,953
Retail								5,041				576	5,617
Covered bonds													
Secured by real estate						418				6		2,434	2,858
Exposures in default										602	66		668
Other	621									728		3,305	4,654
<b>Total<sup>2</sup></b>		<b>3,407</b>	<b>4,094</b>		<b>255</b>	<b>418</b>		<b>5,043</b>	<b>7,534</b>	<b>66</b>		<b>7,395</b>	<b>28,213</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.

(in millions, Exposure at Default)	Risk weight	31 December 2015										Other risk weights	Total EAD	Total RWA (REA)	
		0%	2%	10%	20%	35%	50%	75%	100%	150%					
<b>Regulatory net exposure</b>															
Central governments and central banks	2,805								114			39	2,958	132	
Institutions <sup>1</sup>		4,094		254								45	4,393	153	
Corporates						19		2	3,076			865	3,962	3,535	
Retail								818				540	1,358	793	
Covered bonds															
Secured by real estate						393				5		2,434	2,832	510	
Exposures in default										19	46		65	88	
Other	621									728		2,307	3,655	1,900	
<b>Total SA<sup>2</sup></b>		<b>3,426</b>	<b>4,094</b>		<b>254</b>	<b>413</b>		<b>820</b>	<b>3,942</b>	<b>46</b>		<b>6,228</b>	<b>19,223</b>	<b>7,110</b>	

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for other non-credit obligations.

## Credit quality by exposure class under the Internal Ratings-Based approach Pillar 3 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 Pillar 3 EDTF 15

		31 December 2016					
		Total		RWA	LGD 0% - 20%	LGD 20% - 50%	LGD >50%
(in millions)		EAD	RWA (REA)	(REA)/EAD	EAD (%)	EAD (%)	EAD (%)
<b>Exposure class</b>	<b>Grade category</b>						
Central governments and central banks	Investment grade	59,870	857	1%	54%	44%	2%
	Sub-investment grade	184	143	78%		79%	21%
	Impaired						
	<b>Total</b>	<b>60,054</b>	<b>1,001</b>	<b>2%</b>	<b>54%</b>	<b>44%</b>	<b>2%</b>
Institutions <sup>1</sup>	Investment grade	14,567	2,107	14%	39%	60%	1%
	Sub-investment grade	598	410	68%	31%	69%	
	Impaired	30		0%	100%		
	<b>Total</b>	<b>15,195</b>	<b>2,517</b>	<b>17%</b>	<b>39%</b>	<b>60%</b>	<b>1%</b>
Corporates	Investment grade	41,576	9,300	22%	46%	50%	4%
	Sub-investment grade	60,641	27,759	46%	72%	27%	1%
	Impaired	5,430	4,926	91%	27%	45%	28%
	<b>Total</b>	<b>107,647</b>	<b>41,985</b>	<b>39%</b>	<b>60%</b>	<b>37%</b>	<b>4%</b>
Retail	Investment grade	148,781	9,209	6%	81%	18%	1%
	Sub-investment grade	23,131	11,160	48%	52%	32%	16%
	Impaired	1,932	2,996	155%	3%	78%	19%
	<b>Total</b>	<b>173,844</b>	<b>23,366</b>	<b>13%</b>	<b>76%</b>	<b>21%</b>	<b>3%</b>
Securitisation positions	Investment grade	1,265	95	8%	100%		
	Sub-investment grade						
	Impaired						
	<b>Total</b>	<b>1,265</b>	<b>95</b>	<b>8%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>
Credit valuation adjustment	Investment grade						
	Sub-investment grade		804				
	Impaired						
	<b>Total</b>		<b>804</b>				
Total	Investment grade	266,058	21,568	8%	67%	31%	2%
	Sub-investment grade	84,554	40,276	48%	66%	29%	5%
	Impaired	7,392	7,923	107%	21%	53%	26%
	<b>Total<sup>2</sup></b>	<b>358,004</b>	<b>69,767</b>	<b>19%</b>	<b>66%</b>	<b>31%</b>	<b>3%</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> 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** Pillar 3 EDTF 15

		31 December 2015					
		Total			LGD 0% - 20%	LGD 20% - 50%	LGD >50%
(in millions)		EAD	RWA (REA)	RWA (REA)/EAD	EAD (%)	EAD (%)	EAD (%)
<b>Exposure class</b>	<b>Grade category</b>						
Central governments and central banks	Investment grade	58,769	746	1%	41%	54%	5%
	Sub-investment grade	123	232	189%		75%	25%
	Impaired						
	<b>Total</b>	<b>58,892</b>	<b>978</b>	<b>2%</b>	<b>41%</b>	<b>54%</b>	<b>5%</b>
Institutions <sup>1</sup>	Investment grade	13,804	2,337	17%	19%	77%	4%
	Sub-investment grade	351	548	156%	8%	81%	11%
	Impaired	22	2	10%	78%	0%	22%
	<b>Total</b>	<b>14,177</b>	<b>2,887</b>	<b>20%</b>	<b>19%</b>	<b>77%</b>	<b>4%</b>
Corporates	Investment grade	37,131	9,147	25%	39%	57%	4%
	Sub-investment grade	56,787	25,674	45%	78%	22%	
	Impaired	5,211	5,771	111%	20%	43%	37%
	<b>Total</b>	<b>99,128</b>	<b>40,592</b>	<b>41%</b>	<b>60%</b>	<b>36%</b>	<b>3%</b>
Retail	Investment grade	140,275	8,986	6%	81%	17%	2%
	Sub-investment grade	31,295	13,469	43%	57%	31%	12%
	Impaired	2,559	4,175	163%	5%	76%	19%
	<b>Total</b>	<b>174,129</b>	<b>26,631</b>	<b>15%</b>	<b>76%</b>	<b>20%</b>	<b>4%</b>
Securitisation positions	Investment grade	1,125	84	7%	100%		
	Sub-investment grade						
	Impaired						
	<b>Total</b>	<b>1,125</b>	<b>84</b>	<b>7%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>
Credit valuation adjustment	Investment grade		318				
	Sub-investment grade		787				
	Impaired						
	<b>Total</b>		<b>1,105</b>				
Total	Investment grade	251,105	21,618	9%	62%	35%	3%
	Sub-investment grade	88,556	40,710	46%	70%	26%	4%
	Impaired	7,791	9,948	128%	15%	54%	31%
	<b>Total<sup>2</sup></b>	<b>347,452</b>	<b>72,277</b>	<b>21%</b>	<b>63%</b>	<b>33%</b>	<b>4%</b>

<sup>1</sup> Institutions include exposures to banks and investment undertakings, regional governments and local authorities, and pension funds.

<sup>2</sup> Exposure at Default does not include EAD calculated for equities not held for trading and other non-credit obligations.

## European exposures

### European government and government-guaranteed exposures Audited

(in billions)	31 December 2016			31 December 2015		
	Government	Government guaranteed	Gross carrying amount	Government	Government guaranteed	Gross carrying amount
Netherlands	8.4		8.4	8.5		8.5
France	5.0		5.0	4.7		4.7
Germany	5.0		5.0	4.5		4.5
Austria	1.8		1.8	1.8		1.8
Belgium	3.9		3.9	3.2		3.2
European Union	2.0		2.0	1.6		1.6
Finland	2.4		2.4	2.1		2.1
Italy	0.7		0.7	0.4		0.4
Denmark	0.1		0.1	0.3		0.3
Poland	0.4		0.4	0.4		0.4
United Kingdom	0.3		0.3	0.3		0.3
Spain	0.5		0.5	0.6		0.6
Luxembourg	0.2		0.2	0.1		0.1
Sweden	0.3		0.3	0.4		0.4
<b>Total</b>	<b>30.9</b>		<b>30.9</b>	<b>29.0</b>		<b>29.0</b>

## Specific products and types of financing Pillar 3

### Exposure at Default for equities not held for trading Pillar 3

(in millions, Exposure at Default)	31 December 2016		31 December 2015	
	EAD	RWA (REA)	EAD	RWA (REA)
IRB - Private equity (190%)	714	1,357	645	1,226
IRB - Equity exposures subjected to risk weighting (250%)		1,829		1,949
IRB - Exchanged traded (290%)	72	209	98	287
IRB - Other equity (370%)	513	1,898	465	1,723
<b>Total</b>	<b>1,299</b>	<b>5,293</b>	<b>1,208</b>	<b>5,185</b>

### Exposure at Default for OTC derivatives Pillar 3

(in millions, Exposure at Default)	31 December 2016	31 December 2015
Gross positive fair value <sup>1</sup>	45,811	45,135
Add: Potential future exposure add-on	8,164	11,369
<b>Gross Exposure at Default</b>	<b>53,975</b>	<b>56,504</b>
Less: Netting benefits	43,679	45,541
Less: Collateral held	3,676	3,950
<b>Net Exposure at Default</b>	<b>6,620</b>	<b>7,012</b>

<sup>1</sup> Due to the implementation of CRD IV/CRR derivative exposures to central counterparties (CCP) are included as from 2014.

## Additional information on forborne, past due and impaired loans

### Forbearance credit quality Audited

31 December 2016

(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
<b>Loans and receivables - banks</b>							
<b>Loans and receivables - customers</b>							
Residential mortgages	1,173	722	214	237	3	21	24
Consumer loans	519	223	59	237	29	37	66
Corporate loans	6,658	3,474	104	3,080	679	70	749
Other loans and receivables - customers	359	223	17	119	27		27
<b>Total Loans and receivables - customers</b>	<b>8,710</b>	<b>4,643</b>	<b>394</b>	<b>3,673</b>	<b>738</b>	<b>128</b>	<b>866</b>
<b>Total</b>	<b>8,710</b>	<b>4,643</b>	<b>394</b>	<b>3,673</b>	<b>738</b>	<b>128</b>	<b>866</b>

### Forbearance credit quality Audited

31 December 2015

(in millions)	Total forborne assets <sup>1</sup>	Forborne assets not past due and not impaired <sup>1,2</sup>	Forborne assets past due but not impaired <sup>1,2</sup>	Impaired forborne assets <sup>1,2</sup>	Specific allowance	Collective allowance	Total allowance
<b>Loans and receivables - banks</b>							
<b>Loans and receivables - customers</b>							
Residential mortgages	1,757	1,067	282	408	27	36	63
Other consumer loans	648	240	53	355	31	27	57
Corporate loans	7,715	4,872	230	2,613	764	73	837
Other loans and receivables - customers	383	135	13	235	36		36
<b>Total Loans and receivables - customers</b>	<b>10,504</b>	<b>6,314</b>	<b>578</b>	<b>3,611</b>	<b>857</b>	<b>136</b>	<b>993</b>
<b>Total</b>	<b>10,504</b>	<b>6,314</b>	<b>578</b>	<b>3,611</b>	<b>857</b>	<b>136</b>	<b>993</b>

<sup>1</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>2</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification in allowances for impairments within residential mortgages. For more information on the reclassification in allowances refer to the residential mortgages section.

**Forborne assets by geography** Audited

(in millions)	31 December 2016					
	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
<b>Loans and receivables - banks</b>						
<b>Loans and receivables - customers</b>						
Residential mortgages	1,152	19	1		2	1,173
Consumer loans	491	27		1		519
Corporate loans	4,509	642	389	309	810	6,658
Other loans and receivables - customers	307	51				359
<b>Total Loans and receivables - customers</b>	<b>6,460</b>	<b>739</b>	<b>389</b>	<b>309</b>	<b>812</b>	<b>8,710</b>
<b>Total</b>	<b>6,460</b>	<b>739</b>	<b>389</b>	<b>309</b>	<b>812</b>	<b>8,710</b>

**Forborne assets by geography** Audited

(in millions)	31 December 2015					
	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
<b>Loans and receivables - banks</b>						
<b>Loans and receivables - customers</b>						
Residential mortgages	1,722	32			2	1,757
Other consumer loans	603	43		1	1	648
Corporate loans <sup>1</sup>	6,594	413	72	188	448	7,715
Other loans and receivables - customers	361	23				383
<b>Total Loans and receivables - customers<sup>1</sup></b>	<b>9,280</b>	<b>511</b>	<b>72</b>	<b>189</b>	<b>452</b>	<b>10,504</b>
<b>Total<sup>1</sup></b>	<b>9,280</b>	<b>511</b>	<b>72</b>	<b>189</b>	<b>452</b>	<b>10,504</b>

<sup>1</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

**Forborne assets by business segment** Audited

(in millions)	31 December 2016	31 December 2015
Retail Banking	1,552	2,157
Private Banking	227	375
Corporate Banking	6,931	7,972
<b>Total</b>	<b>8,710</b>	<b>10,504</b>



## Maturity of impaired exposures

(in millions)	31 December 2016				
	Gross carrying amount	Impaired exposures	<= one year impaired	>one year & <= five years impaired	> five years impaired
<b>Securities financing</b>	<b>17,590</b>				
<b>Loans and receivables - banks</b>	<b>13,488</b>				
<b>Loans and receivables - customers</b>					
Residential mortgages <sup>1</sup>	149,255	1,257	966	279	11
Consumer loans	12,539	738	257	481	
Corporate loans <sup>1</sup>	90,920	6,695	1,906	4,150	639
Other loans and receivables - customers <sup>1,2</sup>	13,838	222	129	75	18
<b>Total Loans and receivables - customers<sup>1</sup></b>	<b>266,551</b>	<b>8,912</b>	<b>3,258</b>	<b>4,985</b>	<b>668</b>
<b>Other assets</b>	<b>2,303</b>	<b>12</b>	<b>7</b>	<b>5</b>	<b>1</b>
<b>Total on-balance sheet<sup>1</sup></b>	<b>299,932</b>	<b>8,925</b>	<b>3,265</b>	<b>4,990</b>	<b>670</b>
Total off-balance sheet	125,518	134	122	12	
<b>Total<sup>1</sup></b>	<b>425,449</b>	<b>9,059</b>	<b>3,387</b>	<b>5,002</b>	<b>670</b>

<sup>1</sup> Carrying amount excludes fair value adjustment from hedge accounting.

<sup>2</sup> Other loans and receivables - customers consist of Government and official institutions, Financial lease receivables and factoring.

## Maturity of impaired exposures

(in millions)	31 December 2015				
	Gross carrying amount	Impaired exposures <sup>5</sup>	<= one year impaired <sup>5</sup>	>one year & <= five years impaired <sup>5</sup>	> five years impaired <sup>5</sup>
<b>Securities financing</b>	<b>20,073</b>	<b>11</b>			<b>11</b>
<b>Loans and receivables - banks</b>	<b>15,682</b>	<b>2</b>		<b>2</b>	
<b>Loans and receivables - customers</b>					
Residential mortgages <sup>1,2</sup>	148,465	1,511	1,179	321	12
Consumer loans	15,147	1,028	412	586	31
Corporate loans <sup>1,3</sup>	100,387	6,179	2,310	3,022	848
Other loans and receivables - customers <sup>1,4</sup>	11,881	318	165	139	14
<b>Total Loans and receivables - customers<sup>1,2,3</sup></b>	<b>275,881</b>	<b>9,037</b>	<b>4,065</b>	<b>4,068</b>	<b>904</b>
<b>Other assets</b>	<b>1,903</b>	<b>11</b>	<b>6</b>	<b>4</b>	<b>1</b>
<b>Total on-balance sheet<sup>1,2,3</sup></b>	<b>313,538</b>	<b>9,060</b>	<b>4,072</b>	<b>4,073</b>	<b>915</b>
Total off-balance sheet	118,300	117	22	95	
<b>Total<sup>1,2,3</sup></b>	<b>431,838</b>	<b>9,177</b>	<b>4,093</b>	<b>4,169</b>	<b>916</b>

<sup>1</sup> Carrying amount excludes fair value adjustment from hedge accounting.

<sup>2</sup> Netting is no longer applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>4</sup> Other loans and receivables - customers consist of Government and official institutions, Financial lease receivables and factoring.

<sup>5</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification in allowances for impairments within residential mortgages. For more information on the reclassification in allowances refer to the residential mortgages section.

## Maturity of allowances for impairments for identified credit risk

31 December 2016

(in millions)	Impaired exposures	Allowances for Impairments for identified credit risk	<= one year impaired	>one year & <= five years impaired	> five years impaired
<b>Securities financing</b>					
<b>Loans and receivables - banks</b>					
<b>Loans and receivables - customers</b>					
Residential mortgages <sup>1</sup>	1,257	-209	-157	-47	-6
Consumer loans	738	-387	-67	-320	
Corporate loans <sup>1</sup>	6,695	-2,761	-209	-1,951	-600
Other loans and receivables - customers <sup>1,2</sup>	222	-68	-19	-44	-5
<b>Total Loans and receivables - customers</b>	<b>8,912</b>	<b>-3,425</b>	<b>-452</b>	<b>-2,363</b>	<b>-611</b>
<b>Other assets</b>	<b>12</b>	<b>-5</b>	<b>-3</b>	<b>-1</b>	<b>-1</b>
<b>Total on-balance sheet</b>	<b>8,925</b>	<b>-3,430</b>	<b>-454</b>	<b>-2,364</b>	<b>-612</b>
Total off-balance sheet	134				
<b>Total</b>	<b>9,059</b>	<b>-3,430</b>	<b>-454</b>	<b>-2,364</b>	<b>-612</b>

<sup>1</sup> Carrying amount excludes fair value adjustment from hedge accounting.

<sup>2</sup> Other loans and receivables - customers consist of Government and official institutions, Financial lease receivables and factoring.

## Maturity of allowances for impairments for identified credit risk

31 December 2015

(in millions)	Impaired exposures <sup>1</sup>	Allowances for Impairments for identified credit risk	<= one year impaired	>one year & <= five years impaired	> five years impaired
<b>Securities financing</b>	<b>11</b>	<b>-11</b>			<b>-11</b>
<b>Loans and receivables - banks</b>	<b>2</b>	<b>-2</b>		<b>-2</b>	
<b>Loans and receivables - customers</b>					
Residential mortgages <sup>1</sup>	1,511	-245	-160	-78	-7
Consumer loans	1,028	-471	-140	-312	-19
Corporate loans <sup>1,2</sup>	6,179	-3,098	-625	-1,708	-764
Other loans and receivables - customers <sup>1,3</sup>	318	-78	-21	-49	-9
<b>Total Loans and receivables - customers<sup>1,2</sup></b>	<b>9,037</b>	<b>-3,892</b>	<b>-946</b>	<b>-2,147</b>	<b>-800</b>
<b>Other assets</b>	<b>11</b>	<b>-4</b>	<b>-2</b>	<b>-1</b>	<b>-1</b>
<b>Total on-balance sheet<sup>1,2</sup></b>	<b>9,060</b>	<b>-3,908</b>	<b>-948</b>	<b>-2,150</b>	<b>-811</b>
Total off-balance sheet	117				
<b>Total<sup>1,2</sup></b>	<b>9,177</b>	<b>-3,909</b>	<b>-948</b>	<b>-2,150</b>	<b>-811</b>

<sup>1</sup> Carrying amount excludes fair value adjustment from hedge accounting.

<sup>2</sup> For comparison purposes the 2015 figures have been adjusted for the accounting policy change regarding the Notional cash pooling. For further details please refer to note 1 in the Consolidated Annual Financial Statements.

<sup>3</sup> Other loans and receivables - customers consist of Government and official institutions, Financial lease receivables and factoring.

<sup>4</sup> As of 30 September 2016 ABN AMRO aligned the definition of default and impaired. Comparative figures have been adjusted excluding the reclassification in allowances for impairments within residential mortgages. For more information on the reclassification in allowances refer to the residential mortgages section.

## Maturity overview of assets and liabilities

Audited | EDTF 20

The following table shows the financial assets and liabilities arranged by the earliest possible contractual maturity.

### Contractual maturity of assets and liabilities Audited EDTF 20

31 December 2016

(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
<b>Assets</b>									
Cash and balances at central banks	21,861								21,861
Financial assets held for trading <sup>1</sup>	1,607								1,607
Derivatives	571	937	510	442	766	3,440	7,718		14,384
Financial investments	1,866	2,697	1,450	2,564	2,840	10,534	22,318	1,227	45,497
Securities financing	14,106	2,681	162				641		17,589
Loans and receivables - banks <sup>2</sup>	7,020	1,549	563	211	300	472	3,370		13,485
Loans and receivables - customers <sup>2</sup>	24,871	10,047	2,715	6,627	25,109	25,490	172,819		267,679
Other assets <sup>1</sup>	4,887	997	279	753	258	230	418	4,558	12,380
<b>Total assets</b>	<b>76,789</b>	<b>18,908</b>	<b>5,679</b>	<b>10,596</b>	<b>29,272</b>	<b>40,167</b>	<b>207,285</b>	<b>5,785</b>	<b>394,482</b>
<b>Liabilities</b>									
Financial liabilities held for trading <sup>1</sup>	791								791
Derivatives	949	870	536	484	604	2,199	8,884		14,526
Securities financing	9,657	942		10	1,017				11,625
Due to banks <sup>2</sup>	4,106	760	424	196	59	5,105	2,770		13,419
Due to customers <sup>2</sup>	205,314	10,785	2,188	1,950	606	2,143	5,772		228,758
Issued debt	5,721	9,057	6,694	6,282	7,563	21,031	24,929		81,278
- of which senior secured		1,751	260	236	2,050	7,660	17,397		29,354
- of which senior unsecured	1,125	1,680	308	4,543	4,763	12,870	7,528		32,817
- of which securitisation			500	600	750	500			2,350
- of which other	4,596	5,626	5,626	903		1	4		16,757
Subordinated liabilities			82	2,096		3,435	5,558		11,171
Other liabilities <sup>1</sup>	6,808	1,843	194	139	1,307	6	52	3,627	13,976
<b>Total liabilities</b>	<b>233,344</b>	<b>24,256</b>	<b>10,117</b>	<b>11,157</b>	<b>11,157</b>	<b>33,920</b>	<b>47,965</b>	<b>3,627</b>	<b>375,544</b>
<b>Total equity</b>								<b>18,937</b>	<b>18,937</b>
<b>Total liabilities and equity</b>	<b>233,344</b>	<b>24,256</b>	<b>10,117</b>	<b>11,157</b>	<b>11,157</b>	<b>33,920</b>	<b>47,965</b>	<b>22,565</b>	<b>394,482</b>
<b>Off-balance sheet liabilities</b>									
Committed credit facilities	27,299								27,299
Guarantees	2,659								2,659
Irrevocable facilities	6,178								6,178
Recourse risks arising from discounted bills	7,037								7,037
<b>Total off-balance sheet liabilities</b>	<b>43,173</b>								<b>43,173</b>

<sup>1</sup> Excluding Derivatives.

<sup>2</sup> Excluding Securities financing.

**Contractual maturity of assets and liabilities** Audited EDTF 20

31 December 2015

(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
<b>Assets</b>									
Cash and balances at central banks	26,195								26,195
Financial assets held for trading <sup>1</sup>	1,706								1,706
Derivatives	720	845	349	409	1,192	3,847	11,777		19,138
Financial investments	980	3,898	1,924	1,028	3,050	9,039	19,641	981	40,542
Securities financing	17,006	2,335	96			625			20,062
Loans and receivables - banks <sup>2</sup>	5,192	2,151	198	205	413	291	7,229		15,680
Loans and receivables - customers <sup>2,3,4</sup>	42,829	6,645	2,623	7,362	29,267	21,090	166,560		276,375
Other assets <sup>1</sup>	3,463	44	6	33	350	211	1,116	2,454	7,676
<b>Total assets</b>	<b>98,090</b>	<b>15,918</b>	<b>5,195</b>	<b>9,037</b>	<b>34,272</b>	<b>35,104</b>	<b>206,322</b>	<b>3,435</b>	<b>407,373</b>
<b>Liabilities</b>									
Financial liabilities held for trading <sup>1</sup>	459								459
Derivatives	743	793	423	387	1,175	3,291	15,613		22,425
Securities financing	10,252	79	1		1,028	11			11,372
Due to banks <sup>2</sup>	4,342	1,077	541	401	32	4,446	3,790		14,630
Due to customers <sup>2,3,4</sup>	219,184	16,514	1,751	2,240	924	1,495	5,244		247,353
Issued debt	4,745	6,045	4,340	4,472	11,015	21,570	24,020		76,207
- of which senior secured			135	439	2,282	6,664	16,436		25,956
- of which senior unsecured	1,325	649	3,331	3,301	7,628	13,607	7,563		37,404
- of which securitisation				600	1,100	1,250	18		2,968
- of which other	3,420	5,396	874	132	5	49	3		9,879
Subordinated liabilities			5		82	114	9,507		9,708
Other liabilities <sup>1</sup>	2,581	681	287	525	663	7	181	2,710	7,635
<b>Total liabilities</b>	<b>242,307</b>	<b>25,190</b>	<b>7,348</b>	<b>8,025</b>	<b>14,919</b>	<b>30,934</b>	<b>58,355</b>	<b>2,710</b>	<b>389,789</b>
<b>Total equity</b>								<b>17,584</b>	<b>17,584</b>
<b>Total liabilities and equity</b>	<b>242,307</b>	<b>25,190</b>	<b>7,348</b>	<b>8,025</b>	<b>14,919</b>	<b>30,934</b>	<b>58,355</b>	<b>20,295</b>	<b>407,373</b>
<b>Off-balance sheet liabilities</b>									
Committed credit facilities	21,559								21,559
Guarantees	2,440								2,440
Irrevocable facilities	5,737								5,737
Recourse risks arising from discounted bills	5,691								5,691
<b>Total off-balance sheet liabilities</b>	<b>35,427</b>								<b>35,427</b>

<sup>1</sup> Excluding Derivatives.

<sup>2</sup> Excluding Securities financing.

<sup>3</sup> Netting is no longer be applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly. The impact on the comparative 31 December 2015 loans and receivables – customers balances and due to customers balances is EUR 1.5 billion.

<sup>4</sup> ABN AMRO amended its offsetting policy in Q2 2016. The year-end 2015 figures have been adjusted accordingly. Further details are provided in note 1 Accounting policies. The impact on the comparative 31 December 2015 loans and receivables – customers balances and due to customers balances is EUR 15.5 billion.

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 the 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 2016

(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
<b>Assets:</b>											
Cash and balances at central banks	21,861										21,861
Financial assets held for trading <sup>1</sup>	1,607										1,607
Derivatives		508	219	238	357	530	1,229	3,119	2,395		8,596
Financial investments	384		1,510	2,804	1,700	3,006	3,602	12,205	23,552	1,227	49,991
Securities financing	9,412		4,697	2,685	164	4	8	20	661		17,652
Loans and receivables - banks <sup>2</sup>	2,655		4,371	1,563	590	256	380	654	3,537		14,006
Loans and receivables - customers <sup>2</sup>	11,160		14,067	11,382	5,928	12,557	35,092	48,090	193,456		331,731
Other assets	3,771		1,118	1,001	285	760	266	248	431	4,558	12,438
<b>Total undiscounted assets</b>	<b>50,850</b>	<b>508</b>	<b>25,982</b>	<b>19,673</b>	<b>9,024</b>	<b>17,114</b>	<b>40,578</b>	<b>64,334</b>	<b>224,032</b>	<b>5,785</b>	<b>457,881</b>
<b>Of which:</b>											
<b>Gross settled derivatives not held for trading:</b>											
Contractual amounts receivable			8	6	13	27	51	48	21		175
Contractual amounts payable			6	4	10	19	37	63	31		170
<b>Total undiscounted gross settled derivatives not held for trading</b>			<b>1</b>	<b>2</b>	<b>4</b>	<b>8</b>	<b>14</b>	<b>-15</b>	<b>-9</b>		<b>5</b>
Net settled derivatives not held for trading			217	236	352	522	1,216	3,129	2,332		8,004
<b>Liabilities:</b>											
Financial liabilities held for trading <sup>1</sup>	791										791
Derivatives		833	249	232	384	756	1,410	3,239	7,337		14,440
Securities financing	7,959		1,699	944	3	16	1,018				11,639
Due to banks <sup>2</sup>	1,634		2,476	775	459	261	179	5,354	2,872		14,011
Due to customers <sup>2</sup>	130,220		75,116	10,803	2,212	1,987	667	2,278	5,877		229,160
Issued debt	2,330		3,457	9,302	7,219	7,150	8,949	23,977	26,711		89,095
Subordinated liabilities			22	88	302	2,450	639	4,825	6,503		14,830
Other liabilities	1,024		5,785	1,845	197	143	1,308	7	53	3,627	13,989
<b>Total liabilities</b>	<b>143,958</b>	<b>833</b>	<b>88,805</b>	<b>23,988</b>	<b>10,777</b>	<b>12,762</b>	<b>14,170</b>	<b>39,681</b>	<b>49,354</b>	<b>3,627</b>	<b>387,955</b>
<b>Of which:</b>											
<b>Gross settled derivatives not held for trading:</b>											
Contractual amounts receivable			8	24	32	63	84	103	12		326
Contractual amounts payable			16	10	27	53	63	96	8		274
<b>Total undiscounted gross settled derivatives not held for trading</b>			<b>8</b>	<b>-13</b>	<b>-5</b>	<b>-10</b>	<b>-21</b>	<b>-7</b>	<b>-4</b>		<b>-52</b>
Net settled derivatives not held for trading			240	209	389	725	1,401	3,130	6,023		12,115
<b>Net liquidity gap</b>	<b>-93,108</b>	<b>-324</b>	<b>-62,823</b>	<b>-4,315</b>	<b>-1,753</b>	<b>4,352</b>	<b>26,407</b>	<b>24,653</b>	<b>174,679</b>	<b>2,158</b>	<b>69,926</b>
<b>Off balance sheet liabilities</b>											
Committed credit facilities	27,299										27,299
Guarantees	2,659										2,659
Irrevocable facilities	6,178										6,178
Recourse risks arising from discounted bills	7,037										7,037
<b>Total off-balance sheet liabilities</b>	<b>43,173</b>										<b>43,173</b>

<sup>1</sup> Excluding Derivatives.<sup>2</sup> Excluding Securities financing.

**Maturity based on contractual undiscounted cash flows** Audited

31 December 2015

(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
<b>Assets</b>											
Cash and balances at central banks	26,195										26,195
Financial assets held for trading <sup>1</sup>	1,706										1,706
Derivatives <sup>2</sup>		223	173	287	412	497	1,278	3,225	3,487		9,582
Financial investments	50		957	4,003	2,157	1,448	3,769	10,613	20,810	981	44,789
Securities financing	12,781		4,227	2,339	98	4	8	639			20,097
Loans and receivables - banks <sup>3</sup>	2,859		2,340	2,174	246	294	571	657	7,591		16,731
Loans and receivables - customers <sup>3,4,5</sup>	29,408		13,800	8,071	6,090	13,742	39,741	44,835	188,579		344,266
Other assets	2,570		894	46	11	43	365	245	1,147	2,454	7,775
<b>Total undiscounted assets</b>	<b>75,569</b>	<b>223</b>	<b>22,392</b>	<b>16,919</b>	<b>9,015</b>	<b>16,029</b>	<b>45,733</b>	<b>60,214</b>	<b>221,613</b>	<b>3,435</b>	<b>471,140</b>
<b>Of which:</b>											
<b>Gross settled derivatives not held for trading:</b>											
Contractual amounts receivable			15	5	20	55	76	128	137		436
Contractual amounts payable			11	3	14	27	41	68	9		174
<b>Total undiscounted gross settled derivatives not held for trading</b>			<b>4</b>	<b>2</b>	<b>6</b>	<b>28</b>	<b>35</b>	<b>60</b>	<b>128</b>		<b>262</b>
Net settled derivatives not held for trading			169	285	406	469	1,241	3,164	3,286		9,020
<b>Liabilities</b>											
Financial liabilities held for trading <sup>1</sup>	459										459
Derivatives <sup>2</sup>		249	250	194	472	694	1,440	3,213	7,979		14,491
Securities financing	9,521		732	81	5	6	1,029	11			11,385
Due to banks <sup>2</sup>	1,979		2,371	1,100	590	490	197	4,795	3,972		15,494
Due to customers <sup>3,4,5</sup>	163,251		55,963	16,548	1,790	2,295	1,011	1,689	5,404		247,952
Issued debt	2,082		2,726	6,284	4,879	5,403	12,430	24,553	25,775		84,132
Subordinated liabilities			20	79	201	374	784	1,749	11,165		14,372
Other liabilities	1,218		1,364	682	288	527	664	8	182	2,710	7,642
<b>Total liabilities</b>	<b>178,509</b>	<b>249</b>	<b>63,426</b>	<b>24,967</b>	<b>8,225</b>	<b>9,788</b>	<b>17,557</b>	<b>36,017</b>	<b>54,478</b>	<b>2,710</b>	<b>395,927</b>
<b>Of which:</b>											
<b>Gross settled derivatives not held for trading:</b>											
Contractual amounts receivable			13	24	23	61	109	133	53		416
Contractual amounts payable			16	3	19	38	64	57	38		235
<b>Total undiscounted gross settled derivatives not held for trading</b>			<b>3</b>	<b>-21</b>	<b>-5</b>	<b>-23</b>	<b>-45</b>	<b>-76</b>	<b>-15</b>		<b>-182</b>
Net settled derivatives not held for trading			248	215	461	676	1,422	3,227	6,864		13,111
<b>Net liquidity gap</b>	<b>-102,941</b>	<b>-26</b>	<b>-41,033</b>	<b>-8,048</b>	<b>789</b>	<b>6,240</b>	<b>28,176</b>	<b>24,196</b>	<b>167,135</b>	<b>725</b>	<b>75,213</b>
<b>Off balance sheet liabilities</b>											
Committed credit facilities	21,559										21,559
Guarantees	2,440										2,440
Irrevocable facilities	5,737										5,737
Recourse risks arising from discounted bills	5,691										5,691
<b>Total off-balance sheet liabilities</b>	<b>35,427</b>										<b>35,427</b>

<sup>1</sup> Excluding Derivatives.

<sup>2</sup> As of year-end 2016, a redefined methodology for contractual amount of Gross settled derivatives not held for trading has been applied. The 2015 figures have been adjusted.

<sup>3</sup> Excluding Securities financing.

<sup>4</sup> Netting is no longer be applied to bank saving mortgages, hence the bank saving mortgages are presented gross. Comparative figures have been adjusted accordingly.

The impact on the comparative 31 December 2015 loans and receivables – customers balances and due to customers balances is EUR 1.5 billion.

<sup>5</sup> ABN AMRO amended its offsetting policy in Q2 2016. The year-end 2015 figures have been adjusted accordingly. Further details are provided in note 1 Accounting policies.

The impact on the comparative 31 December 2015 loans and receivables – customers balances and due to customers balances is EUR 15.5 billion.



# Leadership

This section presents the bank's leadership which includes the Managing Board and Supervisory Board. Additionally it presents the Report of the Supervisory Board over the year 2016.

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# Managing Board



**Managing Board** (from left to right)  
Johan van Hall, Kees van Dijkhuizen, Wietze Reehoorn

## Statement of the Managing Board

This report aims to give our stakeholders a balanced, transparent picture of our short-term and long-term performance. We have embraced integrated reporting principles and focus on how we create value in response to what matters most to our stakeholders.

### Integrated reporting

The integrated reporting framework of the International Integrated Reporting Council has helped us improve our reporting in recent years. We have gradually moved from focusing mainly on providing financial information to providing more non-financial information as well.



This year we devoted specific attention to the following guiding principles in the framework:

- ▶ **Materiality:** We disclose information on matters that significantly affect the organisation's ability to create value. We conducted materiality research among our stakeholders in 2016 and incorporated the topics they believe are most important into this report. See also the Strategy section, What matters most.
- ▶ **Conciseness:** We tried to strike a balance between disclosing enough information to meet regulatory requirements and providing context to help our stakeholders understand the organisation, without burdening the reader with irrelevant information.
- ▶ **Reliability:** We are committed to ensuring the accuracy and reliability of all information provided in this report, both financial and non-financial. To ensure the reliability of information provided in our Managing Board Report, in addition to the Independent Auditor's report on the Annual Financial Statements this year EY performed a limited assurance engagement on the disclosures related to the material topics identified by our stakeholders.
- ▶ **Connectivity:** The connectivity table in the Strategy section shows how the material topics relate to both our strategy and our stakeholders. This table shows how our stakeholders' needs are incorporated into our strategic choices for the coming years. Each material topic presented throughout this report shows which stakeholders have identified it as important and how our strategy addresses the topic.

## Regulations and guidelines

ABN AMRO must comply with regulations such as International Financial Reporting Standards (IFRS), financial reporting requirements included in Title 9, Book 2 of the Dutch Civil Code, Financial Supervision Act, Basel III (CRD IV/CRR) framework, and the Corporate Governance Code and Dutch Banking Code.

We also aim to incorporate the requirements of other standards into this report, including the Transparency Benchmark, Dow Jones Sustainability Index and Integrated Reporting.

## Corporate Governance

Good corporate governance is critical for us to realise our strategic ambition of being a trusted and professional partner for all our stakeholders. We launched various initiatives in 2016 to further strengthen our corporate governance. The Rules of Procedure for both the Supervisory Board and Managing Board were updated to ensure continued compliance with prevailing laws and regulations. These changes are also designed to increase the transparency of our internal governance and to create a more robust management control environment.

We have implemented changes to the governance model for certain parts of Group Functions in the international network and at subsidiaries. More information is provided under Subsidiaries and international governance in the Governance section.

## Media

This report is intended to inform key stakeholder groups that affect, and are affected by, our business. We have tried to make this report as accessible as possible to our different stakeholder groups by making use of various media:

- ▶ **Annual Report supplement:** Our Annual Report supplement provides examples of initiatives we have deployed in areas that our stakeholders deem important. The supplement shows how we are putting our strategy into practice.
- ▶ **Annual reporting website:** Our annual reporting website presents highlights of the Annual Report and the bank's performance in 2016. Accessible both by mobile phone and computer, this website conveys our message in a clear and understandable manner, for example in short videos highlighting our material topics.
- ▶ **Other publications:** In addition to the above publications, we also publish information on our website that is of interest to specific stakeholder groups that want to know more about our sustainability or financial performance. In 2016 we were the first financial institution in the world to publish a Human Rights Report.

Amsterdam, 14 March 2017

## The Managing Board

Kees van Dijkhuizen, Chief Executive Officer  
 Johan van Hall, Vice-Chairman  
 Wietze Reehoorn, Chief Risk Officer

## Curriculum Vitae Managing Board



**Kees van Dijkhuizen** (Dutch, male, 1955)  
**Chief Executive Officer**

Kees van Dijkhuizen was appointed to the Managing Board of ABN AMRO Group N.V. and ABN AMRO Bank N.V. on 1 May 2013. Kees van Dijkhuizen was Chief Financial Officer from 1 June 2013 to 31 December 2016.

He was appointed as CEO and Chairman of the Managing Board on 1 January 2017. His current term expires in 2021.

**Other positions:** Chairman, Government Committee on Export, Import and Investment Guarantees; Member, AFM Capital Market Committee; Board Member, Dutch Banking Association.



**Johan van Hall** (Dutch, male, 1960)  
**Chief Operating Officer/Vice-Chairman**

Johan van Hall was appointed to the Managing Board of ABN AMRO Bank N.V. on 9 April 2009, to the Managing Board of ABN AMRO Group N.V. on 18 December 2009 and to the Managing Board of Fortis Bank (Nederland) N.V. (as of 1 July 2010 merged with ABN AMRO Bank N.V.) on 1 April 2010. Johan van Hall is the Chief Operating Officer responsible for Technology, Operations, and Property Services (TOPS). As of 1 June 2013, he is the Vice-Chairman of the Managing Board. His current term expires in 2018.

**Supervisory position:** Member Supervisory Board, equensWorldline (pan-European Payment Processor); Vice-chairman, Advisory Committee of Centraal Bureau voor de Statistiek CBS (Statistics Netherlands); Member Supervisory Council, Christelijk Voortgezet Onderwijs Baarn/Soest.

**Other positions:** Board Member, Nyenrode International Advisory Board; Member, NBA Signaleringsraad (Dutch professional organisation for Accountants); Chairman, Stichting "ABN AMRO Support for India".



**Wietze Reehoorn** (Dutch, male, 1962)  
**Chief Risk Officer**

Wietze Reehoorn was appointed to the Managing Boards of ABN AMRO Group N.V., ABN AMRO Bank N.V. and Fortis Bank Nederland N.V. (as of 1 July 2010, merged with ABN AMRO Bank N.V.) on 1 April 2010. As Chief Risk Officer he is responsible for Risk Management, Legal, Compliance & Conduct and Security & Intelligence Management. His current term expires in 2018.

**Supervisory position:** Member Supervisory Council, Rijksuniversiteit Groningen; Member Supervisory Board, Stichting Amsterdam Institute of Finance (AIF); Member Supervisory Council, Stichting Topsport Community; Member Supervisory Council, Frans Halsmuseum.

**Other position:** Board Member, Abe Bonnema Stichting.

Further details on the backgrounds and *curricula vitae* of the members of the Managing Board who left ABN AMRO in 2016 (based on information available at the time of resignation) are available on our website.

# Supervisory Board



## Supervisory Board (from left to right)

Tjalling Tiemstra, Arjen Dorland, Annemieke Roobeek, Steven ten Have, Olga Zoutendijk, Frederieke Leeftang, Jurgen Stegmann

## Chairman's message

For the first time as Chairman of the Supervisory Board of ABN AMRO, I am pleased to present the report of the Supervisory Board for the year 2016. My duties as Chairman commenced at the closing of the annual General Meeting on 18 May 2016. Mr Steven ten Have was appointed Vice-Chairman of the Supervisory Board effective the same date. Previously I served as Vice-Chairman from 20 August 2015 and as a member of the Supervisory Board from 1 July 2014.

The year under review was characterised by renewal of the Supervisory Board and the beginning of a transformation of the bank's leadership and culture. At the heart of these changes were our enhanced focus on the needs of the bank's clients, positioning the bank for competitive differentiation and sustainable growth, and building a client-focused culture of high performance and accountability.



The bank's operating environment has continued to evolve since ABN AMRO returned to the Amsterdam Stock Exchange in November 2015. Changing client needs and expectations, new entrants, rapid technological advancements and stricter regulations – these were the key developments addressed during our assessment of the bank's strategic priorities throughout the year.

The Supervisory Board regularly discussed a broad array of strategic considerations presented by the Managing Board, participated in joint strategy sessions, and critically reviewed and challenged the Managing Board's plans. At all times, the focus was on the interests of our clients, creating long-term value for the bank and building a client focused culture of high performance and accountability.

During 2016, four new members joined the Supervisory Board, bringing new ideas, diverse experience and fresh perspective. The following members joined: Mr Arjen Dorland, Ms Frederieke Leeflang, Mr Jurgen Stegmann and Mr Tjalling Tiemstra. The following members stepped down: Mr Rik van Slingelandt, Mr Hans de Haan and Mr Bert Meerstadt.

The Supervisory Board invested in its effectiveness and cohesiveness through sessions dedicated to team building. The Supervisory Board decided to reduce its size from eight to seven members, to set the right example for a less top-heavy management structure of the bank.

It was also a year of renewal for the Managing Board of the bank. The Supervisory Board reached agreement with Mr Gerrit Zalm in September 2016 regarding his departure as Chairman of the Managing Board effective 1 January 2017. The Supervisory Board conducted a dual-track CEO succession process, with internal and external candidates, supported by an external executive search firm.

In November 2016, following careful and extensive consultation with key stakeholders, the Supervisory Board appointed Mr Kees van Dijkhuizen as CEO and Chairman of the Managing Board, subject to regulatory approval.

Mr van Dijkhuizen previously served the bank as CFO as from 1 June 2013 and, following regulatory approval, Mr van Dijkhuizen assumed his duties as CEO effective 1 January 2017. Speaking on behalf of my colleagues on the Supervisory Board, we are confident of Mr van Dijkhuizen's ability to successfully lead ABN AMRO during the next stage of the bank's long history.

In the coming years the bank will focus even more strongly on generating sustainable growth and delivering value-add solutions to its clients. In addition, the bank aims to improve its cost/ income ratio by growing operating income, reducing costs, and consolidating and growing the bank's positions in Corporate & Institutional Banking in the Netherlands as well as in the other markets in which the bank operates.

Above all, under Mr van Dijkhuizen's leadership, the bank in the next phase will focus on building a client-focused culture of high performance and accountability. This change management journey was initiated with the announcement in February 2017 of a new management structure which will significantly de-layer the organisation and vastly reduce in size the top-heavy management structure.

On behalf of the Supervisory Board, I would like to thank the former Managing Board members Mr Gerrit Zalm, Ms Caroline Princen, Mr Chris Vogelzang and Mr Joop Wijn for their dedication and contributions to the bank.

I would like to especially thank our clients for their trust, loyalty and business, our staff for their client focus, enthusiasm and hard work, and my fellow colleagues on the Supervisory Board for their commitment, contribution and steadfastness during the year 2016.

## Olga Zoutendijk

Chairman of the Supervisory Board



# Report of the Supervisory Board

## Developments in 2016

Ms Olga Zoutendijk was appointed by the Supervisory Board as of the General Meeting of 18 May 2016 as Chairman of the Supervisory Board.

During 2016, four new members joined the Supervisory Board: Mr Arjen Dorland, Ms Frederieke Leeftang, Mr Jurgen Stegmann and Mr Tjalling Tiemstra. The following members stepped down: Mr Rik van Slingelandt, Mr Hans de Haan and Mr Bert Meerstadt.

The new Supervisory Board members were carefully selected based on both their individual track records and the complementarity of their experience, capabilities and interpersonal styles within the overall Supervisory Board team. The Supervisory Board granted the General Meeting the opportunity to recommend candidates for these positions. The General Meeting did not recommend candidates for these vacancies.

Furthermore, the Supervisory Board invited the Employee Council to recommend candidates for nomination for the relevant positions. The Employee Council decided not to recommend candidates for nomination for these positions and confirmed its support for all proposed candidates. All appointments are for a term which ends at the close of the annual General Meeting in 2020. The Supervisory Board has adopted a retirement and reappointment schedule, which is published on [abnamro.com](http://abnamro.com).

The Supervisory Board members have expertise relating to banking, strategy, change management, P&L management, accounting, innovation, IT, digitalisation, economics, risk management, remuneration and human resources management, sustainability and corporate social responsibility, legal and compliance issues, the development of products and services, and experience in the key markets in which the bank is active. The Supervisory Board has at least one financial expert.

All members of the Supervisory Board passed the fit and proper test under the Dutch Financial Supervision Act. The Supervisory Board confirms that all members of the Supervisory Board are independent within the meaning of provision III.2.2 of the Dutch Corporate Governance Code (2008).

The Audit Committee is chaired by Mr Tiemstra. Ms Zoutendijk, Mr Dorland and Mr Stegmann were members on 31 December 2016.

Mr Stegmann succeeded Ms Zoutendijk as the Chairman of the Risk & Capital Committee as per 12 August 2016. Ms Zoutendijk, Mr Dorland, Ms Annemieke Roobeek and Mr Tiemstra were members on 31 December 2016.

Mr ten Have is the Chairman of the Remuneration, Selection & Nomination Committee. Ms Zoutendijk, Mr Dorland, Ms Leeftang and Ms Roobeek were members on 31 December 2016.

## Focus areas of the Supervisory Board in 2016

During the course of the year under review, the Supervisory Board held five meetings according to the pre-set schedule, four informal team meetings, three conference calls, six Permanent Education sessions and seventeen additional meetings. The additional meetings focused on specific subjects, such as joint strategy discussions with the Managing Board, as well as the Supervisory Board's evaluation of internal and external candidates as part of the CEO succession process.

Plenary Supervisory Board meetings are usually spread over two days, starting on the first day with the meetings of the Risk & Capital Committee in the morning and the Audit Committee in the afternoon. The Remuneration, Selection & Nomination Committee generally meets a few weeks prior. The Supervisory Board meeting on the second day takes into account the outcome and recommendations of the committee meetings which already took place. The Company Secretary attends all meetings and is the secretary of the Supervisory Board and its committees.

The Managing Board attends the formal meetings of the Supervisory Board and prepares detailed supporting documents. The regular meetings on average last four hours. Management Group members and the external accountant were frequently invited to present on specific topics.

The attendance record of the Supervisory Board members was as follows:

2016	Formal meetings (5) <sup>5</sup>	Team meetings (4) <sup>5</sup>	Additional meetings (17)	Total meetings (26)
O.L. Zoutendijk	5/5	4/4	15	24
D.J.M.G. van Slingelandt <sup>1</sup>	3/3	2/2	3	8
S. ten Have	3/5	4/4	15	22
J.M. Roobeek	5/5	4/4	16	25
J.S.T. Tiemstra <sup>2</sup>	2/2	2/4	11	15
A.C. Dorland <sup>2</sup>	2/2	2/2	12	16
F.J. Leeftang <sup>2</sup>	2/2	2/2	13	17
J.B.J. Stegmann <sup>3</sup>	2/2	1/2	8	11
A. Meerstadt <sup>4</sup>	2/2	1/1	1	4
H.P. de Haan <sup>1</sup>	3/3	2/2	3	8

<sup>1</sup> Until 18 May 2016.

<sup>2</sup> As of 18 May 2016.

<sup>3</sup> As of 12 August 2016.

<sup>4</sup> Until 7 April 2016.

<sup>5</sup> The total number of meetings attended per member may differ because some members of the Supervisory Board were appointed at a later date than others. The number between brackets reflects the number of meetings the member attended from the time of their appointment or until the time of their resignation.

In addition to the Supervisory Board's focus on strategy, culture and the CEO succession process, as already described above in the Chairman's message, other key areas of focus for the Supervisory Board during the year were the bank's compliance with regulations, specifically preparation for the Market Abuse Regulations, Anti-money laundering/Sanctions and MiFID II. Furthermore the Supervisory Board was regularly updated on ABN AMRO's strategic risks and the design of the internal risk management and control systems. During these updates the Managing Board's assessment of the adequacy and effectiveness of the risk management and control systems was monitored and discussed. Other important topics were the bank's risk management and risk appetite, including deep dives on the bank's Energy, Commodities & Transportation (ECT) client sector to analyse the potential impact of various oil price scenarios, as well as lessons learned from specific credit files.

The Supervisory Board focused on innovation and the digitalisation of products and services, data quality and data integration, reliability and availability of information, the bank's compliance with laws, codes and regulations and simplification of the IT landscape and processes. The Supervisory Board also focused on the resolution of legacy legal and tax matters, the European Central Bank initiated stress tests and the related stress test scenarios and the recommendations by the ECB following their internal risk governance review (RIGA).

The Supervisory Board actively engaged its key stakeholders in 2016, 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. We also met regularly with the bank's Employee Council to obtain their thoughts and input on



various issues, including their thoughts on the need to move away from an overly top-heavy management structure toward a more dynamic culture of high performance and accountability for our clients. The Supervisory Board highly values the constructive relationship with the Employee Council.

At the same time, the Supervisory Board maintained active engagement throughout the year with the Dutch central bank, the European Central Bank, STAK AAG and NLF. Our 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.

Please note that a description of the duties, responsibilities and current composition of the Supervisory Board including its committees is provided in the Supervisory Board section of the Governance section. That section also includes relevant details, such as other positions held by members of the Supervisory Board. More information on remuneration is provided under Remuneration in the Governance section. These subjects are considered to be incorporated by reference into this Report of the Supervisory Board.

## The Supervisory Board Committees

### Audit Committee

The Audit Committee (the 'Committee') held five regular meetings in 2016. The meetings were attended by all members of the Committee, with the exception of one member not being present at one meeting. All plenary meetings of the Committee were attended by the Chairman of the Managing Board, the CFO and the CRO. Furthermore the Director Group Audit, the independent external auditor and the Company Secretary attended the full meetings. All matters discussed in a plenary meeting of the Committee and which were relevant for the Supervisory Board were directly verbally reported in the next meeting of the Supervisory Board.

In addition to the plenary meetings, the Chairman of the Committee regularly held separate sessions with the independent external auditor, the Director Group Audit and the CFO. Furthermore, the Chairman of the Audit Committee met the independent auditor two times bilaterally focusing

on the progress of the external audit and other subjects relevant to the responsibilities of the Audit Committee. The Chairman also met two times with the European Central Bank and the Dutch central bank in 2016. Committee members also met managers of different departments to remain well informed about the subjects to be supervised by the Committee.

Directly after the meeting in which the annual accounts were discussed, the Committee met the independent external auditor to seek confirmation that all relevant matters from the audit came to the attention of the Committee. The Committee held four non-executive meetings in 2016, without members of the Managing Board or the external auditor being present, which took place immediately prior to the plenary meetings of the Committee.

On 18 May 2016 Mr Tjalling Tiemstra succeeded Mr Hans de Haan as Chairman of the Committee. At the same date Mr Rik Van Slingelandt stepped down and Mr Arjen Dorland was appointed as member of the Committee.

On 7 April Mr Bert Meerstadt resigned as member of the Supervisory Board and as member of the Committee. Mr Jurgen Stegmann was appointed as member of the Supervisory Board on 12 August 2016 and as member of the Audit Committee.

In the plenary meetings the Committee discussed among other things the quarterly reports, the interim and annual accounts, the quarterly press releases, the interim and final dividend proposals, the 2015 Annual Report of ABN AMRO and key audit matters as reported by internal and external audit. The Committee also discussed financial reporting, the overall internal control environment, the governance and internal controls over financial reporting, adherence to laws and regulations governing financial and regulatory reporting, 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 it devoted attention to the procedures for financial reporting, including the procedure for the establishment of 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.

Furthermore 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 on, and discussed, all letters from the European Central Bank and Dutch central bank that were of interest to the Committee.

The Committee also closely monitored the financial and regulatory reporting improvement programmes in 2016 and was regularly updated on the progress of these programmes by the Managing Board, Group Audit and the external auditor. The Committee advised positively on the proposal to advance the publication dates of quarterly results from the second quarter of 2017 onwards.

In addition to the regular topics noted above in February 2016 the Committee received the report of the external auditor regarding the 2015 consolidated financial statements and subsequently discussed, approved, and advised the Supervisory Board to approve the quarterly report for Q4 2015. The Committee also approved the 2015 dividend proposal and discussed the focal points for the annual reporting and General Meeting highlighted by NLF1 and a letter concerning this topic from the VEB.

In March 2016 the Committee reviewed and discussed the Annual Reports 2015 of ABN AMRO Group N.V. and ABN AMRO Bank N.V., the audit thereof by the external auditor and the Management Control Statement. In May, in addition to the regular agenda items, the Committee discussed the audit plan 2016 of the external auditor as of fiscal year 2016, the assurance report on asset separation and the audit reports on Common Reporting 2015 and Financial Reporting 2015 by the leaving external auditor.

In August 2016 the Committee agreed on the interim dividend proposal and advised the Supervisory Board accordingly.

In November the Committee decided on the Group Audit Plan 2017-2021 and the annual review of the Group Audit

Charter. Furthermore the progress concerning the Finance & Risk Alignment Architecture Initiative was discussed as well as the approach for the Annual Report 2016.

The Audit Committee reviewed and discussed the Annual Report 2016 and the Annual Financial Statements 2016 of ABN AMRO Group N.V. and all annexed information in March 2017.

### Risk & Capital Committee

The Risk & Capital Committee (the 'Committee') held four plenary meetings in 2016. These meetings were attended by all members of the Committee. All matters discussed in a plenary meeting of the Committee and which were relevant for the Supervisory Board were directly verbally reported in the subsequent meeting of the Supervisory Board. The full Supervisory Board also received minutes of the Committee meetings.

On 18 May 2016 Mr Rik van Slingelandt and Mr Hans de Haan stepped down as members of the Committee. At the same date Mr Tjalling Tiemstra and Mr Arjen Dorland were appointed as members of the Committee. Mr Jurgen Stegmann was appointed as member of the Supervisory Board and as Chairman of the Committee on 12 August 2016.

A recurring and regular item on the Committee's agenda is the Enterprise Risk Management (ERM) Report, which provides a concise overview of the state of affairs of all risk types identified in the risk taxonomy. The ERM report aims to identify cross-risk type issues and/or effects and to provide a single integrated view on the bank's risk profile, benchmarked against the bank's risk appetite (which is established annually by the Managing Board and approved by the Committee, the Supervisory Board and the General Meeting) and its strategy. Other important subjects included the bank's largest individual exposures and lessons learned with regard to specific impairments. Based on the ERM Report, the Committee also held in-depth discussions on risk governance, operational risks, market risks and credit concentration risks. The ERM report and all other regular and one-off reports were used by the Committee to hold oversight on the risk function and to advise the Managing Board concerning the risk function.





Other recurring agenda items include the quarterly legal and compliance updates. Based on these reports the Committee discussed individual legal and compliance files, the performance of the compliance and legal functions, compliance policies and procedures, progress updates on an improvement programme with regard to the Compliance & Conduct organisation, the relationship with the supervisory authorities, and the impact of national and international laws and regulations. As of Q3 2016, the discussion and assessment of the Compliance & Conduct reports have been transferred from the Committee to the Supervisory Board given its importance.

Furthermore the bank's capital and funding plan was a permanent item on the Committee's agenda. Each quarter the Committee assessed the current capital and funding plan and was updated on the bank's capital and funding positions. The Committee discussed the bank's target capital ratios, also in view of the long-term strategy, and the plans for raising capital and funding, including the timing. Particular attention was paid to the leverage ratio and the liquidity coverage ratio, including the exact regulatory definition of these ratios and the national and international discussions in this respect. In all instances the Committee advised the Supervisory Board on the capital and funding plan.

A permanent agenda item was the correspondence with the Dutch central bank, the European Central Bank, the AFM and other supervisory authorities. The Committee was informed on these matters in quarterly oversight reports prepared by the internal auditor and Compliance & Conduct. The Committee also discussed the vast number of letters and reports received from and sent to the Dutch central bank and the European Central Bank concerning risk and capital-related subjects.

In addition to the abovementioned recurring agenda items, in its meeting of February 2016 the Committee was informed on oil price developments and their impact on the performance of ABN AMRO. In this meeting also the charter and annual plan of the Compliance & Conduct function were discussed and approved. Other subjects were country risk management and the annual report of the Security & Intelligence Management department.

In the plenary meeting in May, the Committee was updated on the preliminary outcome of the ABN AMRO EU Stress Test, country risk in non-presence countries and policy approval procedures.

In August, the Committee discussed and approved the bank's risk appetite for 2017 and the annual adjustment of the international risk charter. Furthermore developments in energy markets and the offshore industry were discussed. The EU-wide stress test results were discussed in depth.

In November the Committee discussed and approved an update on the bank's risk appetite for 2017. Furthermore the Committee discussed the national and international risk governance charter, reviewed whether prices of liabilities and assets offered to clients take fully into account the institution's business model and risk strategy and examined whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings. The Committee also took note of and discussed an update on the Risk Governance and Appetite Review conducted by the European Central Bank, an update on oil price developments and an update with regard to the risk of negative interest rates.

More information on the risk, capital, liquidity and funding-related topics discussed in the Risk & Capital Committee is provided in the Risk, funding & capital section.

### Remuneration, Selection & Nomination Committee

The Remuneration, Selection & Nomination Committee (the 'Committee') held four regular meetings in 2016. The meetings were attended by all members of the Committee. The Chairman of the Managing Board, the Managing Board member responsible for People Regulations & Identity, representatives of HR and the Company Secretary also joined the meetings.

As a result of the resignation of Mr Bert Meerstadt as a member of the Supervisory Board with effect from 7 April 2016, and consequently as a member of the Committee, the Committee then consisted of Mr Steven ten Have and Mr Rik van Slingelandt. Due to the lack of a quorum until the annual General Meeting in May 2016, the Committee's decisions were ratified each time by the Supervisory Board. Subsequently Mr Rik van Slingelandt



stepped down as Chairman and member of the Supervisory Board and as a member of the Committee during the annual General Meeting on 18 May 2016. As from 15 June 2016 the Committee was back at full strength consisting of Mr ten Have (Chairman), Ms Olga Zoutendijk, Mr Arjen Dorland, Ms Frederieke Leeftang and Ms Annemieke Roobeek. Until their appointment to the Supervisory Board, Ms Leeftang and Mr Dorland attended the Committee's meetings as observers. However, in accordance with stricter legislation, the Supervisory Board continued to ratify all decisions taken by the Committee throughout 2016, including those taken in writing without a meeting being held.

In 2016 the Committee continued focusing on the succession planning of the Supervisory Board, the Managing Board and the Management Group and rendered advice to the Supervisory Board regarding the abovementioned topics.

The Committee devoted careful attention to the required search, selection and nomination processes that resulted in the appointment of the Chairman and four members of the Supervisory Board. All of its key stakeholders were closely involved in, and kept well informed of, these processes at all times. The Committee is pleased that it succeeded in bringing the Supervisory Board up to full operational strength again.

Another important focus area was the selection and recruitment process for the successor to the Chairman of the Managing Board. The Committee, and in particular its Chairman, in close consultation with the Chairman of the Supervisory Board and supported by an external executive search firm, took the lead in the search and recruitment process, keeping all key stakeholders involved and well informed throughout the process. In addition, the Chairman maintained close contact with the other members of the Committee and the Supervisory Board.

During the year a range of subjects were on the agenda of the Committee. In February, the results of the organisation-wide Key Performance Indicator (KPI) targets for 2015 were extensively reviewed, challenged and approved and the Committee issued positive advice to the Supervisory Board on the 2015 performance review of the Managing

Board. Furthermore, in connection with the Variable Compensation Plan for Identified Staff members, the malus analysis, the gatekeeper process and the calculation of the net asset value of performance certificates were discussed in detail. The related proposals received the Committee's positive advice and were sent to the Supervisory Board for approval. In addition, the Committee asked the Managing Board to consider the possibility of redesigning the current KPI framework and performance rating method in the near future to ensure full consistency with international developments and practices.

In March, the Committee considered the targets and assessment standards of the organisation-wide KPI targets for 2016, which were subsequently approved by the Supervisory Board. The Risk & Capital Committee also reviewed these targets, taking risk, capital and liquidity into account, with a positive outcome. Furthermore, the Committee advised positively on the list of Identified Staff for 2016. All relevant guidelines for qualification as Identified Staff were applied to this list, which is continuously subject to change. Furthermore, the remuneration restrictions imposed by the Act on the Remuneration Policy for Financial Undertakings (*Wet beloningsbeleid financiële ondernemingen*, Wbfo) and its impact on the organisation were discussed in depth.

In its August meeting, the Committee held a discussion with the Managing Board on the definition of a long-term vision on remuneration and possible structural measures and adjustments to the current reward system. The Committee initiated this dialogue with the aim of balancing society's concerns and increasing regulatory constraints on remuneration with the need to attract and retain the right talent. Moreover, the succession planning and leadership assessment procedure for the Managing Board and Management Group were discussed extensively.

Further to its request in February in which the Committee had asked the Managing Board to explore the possibility of redesigning the current KPI framework and assessment method, most of November's meeting was devoted to discussing potential adjustments to this framework for the Managing Board and Management Group. In addition, the Committee also discussed the results of the Employee Engagement Survey 2016 and the leadership assessment results of the Senior Managing Directors. In December



the Committee's Chairman met with representatives of the European Central Bank and the Dutch central bank in order to report on the Committee's activities.

## Performance Evaluation of the Supervisory Board

The Supervisory Board entrusts the annual performance evaluation of the Supervisory Board as a whole and of its individual members to a specialised external advisory firm. This process consists of a full performance evaluation every three years, including face-to-face interviews with the Chairman and each Board member. In the intervening years, this process consists of an online questionnaire, conducted by the same external advisory firm.

The most recent full performance evaluation took place in 2015 and the resulting report listed a number of recommendations. This report and the recommendations were discussed amongst the members of the Supervisory Board in mid 2016. The recommendations and conclusions of the report which were relevant to the Managing Board were shared with the Managing Board.

Consistent with the three year schedule, the Supervisory Board assessed its performance over 2016 on the basis of a questionnaire conducted by the same external consultant in February 2017, and will follow-up on the conclusions of this Effectiveness Review during its upcoming Supervisory Board team meetings.

The Supervisory Board also discussed the performance of the Managing Board and its individual members, the outcome of their individual leadership assessments conducted in Q3 of 2016, and the resulting conclusions.

## Conclusion

The bank delivered good results in 2016, both financial and non-financial, maintains a solid balance sheet and is well positioned for the future.

The Supervisory Board has reviewed and approved the Annual Report 2016, the annual Financial Statements 2016 and all annexed information of ABN AMRO Group. The Financial Statements 2016 have been audited by the external auditors, EY. Their findings have been discussed with the Audit Committee and the Supervisory Board in the presence of the Managing Board. The auditors have expressed an unqualified opinion on the Financial Statements.

The Supervisory Board members have signed the 2016 Annual Financial Statements pursuant to their statutory obligations under article 2:101 (2) of the Dutch Civil Code. The members of the Managing Board have signed the 2016 Annual Financial Statements pursuant to their statutory obligations under article 2: 101(2) of the Dutch Civil Code and article 5:25c (2) (c) of the Financial Market Supervision Act.

The Supervisory Board of ABN AMRO, recommends that the annual General Meeting adopts the Annual Report 2016 incorporating the Annual Financial Statements for the year 2016 and the proposal to pay out a final cash dividend of EUR 414 million or 0.44 per share.

Amsterdam, 14 March 2017

## The Supervisory Board

Olga Zoutendijk, Chairman  
Steven ten Have, Vice-Chairman  
Arjen Dorland  
Frederieke Leeftang  
Annemieke Roobeek  
Jurgen Stegmann  
Tjalling Tiemstra

## Curriculum Vitae Supervisory Board



### Olga Zoutendijk (Dutch, female, 1961)

#### Chairman

Olga Zoutendijk was appointed to the Supervisory Boards of ABN AMRO Group N.V. and ABN AMRO Bank N.V. effective 1 July 2014. As of 20 August 2015 Olga Zoutendijk was appointed Vice Chairman. As of 18 May 2016 Olga Zoutendijk was appointed Chairman. Her present term expires in 2018.

**Last executive position held:** Member of the Wholesale Banking global executive committee, Senior Managing Director and Group Head of Wholesale Banking, Asia at Standard Chartered Bank.

**Supervisory positions:** Member Supervisory Council, University of Leiden.



### Steven ten Have (Dutch, male, 1967)

#### Vice-Chairman

Steven ten Have was appointed to the Supervisory Board of ABN AMRO Group N.V. on 30 March 2010 and as of 1 April 2010, to the Supervisory Boards of ABN AMRO Bank N.V. and Fortis Bank (Nederland) N.V. (as of 1 July 2010, merged with ABN AMRO Bank N.V.). As of 18 May 2016 Steven ten Have was appointed Vice-chairman. His present term expires in 2018.

**Current positions:** Partner with Ten Have Change Management; Full professor of Strategy

and Change Management/Director of the Msc.-programme Change Management at Vrije Universiteit Amsterdam.

**Supervisory position:** Chairman Supervisory Board, Software Improvement Group (SIG) B.V.

**Other positions:** Member of the Education Council of the Netherlands (Onderwijsraad); Chairman, Stichting "Center for Evidence-Based Management"; Deputy expert member Ondernemingskamer Gerechtshof Amsterdam (Court of Enterprise 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 present term expires in 2020.

**Last executive position held:** Executive Vice President of Technical and Competitive IT, Royal Dutch Shell.

**Supervisory position:** Member Supervisory Council, Stichting Naturalis Biodiversity Center.



### 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. Her present term expires in 2020.

**Current positions:** Lawyer, Competition and European law at Boekel N.V.

**Supervisory positions:** Member (vice chairperson) Supervisory Council, Onderwijsstichting Zelfstandige Gymnasia (Educational Foundation of Independent Gymnasia); Member Supervisory Council,

Stichting KWF Kankerbestrijding (Dutch Cancer Society); Member Audit Advisory Committee of the Dutch Court of Audit (Algemene Rekenkamer).

**Other positions:** Chairperson, Advisory Council, Centrum Indicatiestelling Zorg (CIZ, Care Assessment Centre); Board member, De Amsterdamse Kring; Board member (vice chairperson), Amsterdam Diner Foundation; Various lectureships at the Nederlandse Orde van Advocaten (Dutch Bar Association), Elsevier, Kluwer and OSR; Board member, Vereniging voor Mededingingsrecht (Association for Competition law).


**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 as of 1 April 2010, to the Supervisory Boards of ABN AMRO Bank N.V. and Fortis Bank (Nederland) N.V. (as of 1 July 2010, merged with ABN AMRO Bank N.V.). Her present term expires in 2017.

**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-owner of XL Labs B.V.

**Supervisory Positions:** Member Supervisory Board, Abbott Healthcare Products B.V.; Member Supervisory Board, KLM N.V.

**Other positions:** Chairperson, PGM Advisory Board for Responsible Investment; Chairperson, Stichting INSID, Institute for sustainable innovation & development directed by His Royal Highness Prince Carlos de Bourbon Parme; Member, "Raad van Eigen Wijzen" (Advisory Board), CPI Governance; Member, International Advisory Board of Howaldt & Co, Hamburg, Germany.


**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 present term expires in 2020.

**Current position:** Director and owner Stegmanagment B.V.

**Last executive position held:** Chief Financial Officer at Robeco Groep N.V.

**Supervisory positions:** Member Supervisory Board, Stichting Woonstad Rotterdam; Member Supervisory Board, Janssen de Jong Groep B.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 present term expires in 2020.

**Last executive position held:** Chief Financial Officer of Hagemeyer N.V.

**Current positions:** Director and owner, Drs J.S.T. Tiemstra Management Services B.V.

**Supervisory positions:** Member Supervisory Board, DKG Holding B.V.; Member Supervisory Board, Stichting Reinier de Graaf HAGA Groep; Member Supervisory Board, Batenburg Techniek N.V.; Member Supervisory Board, Royal Haskoning DHV B.V.

**Other positions:** Board member, Stichting Continuïteit KBW N.V. (Continuity Foundation Koninklijke Boskalis Westminster); Board

member, Stichting Preferente Aandelen (Preference Shares) Wolters Kluwer; Board member, Stichting Administratie Kantoor van Aandelen N.V. Twentsche Kabel Holding (Administration Office for Shares); Member Advisory Board, Dienst Uitvoering Onderwijs (DUO) (Education Executive Agency of the Dutch Ministry of Education, Culture and Science); Member Monitoringcommissie Code Pensioenfondsen (Monitoring Committee Dutch Pension Funds Code); Member Advisory Board, Court of Justice of Rotterdam; Deputy expert member, Ondernemingskamer Gerechtshof Amsterdam (Court of Enterprise at the Amsterdam Court of Appeal); Chairman, Governance, Risk & Compliance Committee of Nederlandse Beroepsorganisatie van Accountants (NBA) (Dutch Institute of Chartered Accountants).

Further details on the backgrounds and *curricula vitae* of the members of the Supervisory Board who left ABN AMRO in 2016 (based on information available at the time of resignation) are available on our website.



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# Governance

This section presents an overview of the Group's corporate governance framework, including information on the bank's remuneration policy and employee representation.

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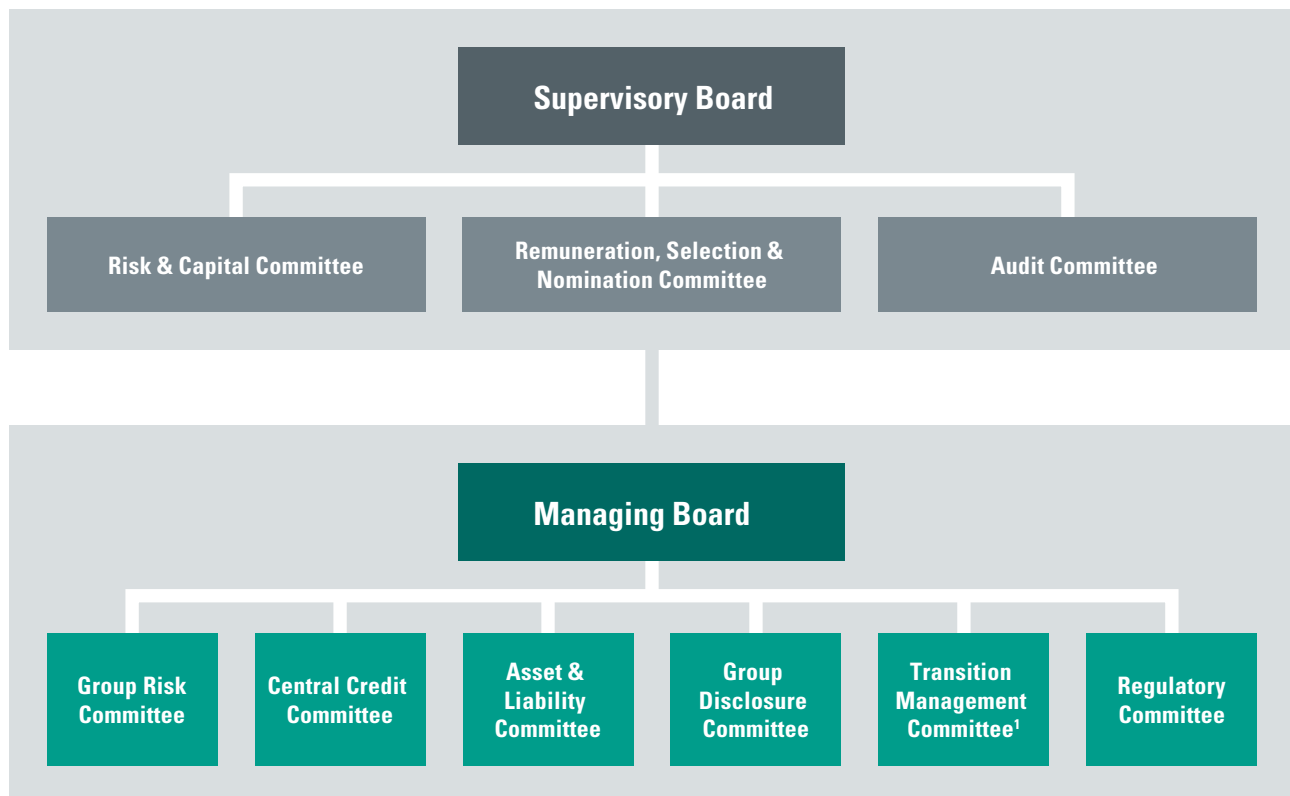
### Employee representation

# Corporate Governance

## Corporate structure

ABN AMRO Group is a public company with limited liability incorporated on 18 December 2009 under Dutch law. The company has a two-tier board consisting of a Managing Board<sup>1</sup> and a Supervisory Board. The compositions of the Supervisory Boards of ABN AMRO Group and ABN AMRO Bank are identical, as is the composition of the Managing

Boards of ABN AMRO Group and ABN AMRO Bank and the committees of these boards. Pursuant to section 2:154 of the Dutch Civil Code, the full structure regime applies to ABN AMRO Group. Under the mandatory full structure regime, the Supervisory Board has the authority to appoint and dismiss members of the Managing Board.



<sup>1</sup> The Transition Management Committee was discontinued as a Managing Board Committee as from 8 November 2016.

<sup>1</sup> The current text refers to the management structure that was effective throughout the year 2016. The new management structure as announced on 6 February 2017 will become effective upon receipt of the required regulatory approvals.





# Managing Board

## Composition

The Supervisory Board determines the number of members of the Managing Board, the minimum being two people. On 31 December 2016, the Managing Board consisted of seven members.

The year 2016 marked the beginning of a renewal of the Managing Board. Mr Kees van Dijkhuizen, formerly Chief Financial Officer of ABN AMRO, was appointed CEO and Chairman of the Managing Board with effect from 1 January 2017. The process of appointing a new CFO to succeed Mr van Dijkhuizen is under way.

With the exception of Mr van Dijkhuizen, who was appointed in 2013 for a period of four years, the current members of the Managing Board were reappointed at the General Meeting held on 10 April 2014. Each reappointment was for a term which ends at the close of the first General Meeting held after four years have passed since his or her last appointment. This is the maximum period for appointments and reappointments according to the best practice provision II.1.1 of the Dutch Corporate Governance Code (2008). Since Mr van Dijkhuizen was appointed CEO as per 1 January 2017, and his mandate as a Managing Board member is proposed to be extended on the occasion of the General Meeting in May 2017, his extended mandate as a Managing Board member will be aligned with his term as CEO of ABN AMRO.

The Supervisory Board reached agreement with Ms Caroline Princen and Mr Chris Vogelzang regarding their resignation in 2017. Mr Joop Wijn resigned to pursue a new career opportunity.

A new management structure was announced on 6 February 2017 which will become effective after the required regulatory approvals<sup>1</sup> have been obtained. More information is provided in the Message from the CEO.

An overview of the composition of the Managing Board, including key information on the backgrounds and terms of office of each Managing Board member, is provided in the Managing Board section of this report and on abnamro.com.

## Responsibilities

The members of the Managing Board are collectively responsible for the strategy, structure and performance of ABN AMRO. In carrying out their duties, the members of the Managing Board are guided by the interest and continuity of ABN AMRO. The Managing Board is accountable to the Supervisory Board and to the General Meeting. The Rules of Procedure of the Managing Board are available on abnamro.com.

## Appointment, suspension and dismissal

Managing Board members are appointed by the Supervisory Board, which notifies the General Meeting of the intended appointment of a member of the Managing 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 Managing Board as Chairman and may at all times suspend a member of the Managing Board. Further information on the suspension and dismissal procedure is provided in ABN AMRO's Articles of Association.

## Managing Board committees

The Managing Board has established a number of committees that are responsible for decision-making on certain subjects and for advising the Managing Board on certain matters. This includes three risk-related committees: the Group Risk Committee, the Group Asset & Liability Committee and the Central Credit Committee. More information on the delegated authority of these committees is provided in the Risk, funding & capital section. In addition, the Managing Board has installed a Group Disclosure Committee and a Group Regulatory Committee.

<sup>1</sup> This Annual Report describes the management structure that was effective throughout the year 2016 only.



The Group Disclosure Committee is responsible for, among other things, advising and supporting the Managing 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, (i) ensuring a good understanding and an adequate overview of, (ii) regularly informing and consulting the Managing Board about, and (iii) making strategic choices and taking decisions on matters relating to changing national and international laws and regulations affecting the Group.

The Group Transition Management Committee, which was responsible for, among other things, tactical management of the Group-wide transition programmes, was discontinued in November 2016. A transformation committee will be installed to take on responsibility for safeguarding Group-wide transition programmes.

# Supervisory Board

## Composition

The Supervisory Board determines the minimum number of its members, which must in any case be at least three people. The Supervisory Board has drawn up a profile for its composition and the desired expertise and background of its members. This profile was discussed in the 2015 General Meeting and with ABN AMRO Group's Employee Council in 2015. The full profile of the Supervisory Board is available on [abnamro.com](http://abnamro.com), as an annex to the Rules of Procedure of the Supervisory Board.

The Supervisory Board evaluates its own functioning and that of its individual members on an annual basis. For more information see the Report of the Supervisory Board (Performance Evaluation).

In accordance with the best practice provisions of the Dutch Corporate Governance Code, Supervisory Board members are appointed for a maximum of three 4-year terms (which end at the close of the first General Meeting that is held after four years have passed since his or her last appointment).

## Responsibilities

The Supervisory Board supervises the Managing Board as well as ABN AMRO Group's general course of affairs and its business. In addition, it supports the Managing Board by providing advice. In performing their duties, the members of the Supervisory Board are guided by the interests of ABN AMRO. Specific powers are vested in the Supervisory Board, including the approval of certain decisions taken by the Managing Board.

More information on the activities of the Supervisory Board in 2016 is provided in the Report of the Supervisory Board included in this Annual Report.

The Rules of Procedure of the Supervisory Board are available on [abnamro.com](http://abnamro.com).

## Appointment, suspension and dismissal

The members of the Supervisory Board are appointed by the General Meeting. Only candidates who have passed the fit and proper test under the Dutch Financial Markets Supervision Act are eligible for appointment. Such appointment is based on a nomination by the Supervisory Board. The Supervisory Board must notify the General Meeting and the Employee Council simultaneously of its nomination. The General Meeting may reject the nomination with an absolute majority of the votes cast, representing at least one-third of the issued share capital. If an absolute majority has rejected the nomination, but the majority did not represent at least one-third of the issued share capital, a new meeting can be convened to vote on the nomination. In that case, the nomination can be rejected by an absolute majority of the votes cast (irrespective of the issued share capital present or represented at the meeting and irrespective of the percentage of the issued share capital which that majority represents). If the General Meeting does not appoint the nominee and does not resolve to reject the nomination, the Supervisory Board will appoint the nominee.

The General Meeting and the Employee Council may recommend candidates to the Supervisory Board to be nominated as members of the Supervisory Board. 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 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.

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's Articles of Association.

## Supervisory Board committees

### Composition

The Supervisory Board has established three regular committees to prepare its decision-making and to advise the Supervisory Board on certain matters: the Audit Committee, the Risk & Capital Committee and the Remuneration, Selection & Nomination Committee. The Rules of Procedure of the Supervisory Board include the terms of reference of these committees and are available on abnamro.com.

### 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 entire Supervisory Board with regard to, among other things, (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) compliance with relevant laws and regulations, (vi) mediation between internal or external auditors and/or management, and (vii) reporting to the Supervisory Board. The committee is composed of Mr Tjalling Tiemstra (Chair), Mr Arjen Dorland, Mr Jurgen Stegmann and Ms Olga Zoutendijk.

### Risk & Capital Committee

The Risk & Capital Committee is responsible for supervising and advising the entire Supervisory Board with regard to, among other things, (i) risk management and risk control, including pricing policies, (ii) compliance, (iii) the allocation of capital and liquidity, (iv) the bank's risk appetite, (v) compliance with applicable laws and regulations (including codes of conduct and internal procedures), (vi) risk awareness within the bank, (vii) sound remuneration policies and practices in light of risk, capital, liquidity and expected earnings, (viii) proposing corrective and/or disciplinary measures against members of the Managing Board in the event of a breach of applicable laws and regulations, and (ix) periodic reviews of the Group's actual risk profile. The committee is composed of Mr Jurgen Stegmann (Chair), Mr Arjen Dorland, Ms Annemieke Roobeek, Mr Tjalling Tiemstra and Ms Olga Zoutendijk.

### Remuneration, Selection & Nomination Committee

The Remuneration, Selection & Nomination Committee is responsible for supervising and advising the entire

Supervisory Board with regard to, among other things, (i) remuneration policies and execution of these policies for members of the Managing Board, the Supervisory Board and selected members of senior management, (ii) the selection, appointments and reappointments of members of the Supervisory Board and the Managing Board, (iii) succession plans for the Supervisory Board and the Managing Board, (iv) the knowledge, skills, experience, performance, size, composition and profile of both boards, (v) the performance of the members of both boards, and (vi) reporting on the execution of the remuneration policies in a remuneration report. The committee is composed of Mr Steven ten Have (Chair), Mr Arjen Dorland, Ms Frederieke Leeflang, Ms Annemieke Roobeek and Ms Olga Zoutendijk.

## Introductory programme and lifelong learning programme

### Introductory programme

Upon their appointment, all members of the Supervisory Board follow an introductory programme designed to ensure that they have the relevant knowledge to fulfil their duties, including thorough knowledge of ABN AMRO. The programme provides the information needed for participation in the lifelong learning programme. 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

ABN AMRO has a lifelong learning programme for the Supervisory Board and the Managing Board which is designed to keep the members' expertise up to date and to broaden and deepen their knowledge where necessary. In most cases, members of the Supervisory Board and Managing Board participate in the same courses to foster knowledge-sharing between the boards. The curriculum is developed and updated continuously to ensure a balanced programme covering all relevant aspects of the bank's performance and takes into account current developments in the financial industry. Topics covered in 2016 included an interactive workshop on the EU Data Protection Regulation, Corporate Culture and Stress Testing & Scenario Analysis. Additionally, the Supervisory Board followed a separate workshop on Operational Risk Management and visited International Card Services and the ABN AMRO Digital House. The Managing Board had a separate workshop on Regulatory Expectations and the Market Abuse Regulation.

# General Meeting and shareholder structure

## General Meeting

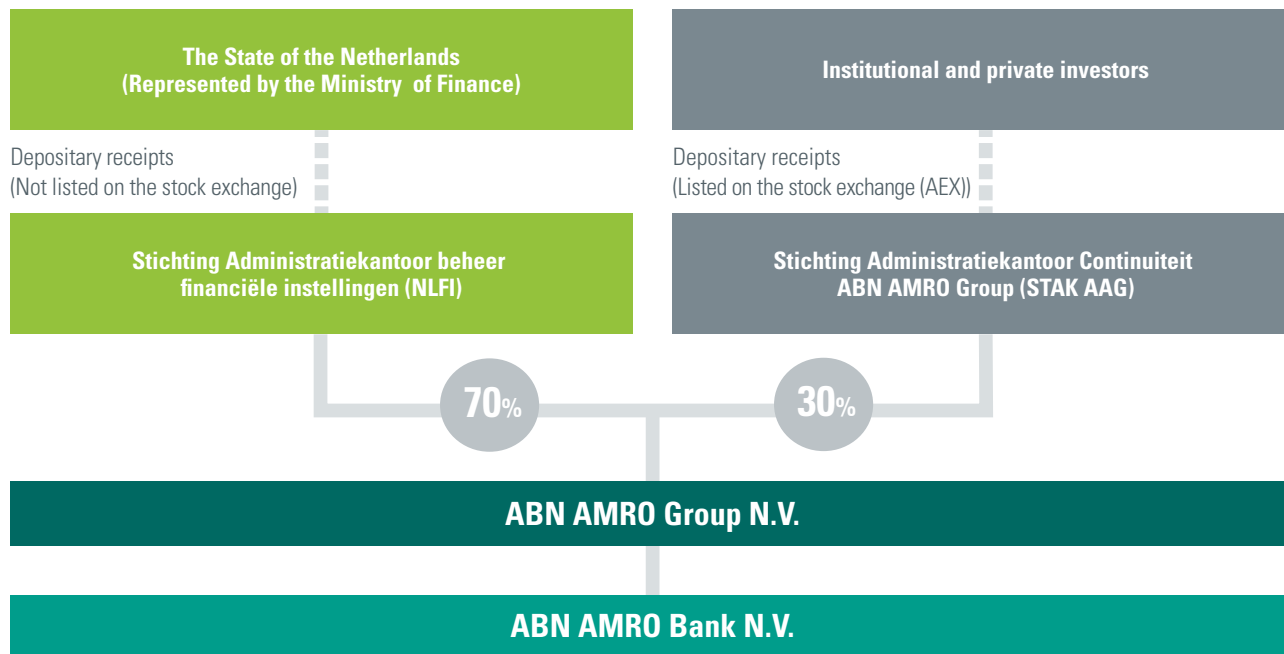
The annual General Meeting is held each year, on 30 June at the latest. The agenda for the annual General Meeting must contain certain matters as specified in ABN AMRO's Articles of Association and under Dutch law, for example the adoption of the Annual Financial Statements. The General Meeting is also entitled to approve important decisions regarding the identity or character of ABN AMRO, such as major acquisitions and divestments.

The Supervisory Board and the Managing Board can both convene a General Meeting. Shareholders or holders of depositary receipts issued with the cooperation of ABN AMRO Group may also convene additional extraordinary General Meetings, if they represent at least 10% of the issued share capital. NLF I may also request the Managing Board or Supervisory Board to convene a General Meeting, as stated in the Relationship Agreement. 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.

ABN AMRO Group held two General Meetings in 2016: the annual General Meeting on 18 May 2016 and the extraordinary General Meeting on 12 August 2016. The annual General Meeting of ABN AMRO Group on 18 May 2016 was the first public general meeting since the inception of ABN AMRO in 2010. Agenda items included adoption of the 2015 Annual Financial Statements, approval of the proposed dividend for the year 2015, discharge of each member of the Managing and Supervisory Boards in office during the financial year 2015, approval of the authorisation for the Managing 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 up to a maximum of 5% of the free float, as well as the appointment of Mr Arjen Dorland, Ms Frederieke Leeflang and Mr Tjalling Tiemstra as members of the Supervisory Board. All agenda items for approval were approved by the General Meeting.

The extraordinary General Meeting of 12 August 2016 had only one agenda item: the appointment of Mr Jurgen Stegmann as a new member of the Supervisory Board.

## Shareholder structure



ABN AMRO Bank is a wholly-owned subsidiary of ABN AMRO Group. At 31 December 2016, all shares in the capital of ABN AMRO Group were held by two foundations: NLFI and STAK AAG. On that date, NLFI held approximately 70% and STAK AAG held approximately 30% of the shares in the issued capital of ABN AMRO Group. Both foundations have issued depository receipts for shares in ABN AMRO Group. Only STAK AAG's depository 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 as a means 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 depository 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 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 inter alia the following provisions, subject to certain conditions stated in the agreement:

- ▶ the right of NLFI to advise: (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;

- ▶ 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.

On 17 November 2016 NLFI announced it had sold 65 million depositary receipts representing ordinary shares in ABN AMRO Group for a price of EUR 20.40 per depositary receipt. Following the transaction, NLFI's stake declined from 77% to approximately 70%. As per 31 December 2016 STAK AAG held approximately 30% of the ordinary shares in line with the maximum possible under the most restrictive Declaration of No Objection (DNO) or similar regulatory approvals obtained at the time of the IPO. For future sell-downs by NLFI, the ABN AMRO Trust Office will need to obtain new DNOs and other regulatory approvals. The full text of the Relationship Agreement is available on [abnamro.com](http://abnamro.com).

On 21 April 2016 a periodic meeting was held with NLFI, in accordance with the terms of the Relationship Agreement. Among other things, the following topics were discussed: the agenda of the 2016 annual General Meeting and the proposed statement by NLFI at the General Meeting, the approach to potential subsequent sell-downs of ABN AMRO Group shares by NLFI, and NLFI's yearly focus letter (*speerpuntenbrief*) and ABN AMRO's reply. Furthermore, NLFI and ABN AMRO hold investor meetings on a quarterly basis to discuss the most recently published financial results.

## 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 26 April 2016 and 22 July 2016.

The STAK AAG website ([stakaag.org](http://stakaag.org)) provides more information on the activities of STAK AAG, the Articles of Association (including STAK AAG's objectives), the Trust Conditions and any meetings of depositary receipt holders.

On 17 November 2016 a periodic meeting was held between ABN AMRO and NLFI. Among other things, the following topics were discussed: the sell-down by NLFI of depositary receipts for ABN AMRO Group shares on 16 November 2016, requests for declarations of no objections (DNOs) and other approvals from relevant regulators in connection with STAK AAG acquiring ABN AMRO Group shares in excess of current bandwidths, the exchange of



information between ABN AMRO and STAK AAG (including in a hostile situation), the succession of Gerrit Zalm and other current affairs.

### 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 NLF I must approve this as long as NLF I 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 (Raad van Medewerkers)

ABN AMRO's employees are represented by works councils (*ondernemingsraden*) at all levels of its group. 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 Managing Board and Supervisory Board on various other occasions throughout the year. 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 agreement between the Employee Council and ABN AMRO Group. Furthermore, if NLF I 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*).





# Corporate Governance 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 of [abnamro.com](http://abnamro.com).

## Dutch Corporate Governance Code

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 the depositary receipts were listed on Euronext Amsterdam, ABN AMRO Group has been 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 that was applicable to the company in 2016, except for the deviations and nuances described below. ABN AMRO Group also publishes under the Corporate Governance section of its website a detailed 'comply or explain' list with regard to the Corporate Governance Code that was applicable in 2016.

ABN AMRO Group applies best practice provisions I.2 and IV.3.9, which state 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 and proposals to appoint members of the Supervisory Board (and members of the Managing Board, but this does not apply to ABN AMRO Group) 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 Managing Board and the Supervisory Board may decide to place certain topics on the agenda under one agenda item if the topics are 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 to an imbalance in the corporate governance structure.

ABN AMRO Group applies principle II.3, best practice provisions II.3.2 - II.3.4, principle III.6 and best practice provisions III.6.1 - III.6.3, which deal with actual and apparent conflicts of interest. However, ABN AMRO Group makes an exception with respect to conflicts of interest that are exclusively the result of the identical composition of the Managing Boards of ABN AMRO Bank and ABN AMRO Group and the Supervisory Boards of the respective entities. Moreover, ABN AMRO entered into an agreement on 3 November 2015 with Worldline in respect of its shareholding in Equens SE, where Managing Board member Mr Johan van Hall is a supervisory director of currently equensWorldline. That transaction was closed in the second half of 2016. The procedure as imposed by the Dutch Corporate Governance Code and the Rules of Procedure of the Managing Board, respectively, in case of a conflict of interest has been strictly adhered to and accordingly, Mr Johan Van Hall has not participated in the related Managing Board deliberations and decisions.

Furthermore, Mr Johan Van Hall was consulted in his capacity as Head of TOPS in a Request for Proposal in which equensWorldline was one of the offering parties. He has not participated in the decision making bodies and the item was not discussed in the Managing Board.

ABN AMRO Group does not fully apply principle III.5. Instead 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 III.5.4, which provides for the responsibilities of the audit committee. However, in deviation from this provision, ABN AMRO Group has decided to assign responsibility for supervising the functioning of the internal risk management system and compliance with codes of conduct to the Risk & Capital Committee, instead of to the Audit Committee, as ABN AMRO Group has a separate Risk & Capital Committee.

Principle III.8 and best practice provision III.8.1 - III.8.4 are not applicable because ABN AMRO Group has a two-tier board. Best practice provision V.3.3 is not applicable as ABN AMRO does have an internal audit function.

ABN AMRO Group does not apply principle IV.2 (and best practice provision IV.2.8). 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 provided the greatest possible certainty of adequate protection of ABN AMRO Group against a hostile takeover. Although the issuing of depositary receipts has been primarily set up as a defence measure and not to prevent absenteeism, STAK AAG does aim to promote the exchange of information between ABN AMRO Group on the one hand and holders of depositary receipts and shareholders on the other, for example by organising a meeting of depositary receipt holders prior to every General Meeting. Please see the STAK AAG website ([stakaag.org](http://stakaag.org)) for 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).

Compliance with best practice provisions IV.2.1 - IV.2.7 is a responsibility of the board of STAK AAG. With respect to best practice provisions IV.2.5 and IV.2.8, the following applies. Under normal circumstances, STAK AAG will be guided by the interests of the holders of depositary receipts and will take into account the interests of ABN AMRO Group and the enterprises associated with it. In principle, STAK AAG has 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 any voting instructions received for a period of no longer than two years. Furthermore, under the depositary receipt terms (*administratievoorwaarden*), when exercising the voting rights in accordance with the objects clause of STAK AAG as laid down in the STAK AAG articles of association, STAK AAG should focus primarily on the interests of ABN AMRO Group and its business.

ABN AMRO Group applies principle IV.3 (which deals with equal and simultaneous provision of information to shareholders), however with the understanding that ABN AMRO Group will observe the Relationship Agreement with NLF and the special position of STAK AAG. In this respect, reference is made to ABN AMRO Group's policy on bilateral contacts with shareholders, which is further described above and can be found on [abnamro.com](http://abnamro.com).

An updated Dutch Corporate Governance Code was published on 8 December 2016 and will apply to the financial year 2017. ABN AMRO will report on compliance with the new code in the 2017 Annual Report.

### Dutch Banking Code

The Dutch Banking Code was introduced in 2010 to ensure that banks commit to and account for treating their customers with care while balancing the interests of various stakeholders. An updated Dutch Banking Code came into effect on 1 January 2015, along with the Social Charter (*Maatschappelijk Statuut*) which is complementary to the Dutch Banking Code. The Dutch Banking Code, along with the Social Charter, which includes the Banker's

Oath and the associated rules of conduct and disciplinary rules, applies to all employees of financial institutions in the Netherlands and emphasises the social role of banks and their commitment to meeting the expectations of society at large. 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. Although ABN AMRO Group does not have a banking licence itself, the Dutch Banking Code does apply to ABN AMRO Bank as the main entity within the group that holds a banking licence.

We are committed to complying with the Dutch Banking Code and devote a great deal of effort to ensuring that the spirit of the code is reflected in the behaviour of employees and in 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 2015.

A principle-by-principle overview of the manner in which ABN AMRO Bank complies with the Dutch Banking Code 2015 is published on [abnamro.com](http://abnamro.com). Throughout 2016, 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.

All members of the Supervisory Board and Managing Board of ABN AMRO Group have taken the Banker's Oath. Taking the 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 business principles and core values. Along with the introduction of a Social Charter and the Dutch Banking Code, the Dutch banking industry has taken the initiative to have all employees take the Banker's Oath. Employees take the oath so that they will be 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 2016, 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. An explanation of the manner in which these subsidiaries comply with the Dutch Banking Code is published on [abnamro.com](http://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 on [abnamro.com](http://abnamro.com) an overview of how ABN AMRO Group and ABN AMRO Bank comply with Article 134b of the Prudential Measures Decree 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 for the limitation of the number of executive and non-executive directorships such members may hold (which rules have been implemented in Dutch law through Section 3:8(3) Dutch Financial Markets Supervision Act). The rules in the Dutch Corporate Governance Code are also applicable to ABN AMRO Group, but are not as strict as the rules under CRD IV.

All members of the Managing Board and Supervisory Board currently comply with the aforementioned rules under CRD IV and the Dutch Corporate Governance Code. With respect to Supervisory Board members Ms Annemieke Roobeek and Mr Tjalling Tiemstra, requests for authorisation of one additional non-executive directorship that each of them currently holds have been approved by the European Central Bank.



# Legal structure

## Global structure of ABN AMRO Group

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. Delta Lloyd ABN AMRO Verzekeringen Holding B.V. (ABN AMRO Verzekeringen) is an associate of ABN AMRO Bank N.V. (49%). Delta Lloyd N.V. holds a 51% interest. ABN AMRO Verzekeringen offers life and non-life insurance products under the ABN AMRO brand. APG-- ABN AMRO Pensioeninstelling N.V. (ABN AMRO Pensions) is a joint venture of ABN AMRO (70%) and APG (30%), the largest pension institution in the Netherlands. ABN AMRO Pensions is a premium pension institution ('PPI') which offers pension schemes without insurance based on long life or death.

## 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 Neuflyze 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;

Neuflyze Vie S.A. is a joint venture of Banque Neuflyze OBC (60%) and AXA (40%). Neuflyze Vie is a life insurance company and was created to offer life insurance products for (ultra) high net-worth individuals and has developed customised solutions with a focus on unit-linked contracts.

## Corporate Banking

The Corporate 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. ABN AMRO Commercial Finance Holding B.V. is active via subsidiaries in the Netherlands, France, Germany and the United Kingdom, providing working capital funding on debtors and inventory. ABN AMRO Lease N.V. delivers asset-based solutions (equipment lease and finance) and is active in the Netherlands, Belgium, Germany and the United Kingdom.

## 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.

## Subsidiaries and international governance

ABN AMRO has designed group-wide policies and standards to ensure that all relevant parts of the organisation adhere to governance principles and requirements. Considering the varying business activities, local regulatory requirements, organisations and risk frameworks of subsidiaries and branches, actual implementation of the group-wide policies and standards may differ between the subsidiaries and branches. All entities in the international network adhere to ABN AMRO's principles of risk governance and a moderate risk profile.



International governance is in place which meets the requirements of our international organisation and both the home and host regulators. A review was performed in 2016 to ensure alignment with the international growth plans and changes in the regulatory environment.

Furthermore, we implemented changes to the governance model for certain parts of Group Functions (Compliance, Legal, Risk, Central Information and Security Office, SIM, Finance and HR) in the international network and subsidiaries in order to strengthen our governance and to better connect our international locations and subsidiaries within the bank at large.

#### **Functions in the bank's international network:**

Direct hierarchical reporting lines have been implemented between the Heads of Group Functions and those responsible for local Functions, i.e. Compliance, Legal, Central Information Security Office (CISO), Risk, SIM, Finance and Human Resources. Those responsible for local Functions report directly to head office instead of through a regional reporting line. Commercially there are no changes. The hierarchical reporting lines to the relevant Country Executive/CEO have remained the same.

#### **Subsidiary Heads and Functions in subsidiaries in the international network:**

Local Heads of Functions of international subsidiaries (part of the specialised business) have direct hierarchical reporting lines to the CEO of the subsidiary locally and the Head of Functions of the subsidiary globally. There is also a reporting line with the country Head of Functions that is - depending on the function - hierarchical or an obligation to cooperate. The changes to hierarchical reporting lines also impact the decision-making process and alignment requirement related to hiring, firing, managing, performance management & reward and the Functions budget.

#### **Functions in Dutch subsidiaries:**

Direct hierarchical reporting lines between Heads of Group Functions and those responsible for Functions in the bank's Dutch subsidiaries have been introduced. The hierarchical reporting line to the Head of the relevant subsidiary has remained in place.

# Remuneration

This section sets out ABN AMRO's remuneration philosophy and principles for all our employees. The remuneration policy and practices for the Supervisory Board, Managing Board and so-called Identified Staff are discussed in greater detail in the subsequent parts of this section.

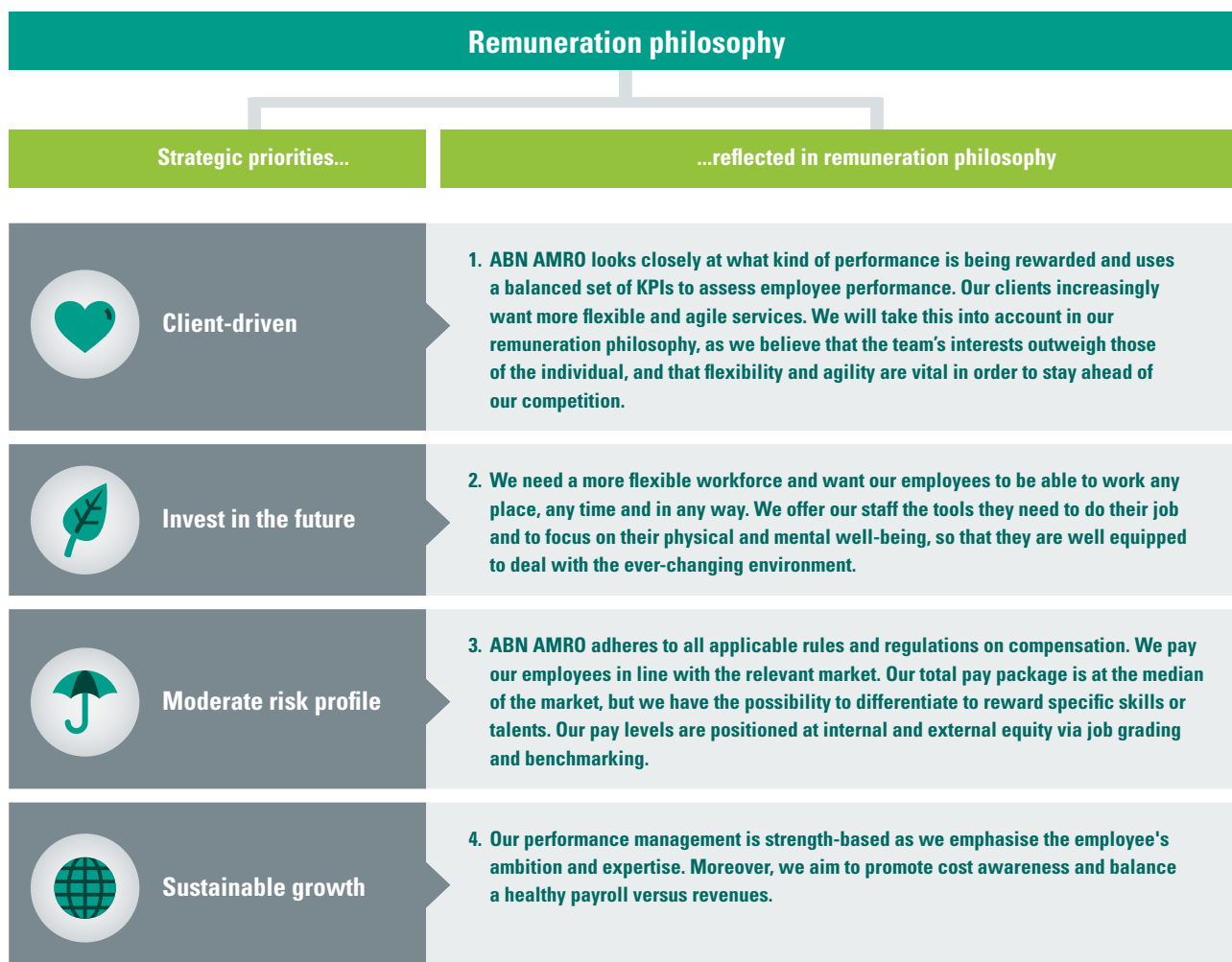
## Overview

Financial institutions are subject to many guidelines with respect to remuneration. The last major changes became effective in 2014 and 2015 and specified more limitations to variable remuneration for all employees in the Dutch financial industry and an extension of the bonus prohibition

for a specific group of senior employees. All relevant guidelines have been timely incorporated into ABN AMRO's own policies and practices. We have also announced our updated strategy towards 2020, designed to create a more agile and future-fit bank. We aim to combine the pillars of our strategy with the applicable remuneration restrictions.

## Remuneration philosophy

ABN AMRO's long-term corporate strategy is based on four long-term strategic priorities. Our reward philosophy and principles centre around these priorities and they will be further reflected in our remuneration policy and performance management system from 2017 onwards.



## Remuneration policy

### Responsible remuneration policy Limited assurance

#### Connectivity of material topic 14

<p>Link to strategy</p>	<p>Important to these stakeholders</p>	<p>See material topics and connectivity on page 19</p>
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Financial institutions are subject to many guidelines with respect to remuneration. We aim to pursue a responsible remuneration policy that remains within the regulatory boundaries, such as limitations to variable remuneration and the bonus prohibition for a specific group of senior employees, while taking into account the interests of all our stakeholders.

Our remuneration principles are embedded in ABN AMRO's Global Reward Policy. This policy is designed to support ABN AMRO's business strategy, objectives, values and long-term interests. It provides a framework for effectively managing reward and performance across the bank and is periodically updated and 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 Supervisory Board therefore reviews the policy regularly, considering the company's strategy and culture, 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 within ABN AMRO at all levels and in all countries in the bank's international network (including branch offices). Different starting points apply to the different layers of the bank's workforce, but remuneration packages are structured in accordance with the applicable regulations and restrictions for the financial sector. We position remuneration levels in principle around the median of the relevant labour market and focus on keeping labour costs under control. A typical remuneration package for ABN AMRO employees consists of an annual base salary, annual variable remuneration and benefits and

other entitlements. The Global Reward Policy also specifies rules with respect to those staff whose professional activities could have a material impact on the bank's risk profile. Within ABN AMRO this group is referred to as Identified Staff.

A separate Reward Policy, adopted in 2010, applies to members of the Managing Board. This policy is aligned with all relevant and applicable guidelines and regulations and reflects developments and recommendations of the EBA, the ECB, DNB, the AFM, the Banking Code and the Corporate Governance Code as they apply.

Our annual performance management cycle aims to create a link between performance (realistic, sustainable results) and reward in such a way that costs change in line with employees' and the bank's performance. We use a set of balanced financial and non-financial KPIs as well as qualitative and quantitative KPIs. For 2016 our Group non-financial KPIs consisted of client centricity, Net Promoter Score and the Employee Engagement Survey. Financial KPIs used are RARORAC, the cost/income ratio and the CET1 ratio. There is also ample room to set individual and business-related KPIs. The table 'Performance indicators of Identified Staff' provides more insight into the 2016 KPI methodology used for Identified Staff.

In line with the general trend towards less hierarchy and more teamwork, we want to subject employees to fewer checks and give them more empowerment. We aim to pursue a responsible remuneration policy, enabling our employees to further develop their expertise, help us create a simpler, more agile organisation and give our staff more autonomy and responsibility, making their work more meaningful. Our employee performance management system will help keep us aligned with the bank's financial and non-financial priorities towards 2020. We expect to make a further change to the KPIs in order to promote alignment with our goal and to create long-term value for all our stakeholders.

### Changes in 2016

The EBA Guidelines on sound remuneration policies that became effective as from 2017 have been incorporated into the Global Reward Policy 2017. Among other changes, this has led to a more detailed description on the implementation of the EBA RTS 2013/11 regarding Identified Staff within ABN AMRO.



In alignment with the remuneration guidelines, ABN AMRO's Variable Compensation Plan for Identified Staff provides for a non-cash instrument portion. As from the 2016 performance year and as a result of ABN AMRO being a listed company again, the Variable Compensation Plan will provide for depositary receipts (DRs) instead of performance certificates in order to achieve shareholder alignment. The use of the non-cash instrument portion in the form of performance certificates will be continued until 2016. All outstanding performance certificates will be phased out over time.

### Expected changes in 2017

As from 2018, new guidelines and directives will enter into force, such as:

- ▶ EBA Guidelines on remuneration of sales staff with effect from 2018;
- ▶ Markets in Financial Instruments Directive (MiFID II);
- ▶ Capital Requirements Directive (CRD V).
- ▶ The consequences of these guidelines and directives will be implemented in the relevant remuneration principles during 2017.

The new management structure of ABN AMRO will become effective in 2017. As a consequence of the introduction of the Executive Board and Executive Committee structure, the management layer below the Executive Committee will also be subject to change. The new management structure is expected to lead to adjustments in various fields such as remuneration, governance and performance management.

## Remuneration principles for the Supervisory Board, Managing Board and other Identified Staff

### Supervisory Board remuneration

The remuneration of members of the Supervisory Board is set by the General Meeting of Shareholders based on a proposal of the Supervisory Board. The remuneration of Supervisory Board members is proportional to the time required to perform their duties linked to the membership of the Supervisory Board and the relevant Board committees and is independent of ABN AMRO's financial results. ABN AMRO does not grant any variable remuneration or shares or options to Supervisory Board members in lieu

of remuneration. The level of remuneration has not changed since 2010. Since 10 April 2014, remuneration for Supervisory Board committee memberships is limited to two such memberships. Details on the remuneration of members of the Supervisory Board in 2016 are provided in note 36 to the Annual Financial Statements.

### Managing Board remuneration

The Global Reward Policy principles apply to all employees of the bank worldwide. A different governance applies to the Managing Board. The Supervisory Board is responsible for proposing the policy and principles, which are subject to shareholder approval. In addition to setting policy, the Supervisory Board executes the remuneration policy for the Managing Board members.

For the Managing Board, ABN AMRO has always aimed for a level of total compensation slightly below the median of the relevant markets. ABN AMRO used to define a peer group of companies, i.e. both financial and non-financial companies in the Netherlands and Europe, against which remuneration proposals for the Managing Board were assessed. Developments in previous years, however, make it difficult to properly assess the Managing Board's remuneration packages considering the many changes that have occurred in the banking industry in the Netherlands. These changes have not necessarily impacted companies operating in the general industry or the financial industry outside the Netherlands. This currently makes benchmark comparisons difficult, if not impossible. In 2016, as in 2015, benchmark comparisons were not taken into consideration.

Details on the remuneration of the individual Managing Board members are provided in [note 36](#) to the Annual Financial Statements.

### Annual fixed remuneration for 2016

The annual base salary for the Managing Board follows the developments in the collective labour agreement for the banking industry (*CAO Banken*). This resulted in a 1% increase for 2016. The annual base salary in 2016 amounted to EUR 619,711 for the members of the Managing Board and EUR 774,639 for the Chairman of the Managing Board. The annual salary of Mr van Dijkhuizen, following his appointment as CEO effective 1 January 2017, amounts to EUR 712,668 in 2017.



### Variable remuneration

Although the remuneration package for the members of the Managing Board provides for a variable compensation component, the Bonus Prohibition Act, which became effective in 2011, does not allow such compensation for board members of financial institutions that fall under the scope of this Act during the period of state support through shareholding by the Dutch State. The members of the Managing Board are therefore not entitled to receive variable remuneration during the period of government ownership. This also applied for the 2016 performance year. As a consequence, Board members do not participate in the Variable Compensation Plan that applies to all Identified Staff within ABN AMRO.

### Benefits

The Chairman and members of the Managing Board participate in the ABN AMRO pension schemes as applicable to all Dutch employees. The changes made to the pension arrangement as agreed between the collective labour agreement partners in 2014 therefore also apply to all seven Managing Board members. The pensionable salary includes frozen compensation for pension contribution for all employees that were employed before 2011. For pensionable salary up to EUR 101,519 (the applicable threshold for 2016), a collective defined contribution (CDC) pension scheme applies. The standard retirement age is 67 years, the average income accrual is 1.875% and the employee pension contribution is 5.5%. For pensionable salary in excess of EUR 101,519, employees will receive an allowance which can be used to build up a net pension in a defined contribution (DC) plan. The allowance in 2016 amounted to 33% and will be set annually using the year-end interest of the preceding calendar year.

In addition to pension benefits, Managing Board members are eligible for benefits such as the use of a company car and a chauffeur.

### Severance

The current Managing Board members hold a contractual right to a severance payment equal to one gross annual salary, that applies in the event that their employment agreement is terminated at ABN AMRO's initiative. With

Mr van Dijkhuizen, the following was agreed upon his appointment as CEO on 1 January 2017: a contractual right to a severance payment in the aforesaid event that is equal to three months gross fixed salary. This supersedes Mr. van Dijkhuizen's previous severance arrangement. Ms Princen has been awarded a severance payment equal to three months gross fixed salary on the occasion of her departure as announced in October 2016. The other Managing Board members that have announced their resignation since 2016 have not received a severance payment. The Supervisory Board intends to apply a severance payment equal to three months gross fixed salary also for new members to be appointed to the Managing Board (to be renamed 'Executive Board' in the new management structure).

### Appointment period

The appointment term for Managing Board Members is in principle set at four years. Six of the seven Managing Board Members acting in 2016 were appointed with effect from 10 April 2014, except for Mr van Dijkhuizen, who was appointed on 1 May 2013.

### Managing Board 2016 performance

The Supervisory Board assessed the Managing Board's performance and concluded that the Managing Board and its members satisfied the performance targets for 2016.

As a consequence of the Bonus Prohibition Act, the members of the Managing Board are not eligible to receive a variable remuneration linked to their 2016 performance.

### Identified Staff remuneration

Remuneration restrictions apply not only to the Managing 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 Managing and Supervisory Boards;
- ▶ Members of the Management Group;
- ▶ Staff responsible for independent control functions;
- ▶ Other risk takers. The definition of the group of other risk takers follows from credit, market and liquidity risk analyses as undertaken annually by the Group Risk Management Team on the basis of RWA thresholds, membership of certain Risk Committees, the level of P&L budget and responsibilities;

- ▶ Other employees whose total remuneration takes them into the same remuneration bracket as senior managers and risk takers;
- ▶ Employees who qualify on the basis of the additional qualitative and quantitative criteria as laid down in the EBA Guidelines.

### Composition of remuneration package

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);
- ▶ Benefits and other entitlements.

ABN AMRO strives to position the level of total direct compensation for Management Group members just below market median levels. With effect from 2014, the variable compensation for Management Group members was capped at 20% of base salary in anticipation of the Act on the Remuneration Policy for Financial Undertakings (Wbfo), which came into force in 2015. With effect from 2015, the remuneration restrictions under the Bonus Prohibition Act were extended to senior management as defined in the Wbfo. Accordingly, these senior managers,

being people who have leading positions immediately below the echelon of the day-to-day policymakers and who are responsible for natural persons whose work may have a material impact on the bank's risk profile in the period in which support is or was received, may also not be granted any variable compensation. For the Managing Board members and the senior management described above, the prohibition on payment of variable remuneration will apply until the Dutch State no longer has an interest in ABN AMRO.

ABN AMRO's collective labour agreement governs the remuneration packages for Identified Staff based in the Netherlands who are not Management Group members. 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 last two categories of employees, the total direct compensation is aimed to be positioned around market median levels.

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 Identified Staff Limited assurance

	Weighting Managing Board	Weighting Management Group (Commercial businesslines <sup>4</sup> )	Weighting Management Group (Group Functions)	Weighting non-Management Group (Commercial businesslines <sup>4</sup> )	Weighting non-Management Group (Group Functions)
Group Financial: RARORAC, C/I ratio, Common Equity Tier 1 ratio <sup>1</sup>	40.0%	10.0%	10.0%	10.0%	10.0%
Group non-financial: Net Promoter Score, Enhance Client Centricity, Employee engagement	40.0%	10.0%	10.0%	10.0%	10.0%
Business line financial: RARORAC, cost ceiling <sup>2</sup>	10.0%	10.0%	10.0%	10.0%	10.0%
Business line non-financial: No specific KPIs prescribed		10.0%	10.0%	10.0%	10.0%
Individual: No specific KPIs prescribed, individual leadership <sup>3</sup>	10.0%	60.0%	60.0%	60.0%	60.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup> There is only one Group Financial KPI for MG and non-MG Group Functions: the CET1 ratio (10% weighting).

<sup>2</sup> For R&PB and CB the financial KPI is divided into two KPIs. For other departments the weighting is 10% cost ceiling.

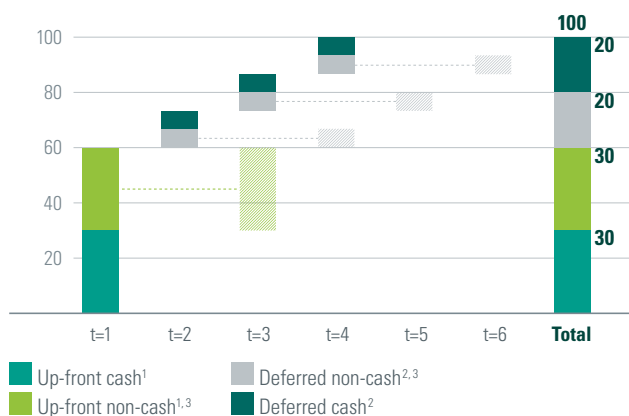
<sup>3</sup> For all Management Group members the minimum weighting of individual leadership is 30%.

<sup>4</sup> Commercial business lines are comprised of Retail Banking, Private Banking and Corporate Banking.

## Deferred payment

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 Managing Board, which ultimately decides on whether variable compensation can indeed be granted to the Identified Staff member concerned. The Managing Board's decision must be formally approved by the Supervisory Board based on the advice of the Remuneration, Selection & Nomination Committee. Furthermore, the variable remuneration is awarded over time and split between an up-front portion (60%) and a deferred portion (40%), with all portions equally divided between a cash and a non-cash instrument as shown in the following chart.

### Variable remuneration (in %)



<sup>1</sup> The up-front payment (60% in total) is awarded in March following the relevant performance year.

<sup>2</sup> 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.

<sup>3</sup> 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.

Furthermore, this remuneration will only vest after an explicit ex-post risk assessment: the 'malus assessment' (see the Ex-post risk adjustment tools paragraph).

With effect from the awards reflecting the 2016 performance year, to be made in 2017, the instrument underlying the non-cash award will be replaced with an award in the form of Restricted Share Units (RSUs) that entitles the participant to a number of depositary receipts, reflecting the initial value of the award. One depositary receipt represents one share in ABN AMRO Group. The value of the non-cash instrument fluctuates with the market price of the depositary receipts 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 as the underlying non-cash instrument. The value of the performance certificates fluctuates in line with the net asset value of ABN AMRO.

A two-year retention period applies to both the depositary receipts and the performance certificates, so that any unconditional instrument will need to be retained for an additional two years.

### Ex-post risk adjustment tools

ABN AMRO also makes use of several ex-post risk adjustment tools: the malus, clawback and personal hedging or insurance.

The malus assessment is conducted by the control functions Risk, Compliance, HR, Finance and Audit and any outcome is subject to the approval of the Managing Board and Supervisory Board. During the malus assessment, it is determined whether any new information is available which should prevent the vesting of deferred parts, e.g. relating to:

- ▶ Evidence of misconduct or serious error by the staff member (e.g. breach of code of conduct or other internal rules, especially concerning risks);
- ▶ The institution and/or the business unit subsequently suffers a significant downturn in its financial performance (specific indicators are to be used);

- ▶ The institution and/or the business unit in which the 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 as 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 with respect to the 2013 performance period;
- ▶ The second tranche of the deferred variable compensation with respect to the 2014 performance period;
- ▶ The first tranche of the deferred variable compensation with respect to the 2015 performance period.

The Supervisory Board decided to apply one individual malus with respect to the vesting of the remaining deferred variable compensation with respect to the 2014 performance period.

This means that one-third of each of the deferred variable compensation awards with respect to the three performance years mentioned above will now be granted to the relevant Identified Staff members and that the two-year retention period will start.

The Supervisory Board has discretionary power to adjust any variable compensation downwards 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 over any performance period if the award, calculation or payment was based on incorrect data or if the performance conditions were not achieved in hindsight. The recipient will then be obliged to repay the 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 are not permitted.

## Details of Remuneration

### Remuneration details Identified Staff<sup>1</sup>

(in thousands)	2016		2015	
	Number of FTEs (Identified Staff)	Aggregated compensation	Number of FTEs (Identified Staff)	Aggregated compensation
Retail Banking	19	4,715	13	3,687
Private Banking	43	18,315	45	19,317
Corporate Banking	164	50,118	143	42,552
Group Functions <sup>2</sup>	136	30,812	128	30,314
<b>Total</b>	<b>362</b>	<b>103,959</b>	<b>329</b>	<b>95,871</b>

<sup>1</sup> Compensation comprises fixed and variable compensation, sign-on, retention and severance pay over 2016. Certain remuneration elements are, due to their specific nature, paid out in cash and are not or only partially subject to deferral.

<sup>2</sup> Managing and Supervisory Board members are reported under Group Functions.

(in thousands)	Number of FTEs (identified staff)		
	Management Group	Non-Management Group	Aggregated compensation
Fixed compensation over 2016	125	237	84,051
Variable compensation over 2016	89	218	19,908
- of which in cash			6,472
- of which in performance certificates			5,494
- of which unconditional (up-front payment)			11,967
- of which conditional (deferred payment)			7,942
Retention payments over 2016	1	7	1,422
Sign-on payments over 2016			
Severance payments over 2016 <sup>1</sup>	1	3	1,130

<sup>1</sup> Highest severance pay amounted EUR 375.000.

### Remuneration details all employees<sup>1</sup>

For certain employees, variable compensation comprises a component that is not subject to deferral and which, based on the 'EBA opinion on remuneration and

allowance', was discontinued in the course of 2015. Variable compensation over 2016 as awarded to all employees, including Identified Staff, amounted to EUR 169 million.

(in FTEs)	Remuneration in millions							
	1-1.5	1.5-2	2-2.5	2.5-3	3-3.5	3.5-4	4.5-5	>5
Retail Banking								
Private Banking								
Corporate Banking	1							
Group Functions <sup>1</sup>	1							

<sup>1</sup> Managing and Supervisory Board members are reported under Group Functions.

(in FTEs)	Remuneration in millions							
	1-1.5	1.5-2	2-2.5	2.5-3	3-3.5	3.5-4	4.5-5	>5
Managing Board	1							
Management Group								
Non-Management Group	1							

The ratio of the mean annual employee compensation and the total annual compensation of the Chief Executive Officer in 2016 was 11.4 (calculated as CEO compensation divided by the mean employee compensation).

# Employee representation

The Employee Council met with the Managing Board on several occasions in 2016 to discuss plans being made based on the updated strategy and the consequences for staff. We used employee input more so than in previous years, as employees are an important stakeholder of the bank and of the bank's works councils.

## Main subjects discussed in 2016

### Strategy update

The Employee Council got involved in consultations with the Managing Board at an early stage – in March 2016 – to discuss the plans being developed for an updated strategy and to provide input for, and feedback on, the plans.

The employee representation bodies presented the results of a number of staff surveys they had conducted earlier in the year. Employees had been invited in April and May to take a survey on four subjects: Vision of the future, Pride and connection, Client centricity, and Leadership & Self-directed teams. More than 2,700 employees completed the survey. The Functions Council also asked former and current council members and members of the Managing and Supervisory Board how they view the future of the business line Functions and used this input to give management specific feedback on its intended plans.

Another programme initiated by the bank in 2016 involved further simplifying the organisation in order to fund new growth initiatives. This programme will mainly affect the bank's support and control activities. The Employee Council pressed for an overarching request for advice describing the general contours and premises for all subsequent requests for advice. The overarching request for advice is designed to ensure that this programme is limited to actually simplifying the organisation rather than being a cost-reduction exercise: all subsequent requests for advice for the different business lines must adhere to the defined contours and premises. We are pleased that management embraced this approach.

The employee representation bodies asked staff for input. Employees were invited to submit suggestions for how the bank could save on costs and how the bank could boost income. The Employee Council also organised a hearing during which employees could tell members of the Employee Council in person which subjects they felt the Employee Council should include in its advice.

Employees also posted reactions to blogs and news items that had been published by the Employee Council on the bank's internal collaboration platform (Connections).

The Employee Council is pleased that, besides cost-cutting measures, the plans presented during the announcement of the third-quarter results included plans for growth in new markets, mainly in markets and sectors in which we are already active. We believe these plans, plus the plans to make banking faster and easier with digital solutions, offer good prospects for the future of the bank. This perspective is needed to keep employees motivated. It is important to show staff what lies ahead, especially at a time when we are dealing with a declining number of employees: around 3,000 employees (both internal and external) will leave the bank in the coming years, as announced in 2016.<sup>1</sup> This number excludes new hires.

The Employee Council is also pleased with the fact that the bank has defined its purpose. We endorse the newly defined purpose: Creating space for dreams and ambitions. Driven by passion, guided by expertise. We will work together (Management Board, Supervisory Board and

<sup>1</sup> The decline in the number of FTEs is a combination of a reduction of internal and external FTEs and excludes new hires and the impact of already existing programmes (TOPS 2020 and Retail Digitalisation). The net impact of all programmes and new hires for internal FTEs is approximately -10% and external FTEs approximately 25-30% by 2020 vs YE2015 as communicated in Q3 2016.



**Margot van Kempen**  
Chair of the  
Employee Council

Employee Council) to explore how the purpose will affect our behaviour, our service and our added value in society. Following several weeks of consultations on the draft text, the Employee Council received an overarching request for advice in December 2016. This overarching request is about the necessity of becoming faster and more flexible, prompting the bank to adopt agile principles. Approximately 800 to 1,100 employees are expected to lose their jobs under this programme, and 6,000 employees (external, Vendors and internal) will make the transition to agile working. As with the programme of simplifying the organisation, the overarching request for advice defines the contours and guidelines. The subsequent requests for advice for the different business lines can then be tested against the contours and guidelines agreed upon.

## Consultation with the Managing Board and Supervisory Board

Many developments took place within the Supervisory Board and Managing Board in 2016.

### Changes in the Supervisory Board

2016 was a year of renewal in the Supervisory Board. This positively affected collaboration between the Employee Council and the Supervisory Board: members of the Supervisory Board are all committed to taking the interests of employees into account when considering the interests of the bank. In practice, this means that the Supervisory Board members will inform and consult with the Employee Council whenever possible. They also participate in council meetings, consultations and permanent education (PE)

sessions held by the employee representation bodies. We experience this involvement as very pleasant and motivating.

### Changes in the Managing Board

The Supervisory Board reached agreement with Mr Gerrit Zalm regarding his departure effective 1 January 2017. Mr Zalm was important for the bank during the integration. He brought ABN AMRO into calmer waters and guided the bank during the IPO. He was the consultative partner on behalf of management for the Employee Council in 2016. Although the employee representation bodies and the Chairman of the Managing Board did not always see eye to eye, he was always open to conducting a constructive dialogue. We thank Mr Zalm for his valuable contribution. We are pleased with the appointment of Mr Kees van Dijkhuizen as his successor. The Employee Council knows him, in his capacity as CFO of ABN AMRO, as a professional, honest and pleasant manager. He is critical when necessary, yet listens carefully to others' opinions. The Employee Council looks forward to working together with Mr van Dijkhuizen.

The Supervisory Board reached agreement with Ms Caroline Princen regarding her departure from the Managing Board effective 1 January 2017. Ms Princen was responsible for setting up the People, Regulations & Identity department during the integration of the two banks. She was the Managing Board member responsible for consultations with the employee representation bodies until 1 January 2017. In close consultation with her we renewed the structure and procedures of the employee representation bodies. We thank Ms Princen for her valuable contributions in the past years to the bank and for her sponsorship of employee representation.

### Employee representation in 2017

2017 will be largely devoted to the programmes initiated in 2016: Simplifying the organisation and the agile way of working. The different business lines will be involved in subsequent requests for advice arising from the overarching request for advice. At the end of 2017, we will also prepare for the elections for new council members in the spring of 2018. And lastly, we will explore how agile working will affect how we work and examine how future-proof this model is.

### Margot van Kempen

Chair of the Employee Council

## The importance of employee representation

Limited assurance

### Connectivity of material topic 11

<b>Link to strategy</b> 	<b>Important to these stakeholders</b> 	See material topics and connectivity on page 18
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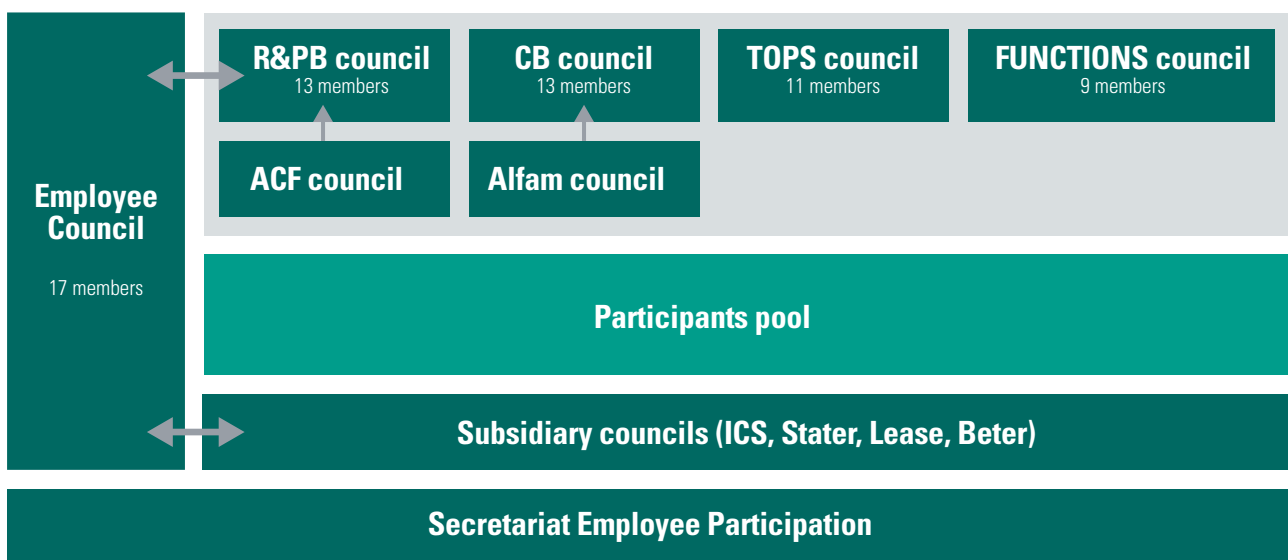
Employee representation is part of ABN AMRO's operations – not only because it is a legal requirement, but because it promotes sustainable, effective decision-making. The Managing Board appreciates staff's constructive, critical views of the organisation because they help our bank grow.

Every employee who has been employed by ABN AMRO for at least one year may put himself or herself forward as a candidate for membership of the Employee Council during elections. The current council formally began operating on 1 January 2016 and its term runs until March 2018. Members are elected by employees and are part of

the council of the business line where they work. Members are expected to be able to formulate and express constructive, critical opinions.

In addition to elected members of the councils, ABN AMRO also works with participants – employees who participate in the councils on a project basis. Any employee may state that they want to work with the councils as a participant. They will be deployed to projects based on their expertise and preference, for example handling a request for advice or being involved in other issues. They support the councils by providing information and analyses, advising and conducting consultations. In this way, all of the bank's employees can exercise influence on decisions and support the councils.

Each business line has its own council. Bank-wide topics are handled by the Employee Council, which includes representatives from all business lines and a number of subsidiaries. Employee representation is supported by a secretariat which is made possible by the management.



In anticipation of a more agile network organisation which is currently being created, the employee representation councils took an important step in 2016 in working together more intensively, for example with the

overarching requests for advice. We joined forces, in terms of both subject matter and manpower, to maximise the quality of our advice.





Employee representation bodies in the Netherlands are entitled to the right to be consulted and the right of consent<sup>1</sup>. Before the councils give their advice or a reaction, the management and the councils and their participants conduct consultations on the details of, and motivation behind, proposed decisions. In 2016 a total of 124 formal requests for advice, requests for consent and information memos were submitted to one of the employee representation councils.

The quality of each response given by the council is a result of the advice process - from the management that involves the councils (and participants on this subject) in an early stage until the final decision is taken by the entire

council. During this process, staff are involved, agreed formats are used, discussions with management take place and additional agreements are made. To ensure continuous improvement, this process is evaluated after each advice by an questionnaire to the staff involved.

### European Staff Council

ABN AMRO also has a European Staff Council consisting of representatives from the local employee councils in Luxembourg, Germany, Belgium, the United Kingdom, France and the Netherlands. The European Staff Council meets four times a year, two of which with the management.

<sup>1</sup> More information is provided in 'Employee council governance' in the Governance section.



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## Consolidated income statement

(in millions)	Note	2016	2015
<b>Income</b>			
Interest income		12,651	13,207
Interest expense		6,383	7,130
<b>Net interest income</b>	4	<b>6,267</b>	<b>6,076</b>
Fee and commission income		3,082	3,061
Fee and commission expense		1,340	1,233
<b>Net fee and commission income</b>	5	<b>1,743</b>	<b>1,829</b>
Net trading income	6	-211	99
Share of result in equity accounted investments		55	1
Other operating income	7	373	450
<b>Operating income</b>		<b>8,227</b>	<b>8,455</b>
<b>Expenses</b>			
Personnel expenses	8	2,777	2,492
General and administrative expenses	9	2,682	2,559
Depreciation and amortisation of tangible and intangible assets	23	198	177
<b>Operating expenses</b>		<b>5,657</b>	<b>5,228</b>
Impairment charges on loans and other receivables		114	505
<b>Total expenses</b>		<b>5,771</b>	<b>5,734</b>
<b>Operating profit/(loss) before taxation</b>		<b>2,456</b>	<b>2,722</b>
Income tax expense	10	650	798
<b>Profit/(loss) for the year</b>		<b>1,806</b>	<b>1,924</b>
<i>Attributable to:</i>			
Owners of the company		1,805	1,919
Non-controlling interests		1	5
<b>Earnings per share (in euros)</b>			
Basic/diluted earnings per ordinary share <sup>1</sup>	11	1.87	2.03

<sup>1</sup> Earnings per share consist of profit for the year excluding coupons attributable to AT1 capital securities and results attributable to non-controlling interests divided by the average outstanding and paid-up ordinary shares.

## Consolidated statement of comprehensive income

(in millions)	2016	2015
<b>Profit/(loss) for the year</b>	<b>1,806</b>	<b>1,924</b>
<b>Other comprehensive income:</b>		
<b>Items that will not be reclassified to the income statement</b>		
Remeasurement gains/(losses) on defined benefit plans	38	-6
<b>Items that will not be reclassified to the income statement before taxation</b>	<b>38</b>	<b>-6</b>
Income tax relating to items that will not be reclassified to the income statement	10	-4
<b>Items that will not be reclassified to the income statement after taxation</b>	<b>28</b>	<b>-2</b>
<b>Items that may be reclassified to the income statement</b>		
(Un)realised gains/(losses) currency translation	31	101
(Un)realised gains/(losses) available-for-sale	112	189
(Un)realised gains/(losses) cash flow hedge	284	222
Share of other comprehensive income of associates	31	11
Other changes		-4
<b>Other comprehensive income for the period before taxation</b>	<b>457</b>	<b>519</b>
Income tax relating to items that may be reclassified to the income statement	100	101
<b>Other comprehensive income for the period after taxation</b>	<b>357</b>	<b>418</b>
<b>Total comprehensive income/(expense) for the period after taxation<sup>1</sup></b>	<b>2,191</b>	<b>2,340</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the company	2,190	2,335
Non-controlling interests	1	5

<sup>1</sup> Including EUR -4 million related to Other reserves in 2015.



## Consolidated statement of financial position

(in millions)	Note	31 December 2016	31 December 2015
<b>Assets</b>			
Cash and balances at central banks	12	21,861	26,195
Financial assets held for trading	13	1,607	1,706
Derivatives	14	14,384	19,138
Financial investments	16	45,497	40,542
Securities financing	17	17,589	20,062
Loans and receivables-banks	19	13,485	15,680
Residential mortgages	20	152,069	151,543
Consumer loans	20	12,106	14,587
Corporate loans	20	96,058	103,889
Other loans and receivables-customers	20	7,445	6,357
Equity accounted investments	22	765	778
Property and equipment	23	1,418	1,366
Goodwill and other intangible assets	23	251	263
Assets held for sale	24	3,481	32
Tax assets	10	415	345
Other assets	25	6,050	4,893
<b>Total assets</b>		<b>394,482</b>	<b>407,373</b>
<b>Liabilities</b>			
Financial liabilities held for trading	13	791	459
Derivatives	14	14,526	22,425
Securities financing	17	11,625	11,372
Due to banks	26	13,419	14,630
Demand deposits	27	119,848	134,632
Saving deposits	27	92,740	94,005
Time deposits	27	16,169	18,555
Other due to customers	27	-0	160
Issued debt	28	81,278	76,207
Subordinated liabilities	28	11,171	9,708
Provisions	29	1,672	1,256
Liabilities held for sale	24	5,667	
Tax liabilities	10	134	650
Other liabilities	31	6,503	5,729
<b>Total liabilities</b>		<b>375,544</b>	<b>389,789</b>
<b>Equity</b>			
Share capital		940	940
Share premium		12,970	12,970
Other reserves (incl. retained earnings/profit for the period)		4,037	3,059
Other comprehensive income		-9	-394
<b>Equity attributable to owners of the parent company</b>		<b>17,939</b>	<b>16,575</b>
Capital securities		993	993
Equity attributable to non-controlling interests		5	17
<b>Total equity</b>	32	<b>18,937</b>	<b>17,584</b>
<b>Total liabilities and equity</b>		<b>394,482</b>	<b>407,373</b>
Committed credit facilities	34	27,299	21,559
Guarantees and other commitments	34	15,873	13,868

## Consolidated statement of changes in equity

(in millions)	Share capital	Share premium	Other reserves including retained earnings	Other comprehensive income	Net profit/(loss) attributable to shareholders	Total	Capital securities	Non-controlling interests	Total equity
<b>Balance at 1 January 2015</b>	<b>940</b>	<b>12,970</b>	<b>635</b>	<b>-814</b>	<b>1,134</b>	<b>14,865</b>		<b>12</b>	<b>14,877</b>
Total comprehensive income <sup>1</sup>			-4	420	1,919	2,335		5	2,340
Transfer			1,134		-1,134				
Dividend			-625			-625			-625
Increase/(decrease) of capital							993		993
Other changes in equity								-1	-1
<b>Balance at 31 December 2015</b>	<b>940</b>	<b>12,970</b>	<b>1,140</b>	<b>-394</b>	<b>1,919</b>	<b>16,575</b>	<b>993</b>	<b>17</b>	<b>17,584</b>
Total comprehensive income				385	1,805	2,190		1	2,191
Transfer			1,919		-1,919				
Dividend			-790			-790		-12	-802
Interest AT 1 capital securities			-41			-41			-41
Other changes in equity <sup>1</sup>			5			5		-0	5
<b>Balance at 31 December 2016</b>	<b>940</b>	<b>12,970</b>	<b>2,233</b>	<b>-9</b>	<b>1,805</b>	<b>17,939</b>	<b>993</b>	<b>5</b>	<b>18,937</b>

<sup>1</sup> Including correction related to previous years EUR 5 million related to Other reserves (2015: EUR -4 million).

Other comprehensive income is specified as follows:

(in millions)	Remeasurement gains/(losses) on post-retirement benefit plans	Currency translation reserve	Available-for-sale reserve	Cash flow hedge reserve	Share of OCI of associates and joint ventures	Total
<b>Balance at 1 January 2015</b>	<b>-38</b>	<b>36</b>	<b>329</b>	<b>-1,223</b>	<b>82</b>	<b>-814</b>
Net gains/(losses) arising during the period	-6	101	206	190	11	502
Less: Net realised gains/(losses) included in income statement			17	-32		-15
<b>Net gains/(losses) in equity</b>	<b>-6</b>	<b>101</b>	<b>189</b>	<b>222</b>	<b>11</b>	<b>517</b>
Related income tax	-4		45	55		97
<b>Balance at 31 December 2015</b>	<b>-41</b>	<b>137</b>	<b>473</b>	<b>-1,056</b>	<b>93</b>	<b>-394</b>
Net gains/(losses) arising during the period	38	31	234	297	31	630
Less: Net realised gains/(losses) included in income statement			122	13		136
<b>Net gains/(losses) in equity</b>	<b>38</b>	<b>31</b>	<b>112</b>	<b>284</b>	<b>31</b>	<b>495</b>
Related income tax	10	1	28	71		110
<b>Balance at 31 December 2016</b>	<b>-13</b>	<b>166</b>	<b>557</b>	<b>-843</b>	<b>124</b>	<b>-9</b>

Total comprehensive income amounted to EUR 2,191 million (2015: EUR 2,340 million).

The total amount contains EUR 1,805 million realised profit (2015: EUR 1,919 million), EUR 385 million other comprehensive income (2015: EUR 420 million) and EUR 1 million from non-controlling interests (2015: EUR 5 million).

Transfer includes the allocation of the profit/loss of the prior period to the other reserves.

The total dividend paid to ordinary shareholders in 2016 was EUR 790 million (2015: EUR 625 million). This contains the final dividend 2015 of EUR 414 million and the interim dividend 2016 of EUR 376 million (2015: EUR 275 million).

Share of other comprehensive income of associates and joint ventures is related to the movement in other comprehensive income of the associates and joint ventures of ABN AMRO.



## Consolidated statement of cash flows

(in millions)	2016	2015
<b>Profit/(loss) for the period</b>	<b>1,806</b>	<b>1,924</b>
<b>Adjustments on non-cash items included in profit:</b>		
(Un)realised gains/(losses)	-402	-101
Share of profits in associates and joint ventures	-59	-29
Depreciation, amortisation and accretion	452	314
Provisions and impairment losses	1,103	993
Income tax expense	650	798
<b>Changes in operating assets and liabilities:</b>		
Assets held for trading	99	7,409
Derivatives-assets	4,754	6,053
Securities financing-assets	2,791	-159
Loans and receivables-banks	997	6,880
Residential mortgages	-637	1,698
Consumer loans	2,381	926
Corporate loans	8,063	10,352
Other loans and receivables-customers	-982	664
Other assets	-817	15
Liabilities held for trading	331	-3,490
Derivatives-liabilities	-7,725	-8,014
Securities financing-liabilities	54	-3,359
Due to banks	-1,195	-1,220
Demand deposits	-14,404	-1,677
Saving deposits	-1,226	4,099
Time deposits	-2,230	806
Other due to customers	-160	17
Liabilities arising from insurance and investment contracts	-402	-142
Net changes in all other operational assets and liabilities	1,417	850
Dividend received from associates	101	56
Income tax paid	-1,324	-268
<b>Cash flow from operating activities</b>	<b>-6,564</b>	<b>25,395</b>

continued >

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(in millions)	2016	2015
<b>Investing activities:</b>		
Purchases of financial investments	-19,123	-17,123
Proceeds from sales and redemptions of financial investments	15,114	18,446
Acquisition of subsidiaries (net of cash acquired), associates and joint ventures	-28	-25
Divestments of subsidiaries (net of cash sold), associates and joint ventures	56	132
Purchases of property and equipment	-405	-282
Proceeds from sales of property and equipment	100	127
Purchases of intangible assets	-37	-42
<b>Cash flow from investing activities</b>	<b>-4,323</b>	<b>1,233</b>
<b>Financing activities:</b>		
Proceeds from the issuance of debt	32,635	35,244
Repayment of issued debt	-27,872	-37,126
Proceeds from subordinated liabilities issued	2,660	2,839
Repayment of subordinated liabilities issued	-1,363	-1,740
Proceeds from capital securities	1	993
Dividends paid to the owners of the parent company	-790	-625
Dividends paid to non-controlling interests	-12	
Repayment of capital (including non-controlling interests)		-1
<b>Cash flow from financing activities</b>	<b>5,260</b>	<b>-416</b>
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>-5,626</b>	<b>26,212</b>
Cash and cash equivalents as at 1 January	30,551	4,212
Effect of exchange rate differences on cash and cash equivalents	29	127
<b>Cash and cash equivalents as at 31 December</b>	<b>24,954</b>	<b>30,551</b>
<b>Supplementary disclosure of operating cash flow information</b>		
Interest paid	7,303	6,904
Interest received	13,248	14,024
Dividend received excluding associates	22	55

(in millions)	31 December 2016	31 December 2015
Cash and balances at central banks	21,861	26,195
Loans and receivables banks (less than 3 months) <sup>1</sup>	3,093	4,357
<b>Total cash and cash equivalents</b>	<b>24,954</b>	<b>30,551</b>

<sup>1</sup> Loans and receivables banks with an original maturity less than 3 months is included in loans and receivables-banks.



# Notes to the 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 Bank'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) 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 2016, all shares in the capital of ABN AMRO Group are held by two foundations: NLFI and STAK AAG. On that date, NLFI held 70% and STAK AAG held 30% of the shares in the issued capital of ABN AMRO Group. 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 2016 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 Managing Board and authorised for issue by the Supervisory Board and Managing Board on 14 March 2017.

### 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 the basis of a mixed valuation model as follows:

- ▶ Derivative financial instruments measured at fair value through profit or loss;
- ▶ Financial assets and liabilities held for trading or designated as measured at fair value through profit or loss;
- ▶ Available-for-sale financial assets and investments in associates of a private equity nature are valued at fair value;
- ▶ Other financial assets (including loans and receivables) and liabilities are valued at amortised cost less any impairment, if applicable;
- ▶ The carrying value of assets and liabilities measured at amortised cost included in a fair value hedge relationship is adjusted with respect to fair value changes resulting from the hedged risk;
- ▶ Non-financial assets and liabilities are generally stated at historical cost;
- ▶ Associates and joint ventures are accounted for using the equity method.

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).

## Disclosures

To combine disclosures where possible and to reduce duplication, we have integrated some IFRS disclosures into our Managing Board report. These are:

- ▶ IFRS 7 Risk disclosures of financial instruments. These are disclosed in the Risk, funding and capital section;
- ▶ IAS 1 Risk and financial instrument disclosures. These are part of the Risk, funding and capital section

IFRS disclosures in the Risk, funding and capital section on pages 91 to 204 are labelled as 'audited'. These disclosures are an integral part of the Consolidated Annual Financial Statements and are covered by the Audit opinion.

## Changes in accounting policies

During 2016 ABN AMRO adopted the following amendments and interpretations:

- ▶ IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements;
- ▶ IAS 1 Presentation of Financial Statements: Disclosure Initiative;
- ▶ Annual Improvements to IFRSs 2012-2014 Cycle;
- ▶ IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation;
- ▶ IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations.

Implementation of these amendments has no, or no material, effect on the Annual Financial Statements of ABN AMRO Group.

## New standards, amendments and interpretations not yet effective

The following amendments to IFRSs are issued by the IASB and endorsed by the EU, but are not yet effective. The amendments are required to be applied as from 1 January 2018. Note that only the amendments to IFRSs that are relevant for ABN AMRO are discussed on the next page.



In June 2016 the IASB issued amendments to IFRS 2 Share-based Payments: Classification and Measurement of Share-based Payment Transactions. The issuance consists of three amendments that clarify how to account for certain types of share-based payment transactions. Based on our initial analysis performed the amendments will not have any impact.

IFRS 9 Financial Instruments was endorsed by the EU in November 2016. This endorsement means that IFRS 9 will apply to ABN AMRO from 1 January 2018 onwards.

IFRS 9 will replace the current standard for recognition and measurement of financial instruments (IAS 39). ABN AMRO is well on its way in implementing IFRS 9. IFRS 9 will have an impact in two areas: classification and measurement of financial instruments and impairment. ABN AMRO has thus far chosen not to apply the IFRS 9 guidance on hedge accounting as this does not cover the majority of the bank's hedging programmes (the so-called macro-hedge).

The impact on the financial statements is expected to be largest for the changes to the impairment model. IFRS 9 replaces the 'incurred loss' model with the 'expected credit loss model' which is designed to be more forward-looking. The result of this forward-looking approach will be higher loan loss impairments and corresponding lower equity. In 2016 ABN AMRO developed the key elements of the IFRS 9 expected loss calculation. Separate IFRS 9 expected loss models have been developed (mainly an expected loss model for instruments valued at amortised cost and an expected loss model for instruments valued at fair value through OCI). The IFRS 9 expected loss model is developed alongside the stress testing methodology and incorporates forward-looking information based on the concepts of this methodology. In general, three different scenarios of future economic developments will be incorporated in a probability weighted manner into the IFRS 9 expected loss calculation. These scenarios will be approved by the Scenario and Stress Testing Committee. ABN AMRO has aligned its forward-looking scenarios with those used in the budgeting process. The bank also made key choices in determining when credit risk of financial assets has increased significantly. The probability of default and certain qualitative triggers will be used to determine if credit risk has increased significantly. Furthermore, in general the bank will apply the backstop of 30 days overdue as a trigger of significantly increased credit risk. Further calibration of these triggers is still needed and ABN AMRO is using an IFRS 9 impact assessment tool to carry out this calibration.

The state of the economy and the related uncertainty at 1 January 2018 is relevant to the impact of IFRS 9 on the CET 1 ratio. With the implementation of IFRS 9, the currently expected loss shortfall of EUR 298 million as reported in fully-loaded CET1 is expected to dampen the impact of IFRS 9. With a fully-loaded CET1 ratio of 17.0%, ABN AMRO feels confident the bank is sufficiently capitalised for the implementation of IFRS 9. The bank is in favour of the debate to neutralise the impact of IFRS 9 on CET1 capital and supports the discussions on the development of the regulatory expected loss concept.

In 2016 ABN AMRO finalised its analysis for classification and measurement. Reclassifications of financial instruments are limited and mainly result in a transfer of specific assets from amortised cost measurement to fair value through profit or loss measurement. The impact of these revised classifications on the CET1 ratio is expected to be limited. ABN AMRO has thus far chosen to continue to measure its current available-for-sale bonds portfolio at fair value through equity (other comprehensive income). The reported available-for-sale reserve of EUR 557 million will therefore continue to be reported as part of equity under IFRS 9 and hence will not impact CET1 ratios.



In 2017 ABN AMRO will focus on finalising the interaction of the IFRS 9 impairment model components, finalising the appropriate governance structure going forward, transferring the IFRS 9 implementation from the IFRS 9 project to business as usual and performing a parallel run.

IFRS 15 Revenue from contracts with customers. This new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. It is effective for annual periods beginning on or after 1 January 2018. ABN AMRO is currently assessing the impact of the new standard.

### **New standards, amendments and interpretations not yet endorsed**

The following new or revised standards and amendments have been issued by the IASB, but are not yet endorsed by the European Union and are therefore not open for early adoption. Note that only the amendments to IFRSs that are relevant for ABN AMRO are discussed below.

IFRS 16 Leases. The new standard on leases was issued by the IASB in January 2016 and will become effective on 1 January 2019. IFRS 16 replaces IAS 17 Leases and removes the distinction between 'Operational' and 'Financial' lease for lessees. The requirements for lessor accounting remain largely unchanged. ABN AMRO is currently assessing the impact of the new standard.

IAS 12 Income taxes: Recognition of Deferred Tax Assets for Unrealised losses. The amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value. ABN AMRO will start its impact assessment in 2017.

### **Offsetting**

As a result of an IFRIC rejection notice of 6 April 2016, ABN AMRO adjusted its accounting policy for offsetting. The bank offsets balances if it is legally entitled to set off the recognised amounts and intends to settle on a net basis, or realise the asset and settle the liability simultaneously.

The IFRIC rejection notice provides additional offsetting guidance for cash pooling agreements. The adjusted offsetting policy is applied consistently to all assets and liabilities, if applicable. In order to meet the revised offsetting requirements ABN AMRO adjusted the offsetting procedures for most notional cash pooling agreements throughout 2016. Historic figures have been adjusted accordingly. Some agreements were replaced with alternative arrangements. As a result, notional cash pooling balances that cannot be supported with a settlement of those balances closely after the reporting date are presented gross. At year-end 2016 this resulted in an increase of EUR 1.7 billion in the loans and receivables-customers balance and the due to customers balance (2015: EUR 15.5 billion). The majority of the EUR 13.8 billion decrease in loans and receivables-customers and due to customers over 2016 can be explained by adjusted offsetting procedures.

In addition to the offsetting changes on notional cash pooling, ABN AMRO concluded that offsetting is no longer applied to bank saving mortgages. As a result, bank saving mortgages are presented gross. Historic figures have been adjusted accordingly. This resulted in an increase in the loans and receivables-customers balance and the due to customers balance of EUR 1.8 billion at 31 December 2016 (2015: EUR 1.5 billion).

## 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 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 receivables	Risk, funding & capital section
Fair value of financial instruments	<u>note 18</u>
Income tax expense, tax assets and tax liabilities	<u>note 10</u>
Impairment of available-for-sale instruments	<u>note 16</u>
Provisions	<u>note 29</u>

## Assessment of risks and rewards

Whenever ABN AMRO is required to assess risks and rewards, when considering the recognition and derecognition of assets or liabilities and the consolidation and deconsolidation of subsidiaries, ABN AMRO may sometimes be required to use judgement. Although management uses its best knowledge of current events and actions in making assessments of expected risks and rewards, actual risks and rewards may ultimately differ.

## Significant accounting policies

### Basis of consolidation

The Consolidated Financial Statements of ABN AMRO Group N.V. include the financial statements of the parent company and its controlled entities. It incorporates 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 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

The Consolidated Financial Statements are stated in euros, which is the presentation and functional currency of ABN AMRO.

## Foreign currency differences

ABN AMRO applies IAS 21 The effect 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 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 of 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

ABN AMRO classifies financial assets and liabilities based on the business purpose of entering into these transactions.

### Classification of financial assets

Financial assets are classified as assets held for trading, financial investments or loans and receivables and are based on the criteria in IAS 39 Financial Instruments: Recognition and measurement.

Their measurement and income recognition depends on the classification of the financial assets.

The following four groups are identified:

- ▶ Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They generally arise when money or services are directly provided to a client with no intention of trading or selling the loan. They 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.
- ▶ Held-to-maturity investments are non-derivative financial assets that consist of instruments quoted on an active market with fixed or determinable payments and fixed maturity for which the positive intent and ability to hold to maturity is demonstrated. They 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 assets at fair value through profit or loss include:
  - ▶ financial assets held for trading;
  - ▶ financial assets that ABN AMRO 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 its fair value or include terms that have substantive derivative characteristics in nature.
- ▶ Available-for-sale financial assets are those assets that are 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 are initially measured at fair value with subsequent changes recognised in other comprehensive income.

If ABN AMRO reclassifies a financial asset out of held for trading, the financial asset is reclassified at its fair value and this fair value becomes the new amortised cost. On the same date a new effective interest is calculated.



### Classification of financial liabilities

Financial liabilities are classified as liabilities held for trading, due to banks, due to customers, debt certificates, subordinated liabilities and other borrowings. Their measurement and recognition in the income statement depends on the classification of the financial liabilities.

- ▶ Financial liabilities at fair value through profit or loss include:
  - ▶ financial liabilities held for trading;
  - ▶ 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 its fair value or include terms that have substantive derivative characteristics in nature.

Other financial liabilities are measured at amortised cost using the effective interest rate method with the periodic amortisation recorded in the income statement. The initial measurement of other financial liabilities is at fair value, including transaction costs.

### Classification of assets and liabilities held for trading

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;
- ▶ a trading derivative (except for a derivative that is a designated and effective hedging instrument).

### Recognition and derecognition

Traded instruments are recognised on the trade date, defined as the date on which ABN AMRO commits to purchase or sell the underlying instrument. In the event that settlement terms are non-standard, the commitment is accounted for as a derivative between trade and settlement date. Loans and receivables 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 in the Statement of financial position when ABN AMRO becomes a party to the contractual provisions of the asset or liability.

Financial assets are generally derecognised when ABN AMRO loses control and the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or substantially all risk and rewards are transferred. Financial assets are also derecognised in the case that 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 and 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.

ABN AMRO has protected assets through synthetic securitisations. Through a synthetic securitisation a substantial part of the credit risk related to these assets is transferred, while actual ownership of the assets remains with ABN AMRO.

A restructuring of a financial asset with the same borrower on substantially different terms, qualitative and quantitative – generally a 10% difference in the present value of the cash flows – 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.

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, qualitative and quantitative – generally 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 carrying amount 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 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 clients' positions with the relevant CCPs, possibly at a loss. Possible losses arising from this guarantee might relate not only to the clients' current positions but also to future trades of the client. Unlike a financial guarantee contract as defined in IAS 39 Financial Instruments, the guarantee provided by ABN AMRO does not relate to specific debt instruments. Therefore, we consider this guarantee to be in the scope of IAS 37 Provisions since the possible outflow of resources stem from the clearing arrangement with the CCP. 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.

As a consequence, 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 the scope of IAS 37 including disclosures.

## Offsetting

The bank offsets financial assets and liabilities and the net amount reported on 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 realise the asset and settle the liability simultaneously.

## Statement of cash flows

For the purposes of the cash flow statement, 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 receivables 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.

## 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 the internal reporting provided to the Managing Board, which is responsible for allocating resources and assessing performance and has been identified as chief operating decision-maker. All transactions between segments are eliminated as intersegment revenues and expenses in Group Functions.

Geographical data is presented according to 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 as 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 2016 or 2015.



## Retail Banking

Retail Banking provides banking products and services to individuals and small businesses (with turnover up to EUR 1 million). 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 Hypotheken Groep, Alfam, ICS and MoneYou are part of Retail Banking.

## Private Banking

Private Banking provides total solutions to its clients' global wealth management needs and offers a rich array of products and services designed to address their individual requirements. Private Banking operates under the brand name ABN AMRO MeesPierson in the Netherlands and internationally under ABN AMRO Private Banking, as well as local brands such as Banque Neufilze OBC in France and Bethmann Bank in Germany.

## Corporate Banking

Corporate Banking consists of Commercial Clients, International Clients and Capital Markets Solutions.

- ▶ Commercial Clients serves business clients with revenues from EUR 1 million up to EUR 250 million, and clients active in Commercial Real Estate (excluding publicly listed companies, which are served by International Clients). Our Lease and Commercial Finance activities are also included in Commercial Clients;
- ▶ International Clients serves business clients with revenues exceeding EUR 250 million, as well as Energy, Commodities & Transportation (ECT) Clients, Diamond & Jewellery Clients, Financial Institutions and Listed Commercial Real Estate clients;
- ▶ Capital Markets Solutions serves clients by providing products and services related to financial markets. Capital Markets Solutions includes ABN AMRO Clearing.

## Group Functions

Group Functions supports the business segments and consists of Technology, Operations & Property Services (TOPS), Finance, Risk Management & Strategy, People, Regulations & Identity (PR&I), Group Audit and the Corporate Office. The majority of the Group Functions costs are allocated to the businesses. Group Functions' results include those of ALM/Treasury and the securities financing activities.

## Segment income statement for the year 2016

(in millions)					2016
	Retail Banking	Private Banking	Corporate Banking	Group Functions	Total
Net interest income	3,355	645	2,270	-2	6,267
Net fee and commission income	463	580	751	-52	1,743
Net trading income	4	45	-207	-53	-211
Share of result in equity accounted investments	43	17	-10	4	55
Other operating income	93	27	42	211	373
<b>Operating income</b>	<b>3,959</b>	<b>1,315</b>	<b>2,846</b>	<b>108</b>	<b>8,227</b>
Personnel expenses	470	501	680	1,125	2,777
General and administrative expenses	513	240	426	1,502	2,682
Depreciation and amortisation of tangible and intangible assets	6	32	17	144	198
Intersegment revenues/expenses	1,222	272	872	-2,366	
<b>Operating expenses</b>	<b>2,211</b>	<b>1,045</b>	<b>1,995</b>	<b>405</b>	<b>5,657</b>
Impairment charges on loans and other receivables	79	20	31	-15	114
<b>Total expenses</b>	<b>2,290</b>	<b>1,065</b>	<b>2,026</b>	<b>390</b>	<b>5,771</b>
<b>Operating profit/(loss) before taxation</b>	<b>1,669</b>	<b>249</b>	<b>820</b>	<b>-282</b>	<b>2,456</b>
Income tax expense	422	50	214	-36	650
<b>Profit/(loss) for the year</b>	<b>1,247</b>	<b>199</b>	<b>605</b>	<b>-245</b>	<b>1,806</b>
<i>Attributable to:</i>					
Owners of the company	1,247	199	604	-246	1,805
Non-controlling interests			1		1

### Retail Banking

Net interest income, at EUR 3,355 million, increased by EUR 53 million compared with 2015. This improvement can largely be attributed to a provision for inconsistencies in interest calculations between the bank and its business partners regarding one of the mortgage products which was booked in 2015 (EUR 29 million) and partly released in 2016. Net interest income in 2016 was negatively impacted by a provision for ICS (EUR 47 million) while 2015 included a provision for Euribor mortgages (EUR 41 million).

Margins on residential mortgages continued to improve in 2016 as the impact of repricing of the mortgage book in recent years continued to benefit net interest income. Net interest income on consumer loans decreased due to lower average loan volumes and decreased margins. Net interest income on deposits increased compared with 2015 due to higher margins and higher average deposit volumes.

Net fee and commission income decreased by EUR 64 million compared with 2015, amongst others due to a reduction of fees charged for payment packages. Uncertainty and volatility in the financial markets, especially in the first half of 2016, had a negative impact as well. Other operating income increased by EUR 96 million due to a profit (EUR 101 million) related to the gain on the sale of Visa Europe.



Personnel expenses decreased to EUR 470 million (2015: EUR 487 million). The number of FTEs in Retail Banking decreased in 2016 due to a further reduction in the number of branches and a transfer of employees to Private Banking related to the lower threshold for private banking clients.

General and administrative expenses increased to EUR 513 million compared with EUR 445 million in 2015. This was largely due to an increase in regulatory levies (EUR 136 million in 2016 versus EUR 87 million in 2015). The execution costs provision for ICS in 2016 (EUR 16 million) was offset by stricter cost control.

Higher intersegment revenues/expenses resulted from a higher allocation of project costs related to the continuous improvement of products, services and IT processes (including the Retail Digitalisation programme).

Impairment charges on loans and other receivables were limited in 2016 and EUR 20 million below the 2015 level. Both years included significant IBNI releases, although these were higher in 2015. An IBNI release of EUR 81 million was recorded in 2016 (2015: EUR 85 million). The Dutch economy recovered further and confidence in the housing market improved in 2016. Both contributed to lower impairment charges for mortgages (excluding IBNI releases). Consumer loans also benefited from further improved economic conditions and active risk management of the portfolio of clients in arrears, leading to lower loan impairments with higher IBNI releases.

### Private Banking

Net interest income increased by EUR 56 million to EUR 645 million in 2016. This was mainly the result of higher margins on deposits, partly offset by lower average lending volumes. Net fee and commission income decreased by EUR 39 million. Uncertainty and volatility in the financial markets, especially in the first half of 2016, had a negative impact on the stock markets. This led to lower average client assets and a decline in transaction volumes. Net trading income decreased compared with 2015.

Personnel expenses remained stable compared with 2015, while general and administrative expenses showed a decrease of EUR 47 million. This mainly resulted from the favourable settlement of an insurance claim in 2016 (EUR 24 million), several smaller provision releases and strict cost control. This was partly offset by higher regulatory levies (EUR 18 million in 2016 versus EUR 11 million in 2015). The increase in intersegment revenues/expenses was related to higher allocated project costs for the continuous improvement of products, services and IT processes.

Impairment charges on loans and other receivables amounted to EUR 20 million compared with a EUR 4 million release in 2015. This was mainly the result of lower IBNI releases (EUR 3 million in 2016 versus EUR 12 million in 2015) and specific additions in 2016 compared with a specific release in 2015.

## Corporate Banking

Net interest income increased by EUR 128 million to EUR 2,270 million.

Commercial Clients posted a modest rise in net interest income of EUR 34 million to EUR 1,339 million. Margins on loans and deposits increased as did average deposit volumes. Average loan volumes decreased partly due to the reallocation of a portfolio to Group Functions in Q4 2015. Both years are impacted by the provision for SME derivatives-related issues.

Net interest income in International Clients increased by EUR 35 million to EUR 744 million, benefiting from growth in the ECT Clients loan portfolio (mainly international). This was partly offset by lower margins on deposits.

Net interest income in Capital Markets Solutions improved by EUR 59 million to EUR 186 million, mainly at Sales & Trading (partly due to favourable one-offs as a result of collateral management).

Net fee and commission remained flat at EUR 751 million. Higher fees due to more cleared volumes at Capital Markets Solutions were offset by lower fees at International Clients.

Net trading income went down by EUR 334 million. This decrease was driven by additions to the provision for SME derivatives-related issues in 2016. This was partially offset by EUR 51 million lower CVA/DVA/FVA results compared with 2015 (EUR 2 million negative in 2016 versus EUR 49 million positive in 2015).

Other operating income went down by EUR 99 million, largely due to lower tax-exempt results on the Equity Participations portfolio due to less favourable market conditions (including the ongoing low oil price).

Personnel expenses amounted to EUR 680 million in 2016, up by EUR 4 million compared with 2015. Personnel expenses increased due to higher pension expenses and a growth in the number of FTEs, partly offset by lower restructuring provisions in 2016.

General and administrative expenses were up EUR 18 million due to a provision at Capital Markets Solutions for SME derivatives-related issues (EUR 55 million) and higher project costs. This was partly offset by EUR 27 million lower regulatory levies and several smaller favourable one-offs in 2016. Intersegment revenues/expenses grew by EUR 35 million mainly due to higher project costs for continuous improvement of products, services and IT processes (including TOPS 2020).

Impairment charges amounted to EUR 31 million, down by EUR 388 million compared with 2015. The decrease of impairment charges is fully recognised in Commercial Clients due to the further broad recovery of the Dutch economy. Slightly higher impairment charges at International Clients were offset by lower additions at Capital Markets Solutions.

In addition, Q2 2016 includes the addition to the provision for SMEs with derivatives-related issues of EUR 361 million gross (EUR 271 million net of tax). This provision was taken based on ABN AMRO's decision to adhere to the advice of the committee of independent experts on the reassessment of SME interest rate derivatives.



## Group Functions

Net interest income decreased by EUR 46 million compared with 2015 as the interest result came down, in line with the flattening of the yield curve (partly offset by ABN AMRO's duration strategy. More information is provided in the Market risk in the banking book section). Moreover, interest paid on cash deposits with the European Central Bank increased due to higher average volumes and more unfavourable (negative) rates. Both were partly offset by lower funding costs on Dutch State funding (Dutch State Treasury Agency) following a partial redemption in 2016. Lastly, both years included tax-exempt provisions related to the part of the securities financing activities discontinued in 2009.

Net fee and commission income increased by EUR 16 million, partly driven by lower fees paid to Capital Markets Solutions related to securities financing activities.

Other operating income decreased by EUR 75 million compared with 2015 primarily as lower hedge accounting-related results were recorded in 2016 (EUR 39 million in 2016 versus EUR 182 million in 2015). Moreover, no CVA/DVA results were recorded in 2016 compared with favourable CVA/DVA adjustments in 2015 (EUR 27 million positive). This was partly offset by profits/revaluation gains on stakes in Visa Europe (EUR 14 million) and Equens (EUR 52 million). Both years included tax-exempt provisions related to the part of the securities financing activities discontinued in 2009.

Personnel expenses, at EUR 1,125 million in 2016, went up by EUR 297 million compared with 2015. The increase was due to EUR 321 million of restructuring provisions related to the announced reorganisation of the control and support activities (EUR 144 million in Q3 2016) and digitalisation and process optimisation (EUR 177 million in Q4 2016). This was partly offset by several smaller restructuring provisions recorded in 2015. General and administrative expenses increased by EUR 82 million as last year included some favourable incidentals including a EUR 35 million release related to DSB and a VAT return, partly offset by a final settlement (EUR 55 million) with Vestia (a Dutch housing corporation). The year 2016 includes a EUR 13 million restructuring provision for office space (plus EUR 14 million accelerated depreciation) and higher projects costs for continuous improvement of products, services and IT processes (including the TOPS 2020 and Retail Digitalisation programmes).



## Segment income statement for the year 2015

(in millions)					2015
	Retail Banking	Private Banking	Corporate Banking	Group Functions	Total
Net interest income	3,302	589	2,142	44	6,076
Net fee and commission income	527	619	751	-68	1,829
Net trading income	7	58	127	-92	99
Share of result in equity accounted investments	21	17	-40	3	1
Other operating income	-3	27	141	286	450
<b>Operating income</b>	<b>3,853</b>	<b>1,310</b>	<b>3,120</b>	<b>172</b>	<b>8,455</b>
Personnel expenses	487	501	676	828	2,492
General and administrative expenses	445	287	408	1,420	2,559
Depreciation and amortisation of tangible and intangible assets	7	24	19	127	177
Intersegment revenues/expenses	1,167	238	837	-2,242	
<b>Operating expenses</b>	<b>2,106</b>	<b>1,050</b>	<b>1,940</b>	<b>133</b>	<b>5,228</b>
Impairment charges on loans and other receivables	99	-4	419	-8	505
<b>Total expenses</b>	<b>2,205</b>	<b>1,046</b>	<b>2,358</b>	<b>125</b>	<b>5,734</b>
<b>Operating profit/(loss) before taxation</b>	<b>1,649</b>	<b>264</b>	<b>762</b>	<b>48</b>	<b>2,722</b>
Income tax expense	423	49	165	160	798
<b>Profit/(loss) for the year</b>	<b>1,226</b>	<b>214</b>	<b>596</b>	<b>-112</b>	<b>1,924</b>
<i>Attributable to:</i>					
Owners of the company	1,226	214	592	-113	1,919
Non-controlling interests			5		5

## Selected assets and liabilities by segment

31 December 2016

(in millions)	Retail Banking	Private Banking	Corporate Banking	Group Functions	Total
<b>Assets</b>					
Financial assets held for trading			1,607		1,607
Derivatives		54	12,038	2,293	14,384
Securities financing		14	4,634	12,941	17,589
Residential mortgages	146,065	2,924	8	3,073	152,069
Consumer loans	7,684	3,752	670		12,106
Corporate loans	2,518	5,449	83,657	4,433	96,058
Other loans and receivables-customers			7,157	288	7,445
Other	2,313	12,426	10,109	68,375	93,223
<b>Total assets</b>	<b>158,580</b>	<b>24,618</b>	<b>119,880</b>	<b>91,403</b>	<b>394,482</b>
<b>Liabilities</b>					
Financial liabilities held for trading			791		791
Derivatives		30	10,087	4,409	14,526
Securities financing		3	1,101	10,522	11,625
Demand deposits	25,514	39,490	54,440	404	119,848
Saving deposits	72,019	17,345	3,376		92,740
Time deposits	5,217	4,990	4,558	1,404	16,169
Other due to customers					
Other	55,831	-37,240	45,527	55,727	119,845
<b>Total liabilities</b>	<b>158,580</b>	<b>24,618</b>	<b>119,880</b>	<b>72,466</b>	<b>375,544</b>

31 December 2015

(in millions)	Retail Banking	Private Banking	Corporate Banking	Group Functions	Total
<b>Assets</b>					
Financial assets held for trading			1,706		1,706
Derivatives		94	15,340	3,704	19,138
Securities financing		20	4,591	15,451	20,062
Residential mortgages	145,058	3,072	12	3,401	151,543
Consumer loans	8,105	5,858	624		14,587
Corporate loans	2,615	7,671	89,338	4,265	103,889
Other loans and receivables-customers	-1		6,143	215	6,357
Other	1,553	7,457	15,125	65,958	90,092
<b>Total assets</b>	<b>157,330</b>	<b>24,171</b>	<b>132,878</b>	<b>92,994</b>	<b>407,373</b>
<b>Liabilities</b>					
Financial liabilities held for trading			459		459
Derivatives		85	13,560	8,780	22,425
Securities financing		8	1,155	10,209	11,372
Demand deposits	23,579	41,435	69,307	311	134,632
Saving deposits	71,486	18,498	4,022		94,005
Time deposits	5,142	6,533	4,884	1,996	18,555
Other due to customers			160		160
Other	57,123	-42,387	39,331	54,112	108,180
<b>Total liabilities</b>	<b>157,330</b>	<b>24,171</b>	<b>132,878</b>	<b>75,410</b>	<b>389,789</b>

## Geographical segments

2016

(in millions)	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Net interest income	5,259	569	199	175	65	6,267
Net fee and commission income	1,104	350	111	165	13	1,743
Net trading income	-261	26	11	16	-3	-211
Share of result in equity accounted investments	38	17				55
Other operating income	346	18	1	7		373
<b>Operating income</b>	<b>6,486</b>	<b>980</b>	<b>322</b>	<b>364</b>	<b>76</b>	<b>8,227</b>
Personnel expenses	2,160	360	94	139	25	2,777
General and administrative expenses	2,336	230	43	56	16	2,682
Depreciation and amortisation of tangible and intangible assets	153	34	4	5	2	198
Intercountry revenues/expenses	-37	14	7	27	-11	
<b>Operating expenses</b>	<b>4,612</b>	<b>638</b>	<b>147</b>	<b>227</b>	<b>32</b>	<b>5,657</b>
Impairment charges on loans and other receivables	-42	72	58	17	9	114
<b>Total expenses</b>	<b>4,570</b>	<b>710</b>	<b>206</b>	<b>244</b>	<b>41</b>	<b>5,771</b>
<b>Operating profit/(loss) before taxation</b>	<b>1,915</b>	<b>270</b>	<b>117</b>	<b>119</b>	<b>35</b>	<b>2,456</b>
Income tax expense	537	71	15	16	10	650
<b>Profit/(loss) for the year</b>	<b>1,378</b>	<b>200</b>	<b>101</b>	<b>103</b>	<b>24</b>	<b>1,806</b>
<i>Attributable to:</i>						
Owners of the company	1,377	200	101	103	24	1,805
Non-controlling interests	1					1



2015

(in millions)	The Netherlands	Rest of Europe	USA	Asia	Rest of the world	Total
Net interest income	5,109	577	156	178	57	6,076
Net fee and commission income	1,186	363	104	163	13	1,829
Net trading income	105	-30	5	20	-1	99
Share of result in equity accounted investments	-16	17				1
Other operating income	417	26		6		450
<b>Operating income</b>	<b>6,801</b>	<b>953</b>	<b>265</b>	<b>367</b>	<b>69</b>	<b>8,455</b>
Personnel expenses	1,905	354	85	129	19	2,492
General and administrative expenses	2,195	248	41	61	14	2,559
Depreciation and amortisation of tangible and intangible assets	138	27	5	5	2	177
Intercompany revenues/expenses	-20	-3	8	21	-6	
<b>Operating expenses</b>	<b>4,217</b>	<b>626</b>	<b>139</b>	<b>217</b>	<b>29</b>	<b>5,228</b>
Impairment charges on loans and other receivables	383	29	11	47	35	505
<b>Total expenses</b>	<b>4,600</b>	<b>656</b>	<b>150</b>	<b>264</b>	<b>64</b>	<b>5,734</b>
<b>Operating profit/(loss) before taxation</b>	<b>2,201</b>	<b>298</b>	<b>115</b>	<b>102</b>	<b>5</b>	<b>2,722</b>
Income tax expense	665	88	34	11	-1	798
<b>Profit/(loss) for the year</b>	<b>1,536</b>	<b>210</b>	<b>81</b>	<b>91</b>	<b>7</b>	<b>1,924</b>
<i>Attributable to:</i>						
Owners of the company	1,531	210	81	91	7	1,919
Non-controlling interests	5					5

### 3 Overview of financial assets and liabilities by measurement base

31 December 2016

(in millions)	Amortised cost	Fair value through profit or loss-Trading	Fair value through profit or loss-Other	Available for sale financial assets	Total
<b>Financial assets</b>					
Cash and balances at central banks	21,861				21,861
Financial assets held for trading		1,607			1,607
Derivatives		12,211	2,173		14,384
Financial investments			778	44,719	45,497
Securities financing	17,589				17,589
Loans and receivables-banks	13,485				13,485
Loans and receivables-customers	267,679				267,679
Other assets			3,275		3,275
<b>Total financial assets</b>	<b>320,614</b>	<b>13,818</b>	<b>6,226</b>	<b>44,719</b>	<b>385,377</b>
<b>Financial Liabilities</b>					
Financial liabilities held for trading		791			791
Derivatives		10,401	4,126		14,526
Securities financing	11,625				11,625
Due to banks	13,419				13,419
Due to customers	228,758				228,758
Issued debt	79,639		1,639		81,278
Subordinated liabilities	11,171				11,171
Other liabilities			3,275		3,275
<b>Total financial liabilities</b>	<b>344,613</b>	<b>11,191</b>	<b>9,040</b>		<b>364,844</b>

31 December 2015

(in millions)	Amortised cost	Fair value through profit or loss-Trading	Fair value through profit or loss-Other	Available for sale financial assets	Total
<b>Financial assets</b>					
Cash and balances at central banks	26,195				26,195
Financial assets held for trading		1,706			1,706
Derivatives		15,495	3,644		19,138
Financial investments			770	39,772	40,542
Securities financing	20,062				20,062
Loans and receivables-banks	15,680				15,680
Loans and receivables-customers	276,375				276,375
Other assets			2,543		2,543
<b>Total financial assets</b>	<b>338,311</b>	<b>17,200</b>	<b>6,956</b>	<b>39,772</b>	<b>402,240</b>
<b>Financial Liabilities</b>					
Financial liabilities held for trading		459			459
Derivatives		13,725	8,700		22,425
Securities financing	11,372				11,372
Due to banks	14,630				14,630
Due to customers	247,353				247,353
Issued debt	74,492		1,715		76,207
Subordinated liabilities	9,708				9,708
Other liabilities			2,543		2,543
<b>Total financial liabilities</b>	<b>357,555</b>	<b>14,184</b>	<b>12,958</b>		<b>384,697</b>

## 4 Net interest income

### Accounting policy for net interest income and expense

ABN AMRO applies IAS 39 Financial Instruments: Recognition and Measurement. Interest income and expenses are recognised in the income statement on an accrual basis for all financial instruments using the effective interest rate method except for those financial instruments held for trading. 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 method requires the Group 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 expected lives of the assets and liabilities. Due to the large number of products, there are no individual estimates that are material to the bank's results or financial position. Interest income and expenses of trading balances are included in net trading income.

(in millions)	2016	2015
Interest income <sup>1</sup>	12,651	13,207
Interest expense <sup>1</sup>	6,383	7,130
<b>Net interest income</b>	<b>6,267</b>	<b>6,076</b>

<sup>1</sup> ABN AMRO accounts for negative interest in compliance with EBA guidance. In 2016 an amount of EUR 140 million negative interest yield on liabilities was reported as interest income and an amount of EUR 159 million negative interest yield on assets was reported as interest expense.

### Net interest income

Net interest income for full-year 2016 amounted to EUR 6,267 million, an increase of EUR 191 million compared with EUR 6,076 million in 2015.

The increase originates from the commercial segments and was primarily due to improved margins on residential mortgages, corporate loans and deposits.

### Interest income

The breakdown of interest income by type of product for the years ended 31 December is shown in the following table.

(in millions)	2016	2015
<b>Interest income from:</b>		
Financial investments available-for-sale	690	692
Securities financing	290	295
Loans and receivables-banks	218	263
Loans and receivables-customers	9,187	9,770
Other	2,265	2,186
<b>Total interest income</b>	<b>12,651</b>	<b>13,207</b>

Interest income amounted to EUR 12,651 million in 2016, a decrease of EUR 556 million compared with EUR 13,207 million in 2015. Interest income from items designated at fair value through profit or loss amounted to EUR 2,265 million (2015: EUR 2,186 million).

The decrease in interest income from loans and receivables-customers was mainly related to residential mortgages (decrease of EUR 456 million) due to lower interest rates.

ABN AMRO applies fair value hedge accounting on hedged items. These hedged items are based on gross amounts. Other includes interest income on hedging instruments for an amount of EUR 1,864 million (2015: EUR 1,855 million).

### Interest expense

The breakdown of interest expenses by type of product for the years ended 31 December is shown in the following table.

(in millions)	2016	2015
<b>Interest expenses from:</b>		
Securities financing	179	187
Due to banks	155	242
Due to customers	1,250	1,940
Issued debt	1,563	1,646
Subordinated liabilities	520	451
Other	2,716	2,664
<b>Total interest expense</b>	<b>6,383</b>	<b>7,130</b>

Interest expense for the full year 2016 amounted to EUR 6,383 million, a decrease of EUR 747 million compared with EUR 7,130 million in 2015. Interest expense from items designated at fair value through profit or loss amounted to EUR 2,730 million (2015: EUR 2,680 million).

The decrease in interest expenses from due to customers was caused by the lower interest expense (EUR 690 million) for client savings.

ABN AMRO applies fair value hedge accounting on hedged items. These hedged items are based on gross amounts. Other includes interest expense on hedging instruments for an amount of EUR 2,097 million (2015: EUR 2,120 million).

## 5 Net fee and commission income

### Accounting policy for net fee and commission income

ABN AMRO applies IAS 18 Revenue. Fees and commissions are recognised as the services are provided. The following fee types are identified:

- ▶ Service fees are recognised on a straight-line basis over the service contract period; portfolio and other management advisory and service fees are recognised based on the applicable service contracts;
- ▶ Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised upon completion of the underlying transaction. Commission revenue is recognised when the performance obligation is complete. Loan syndication fees are recognised as revenue when the syndication has been completed.

Fees and commissions dependent on the outcome of a particular event or contingent upon performance are recognised when the following criteria have been met:

- ▶ The fees are realised, or realisable and earned;
- ▶ The earnings process is completed by performing according to the terms of the arrangements, not simply by originating a revenue-generating arrangement;
- ▶ If services are rendered or rights to use assets extend continuously over time (for example, interest or rent), and when reliable measures based on contractual prices established in advance are commonly available, revenues may be recognised as time passes.

(in millions)	2016	2015
Fee and commission income	3,082	3,061
Fee and commission expense	1,340	1,233
<b>Net fee and commission income</b>	<b>1,743</b>	<b>1,829</b>

Net fee and commission income decreased by EUR 86 million in 2016 compared with 2015. This was mainly related to uncertainty and volatility in the financial markets, which has a negative impact on Private Banking. For Retail Banking the decrease was mainly due to a reduction of client rates for payment packages in 2016.

### Fee and commission income

Fee and commission income for the years ended 31 December is specified in the following table.

(in millions)	2016	2015
<b>Fee and commission income from:</b>		
Securities and custodian services	1,438	1,344
Payment services	676	691
Portfolio management and trust fees	545	586
Guarantees and commitment fees	167	179
Insurance and investment fees	86	86
Other service fees	171	174
<b>Total fee and commission income</b>	<b>3,082</b>	<b>3,061</b>

Income from securities and custodian services was higher in 2016 as market volatility resulted in more cleared volumes at Capital Markets Solutions.

Payment service fees decreased due to a reduction of client rates for payment packages in 2016.

Portfolio management and trust fees were lower within Private Banking. The decrease was mainly related to more uncertainty and volatility in the financial markets, resulting in lower average client assets.



## Fee and commission expense

The components of fee and commission expenses for the years ended 31 December are as follows:

(in millions)	2016	2015
<b>Fee and commission expenses from:</b>		
Securities and custodian services	1,046	953
Payment services	162	150
Portfolio management and trust fees	76	74
Guarantees and commitment fees	8	8
Insurance and investment fees	30	28
Other service fees	19	20
<b>Total fee and commission expense</b>	<b>1,340</b>	<b>1,233</b>

Securities and custodian services fee expenses were higher due to market volatility in 2016.

## 6 Net trading income

### Accounting policy for net trading income

In accordance with IAS 39, trading positions are held at fair value and net trading income includes gains and losses arising from changes in the fair value of financial assets and liabilities which are 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 and changes in own credit spreads where these impact the value of our trading liabilities. The funding value adjustment incorporates the incremental cost of funding into the valuation of uncollateralised and partly collateralised derivatives.

(in millions)	2016	2015
Interest instruments trading	-364	-99
Equity trading	-38	-84
Foreign exchange transaction results <sup>1</sup>	183	319
Other	8	-37
<b>Total net trading income</b>	<b>-211</b>	<b>99</b>

<sup>1</sup> Includes foreign exchange results for balances not being "fair value to profit or loss" EUR 31 million (2015: EUR 30 million).

Total net trading income amounted to a loss of EUR 211 million (2015: gain EUR 99 million). This was mainly caused by lower CVA/DVA/FVA results (EUR 2 million negative for the year 2016 versus a positive EUR 76 million for the year 2015), Both years include provisions related to discontinued securities financing activities (Group Functions) and provisions for SME derivatives-related issues (Corporate Banking). For more details please refer to [note 29 Provisions](#).

Interest instruments trading income decreased by EUR 265 million in 2016 compared with 2015. The decrease was driven by higher provisions in Corporate Banking for SME derivatives-related issues.

The effect of CVA and DVA results (EUR 0 million in 2016 versus EUR 42 million in the previous year) was offset by higher gains related to the IRS portfolio which was used to hedge the interest component of the cross currency swap positions.

Equity trading income was less negative in 2016 compared with the previous year mainly due to tax-exempt provisions related to discontinued securities financing activities.

Foreign exchange transaction results decreased to EUR 183 million in 2016, down by EUR 136 million compared with 2015. This decrease was mainly the result of the valuation of cross currency swaps at the beginning of 2015 between the euro versus the US dollar.

## 7 Other income

### Accounting policy for other income

Other 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 of IAS 39 for hedge accounting, ineffectiveness of hedging programmes, fair value changes relating to assets and liabilities designated at fair value through profit or loss, and changes in the value of any related derivatives. For liabilities designated at fair value through profit or loss, it includes changes in own credit spreads. Dividend income from non-trading equity investments is recognised when entitlement is established.

(in millions)	2016	2015
Leasing activities	23	22
Disposal of operating activities and equity accounted investments	81	28
Result from financial transactions	163	286
Other	106	114
<b>Total other income</b>	<b>373</b>	<b>450</b>

Other income decreased with EUR 77 million from EUR 450 million in 2015 to EUR 373 million in 2016, due mainly to a decline in result from financial transactions.

Result from financial transactions decreased by EUR 123 million in 2016 compared with 2015 mainly due to hedge accounting-related results at Group Functions.

Results of the revaluation and divestments at equity accounted participations decreased in 2016 compared to 2015. These decreases were mainly offset by a profit of EUR 116 million related to ABN AMRO's equity stake in Visa Europe.

Disposal of operating activities and equity accounted investments increased mainly due to the profits/revaluation gains of ABN AMRO's equity stake in Equens SE (EUR 52 million).

## 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)	2016	2015
Salaries and wages	1,716	1,717
Social security charges	235	244
Pension expenses relating to defined benefit plans	6	3
Defined contribution plan expenses	343	322
Other	477	206
<b>Total personnel expenses</b>	<b>2,777</b>	<b>2,492</b>

Total personnel expenses for 2016 amounted to EUR 2,777 million, an increase of EUR 285 million, or 11.4%, compared with EUR 2,492 million in 2015.

The increase in the line other was due to EUR 321 million restructuring provisions related to the announced reorganisation of the control and support activities recorded in Q3 and further digitalisation and process optimisation in Q4 2016.

## 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)	2016	2015
Agency staff, contractors and consultancy costs	777	764
Staff related costs	87	90
Information technology costs	1,002	950
Housing	195	199
Post, telephone and transport	57	66
Marketing and public relations costs	109	127
Regulatory levies	275	241
Other	179	123
<b>Total general and administrative expenses</b>	<b>2,682</b>	<b>2,559</b>

Total general and administrative expenses increased by EUR 123 million to EUR 2,682 million in 2016, up 4.8% compared with EUR 2,559 million in 2015.

Information technology costs increased by EUR 52 million due to several ongoing IT-related projects with multiple external contractors. Marketing and public relations costs decreased by EUR 18 million due to the fact that fewer campaigns were mounted in 2016 compared with 2015.

Regulatory levies increased by EUR 34 million, whereby the Deposit Guarantee Scheme (DGS) increased by EUR 87 million and the Single Resolution Fund charges decreased by EUR 53 million partly due to a EUR 32 million refund on the 2015 payment.

Other increased by EUR 56 million due to provisions for SME derivatives-related issues and the ICS redress scheme. This was partly offset by the favourable settlement of an insurance claim.

A specification of the regulatory charges is as follows:

(in millions)	2016	2015
Bank tax	98	98
Deposit Guarantee Scheme	90	3
Single resolution fund	66	119
Other regulatory levies	22	20
<b>Total regulatory levies</b>	<b>275</b>	<b>241</b>

Auditor's fees are recognised on an accrual basis. Fees paid to EY (2015: KPMG) are included under agency staff, contractors and consultancy costs. These fees are specified in the following table.

(in millions)	2016	2015
Financial statements audit fees	7	7
Audit related fees	3	4
<b>Total auditor's fee</b>	<b>10</b>	<b>11</b>

Financial statements audit fees relating to the audit of activities in the Netherlands amounted to EUR 6 million in 2016 (2015: EUR 6 million). Audit related fees for activities in the Netherlands amounted to EUR 1 million in 2016 (2015: EUR 2 million).

## 10 Income tax expense, tax assets and tax liabilities

### Accounting policy for income tax expense, tax assets and tax liabilities

ABN AMRO applies IAS 12 Income Taxes in accounting for taxes on income.

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 in the period in which profits arise. Withholding taxes are included in trading income. 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 only offset when there is both a legal right to offset and an intention to settle on a net basis.

(in millions)	2016	2015
<b>Recognised in income statement:</b>		
Current tax expenses for the current period	791	737
Adjustments recognised in the period for current tax of prior periods	-20	-7
Previously unrecognised tax losses, tax credits and temporary differences increasing (reducing) current tax expenses	-3	-5
<b>Total current tax expense</b>	<b>768</b>	<b>725</b>
Deferred tax arising from the current period	-158	49
Impact of changes in tax rates on deferred taxes	4	-4
Deferred tax arising from the write-down or reversal of a write-down of a deferred tax asset	7	-16
Previously unrecognised tax losses, tax credits and temporary differences reducing deferred tax expense	30	45
<b>Total deferred tax expense</b>	<b>-118</b>	<b>73</b>
<b>Total income tax expense</b>	<b>650</b>	<b>798</b>

### Reconciliation of the total tax charge

The effective rate based on the Consolidated statement of income was 26.5% in 2016 (2015: 29.3%) and differs from the theoretical rate that would arise using the statutory tax rate of the Netherlands.

This difference is explained as follows:

(in millions)	2016	2015
Profit/(loss) before taxation	2,456	2,722
Applicable tax rate	25.0%	25.0%
Expected income tax expense	614	680
<b>Increase/(decrease) in taxes resulting from:</b>		
Tax exempt income	-19	26
Share in result of associates and joint ventures	-9	-24
Non deductible Dutch bank tax	24	25
Other non deductible expenses	3	4
Previously unrecognised tax losses and temporary differences	26	95
Write-down and reversal of write-down of deferred tax assets	7	-12
Impact of changes in tax rates on temporary differences	4	-4
Foreign tax rate differential	13	9
Adjustments for current tax of prior years	-17	-7
Other	4	6
<b>Actual income tax expense</b>	<b>650</b>	<b>798</b>

The effective tax rate in 2016 was affected by non-taxable gains and income which was almost offset by non-deductible expenses and bank tax, the reassessment of our tax position due to the fact that we continued to settle open issues with the tax authorities, several adjustments to prior years related to tax assessments and the geographical mix of profits subject to higher or lower tax rates.

### 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 (Available-for-sale).

The following table summarises the tax position at 31 December.

(in millions)	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Current tax	107	123	36	627
Deferred tax	307	11	309	23
<b>Total tax assets and liabilities</b>	<b>415</b>	<b>134</b>	<b>345</b>	<b>650</b>

The significant components and annual movements of deferred tax assets and deferred tax liabilities at 31 December are shown in the following tables.

(in millions)	As at 1 January 2016	Income statement	Equity	Other	As at 31 December 2016
<b>Deferred tax assets:</b>					
Assets held for trading and derivatives	356	1	-71		286
Investments (Available-for-sale)	16	10			26
Property and equipment	22	-13			9
Intangible assets (excluding goodwill)	2				2
Insurance policy and claim reserves	-2			1	-1
Loans and receivables-customers	3				3
Impairments on loans	33	23		1	57
Provisions for pensions and post-retirement benefits	24	11	-10	-1	24
Accrued expenses and deferred income	68	-14			53
Unused tax losses and unused tax credits	11	8		2	22
Other	50	-12	-1		37
<b>Total deferred tax assets before offsetting</b>	<b>581</b>	<b>14</b>	<b>-82</b>	<b>4</b>	<b>517</b>
Offsetting DTA	272				209
<b>Total deferred tax assets</b>	<b>309</b>				<b>307</b>
<b>Deferred tax liabilities related to:</b>					
Investments (Available-for-sale)	261	-99	28		189
Property and equipment	2			1	3
Intangible assets (excluding goodwill)	2				2
Loans and receivables-customers	8	-2			6
Deferred policy acquisition costs	1				1
Other	20	-1			19
<b>Total deferred tax liabilities before offsetting</b>	<b>295</b>	<b>-104</b>	<b>28</b>	<b>1</b>	<b>220</b>
Offsetting DTL	272				209
<b>Total deferred tax liabilities</b>	<b>23</b>				<b>11</b>
<b>Net deferred tax</b>	<b>286</b>				<b>297</b>
<b>Deferred tax through income statement and equity</b>		<b>-118</b>	<b>110</b>		

(in millions)	As at 1 January 2015	Income statement	Equity	Other	As at 31 December 2015
<b>Deferred tax assets:</b>					
Assets held for trading and derivatives	410		-55		356
Investments (Available-for-sale)	14	1	1	-1	16
Property and equipment	20	1		1	22
Intangible assets (excluding goodwill)	2				2
Insurance policy and claim reserves	-2	-1			-2
Loans and receivables-customers	4	-1			3
Impairments on loans	22	10			33
Provisions for pensions and post-retirement benefits	34	-15	5		24
Accrued expenses and deferred income	54	12		1	68
Unused tax losses and unused tax credits	11	1	-1		11
Other	36	16		-1	50
<b>Total deferred tax assets before offsetting</b>	<b>605</b>	<b>26</b>	<b>-50</b>	<b>1</b>	<b>581</b>
Offsetting DTA	132				272
<b>Total deferred tax assets</b>	<b>473</b>				<b>309</b>
<b>Deferred tax liabilities related to:</b>					
Assets held for trading and derivatives	3	-0		-3	
Investments (Available-for-sale)	121	92	47	1	261
Property and equipment	1	-1		2	2
Intangible assets (excluding goodwill)	2				2
Loans and receivables-customers	10	-2			8
Deferred policy acquisition costs	1				1
Other	13	8		-1	20
<b>Total deferred tax liabilities before offsetting</b>	<b>151</b>	<b>98</b>	<b>46</b>		<b>295</b>
Offsetting DTL	132				272
<b>Total deferred tax liabilities</b>	<b>19</b>				<b>23</b>
<b>Net deferred tax</b>	<b>454</b>				<b>286</b>
<b>Deferred tax through income statement and equity</b>		<b>73</b>	<b>97</b>		

### 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, available tax planning opportunities, and the period over which deferred tax assets are recoverable. Management considers this more likely than not. In the event that actual results differ from these estimates in future periods, and depending on the tax strategies that ABN AMRO may be able to implement, changes to the recognition of deferred tax assets could be required, which could impact our financial position and net profit.

### Tax losses

The total accumulated losses available for carry-forward at 31 December 2016 amounted to EUR 1,554 million (2015: EUR 1,542 million), of which EUR 60 million (2015: EUR 32 million) could be recognised for future tax benefits. The recorded deferred tax asset for tax losses carried forward amounted to EUR 22 million (2015: EUR 11 million).

### Unrecognised tax assets

Deferred tax assets of EUR 24 million (2015: EUR 6 million) have not been recognised in respect of gross deductible temporary differences of EUR 74 million (2015: EUR 19 million) and EUR 266 million (2015: EUR 278 million) have not been recognised in respect of gross tax losses of EUR 1,494 million (2015: EUR 1,510 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 had carry-forward tax credits of EUR 3 million at 31 December 2016 (2015: EUR 3 million) which are not recognised because offset to future tax benefits is not expected.

The following tables show when the operating losses and tax credits as at 31 December 2016 will expire.

Loss carry-forward 2016:

(in millions)	2017	2018	2019	2020	2021	Between six and twenty years	No expiration	Total
Loss carry-forward recognised					4	15	41	60
Loss carry-forward not recognised	4	4	4	10	5	8	1,460	1,494
<b>Total tax losses carry forward (gross)</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>10</b>	<b>9</b>	<b>23</b>	<b>1,501</b>	<b>1,554</b>

Tax credits 2016:

(in millions)	2017	2018	2019	2020	2021	Between six and twenty years	No expiration	Total
Tax credits recognised								
Tax credits not recognised							3	3
<b>Total tax credits carry forward (gross)</b>							<b>3</b>	<b>3</b>

ABN AMRO does not recognise deferred tax in respect of ABN AMRO investments in subsidiaries, branches, associates and interest 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 reverse in the foreseeable future. It is not practicable to determine the amount of income tax payable were such temporary differences reverse.

As at 31 December 2016, ABN AMRO recognised net deferred tax assets of EUR 16 million (2015: EUR 13 million) that exceed deferred tax liabilities in entities which have suffered a loss in either 2016 or 2015.



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 Managing Board proposes, subject to the approval of the Supervisory Board, a final dividend of EUR 414 million for 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 FTEs, operating profit/(loss) before taxation and income tax expense. In addition, the following table shows 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 2016							
	Principal subsidiary	Main activity	Total assets	Total operating income (in millions)	Average number of FTEs	Operating profit/(loss) before taxation (in millions)	Income tax expense (in millions)
Netherlands	ABN AMRO Bank N.V.	Retail Banking	338,869	6,586	17,708	1,968	551
- of which international activities			4,238	1	26	-4	
France	Banque Neufilze OBC S.A.	Private Banking	5,399	331	988	73	20
Germany	Bethmann Bank AG	Private Banking	3,726	262	769	72	18
Belgium	ABN AMRO Bank N.V. Branch Belgium	Private Banking	1,375	98	238	21	10
Great Britain	ABN AMRO Commercial Finance Plc	Corporate Banking	1,565	72	371	27	5
Luxembourg	ABN AMRO Bank (Luxembourg) S.A.	Private Banking	2,984	49	171	-1	-2
Norway	ABN AMRO Bank N.V. Oslo Branch	Corporate Banking	3,310	77	29	42	11
Jersey	ABN AMRO Bank N.V. Jersey Branch	Private Banking	-8	5	40	-5	
Guernsey	ABN AMRO (Guernsey) Ltd.	Private Banking	599	39	117	14	1
United States	ABN AMRO Clearing Chicago LLC	Corporate Banking	21,348	322	420	117	15
Brazil	ABN AMRO Brasil Participações	Corporate Banking	259	58	82	9	5
Singapore	ABN AMRO Bank N.V. Branch Singapore	Corporate Banking	10,973	186	507	74	5
Hong Kong	ABN AMRO Bank N.V. Branch Hong Kong	Private Banking	4,167	111	272	25	3
Japan	ABN AMRO Clearing Tokyo Co. Ltd.	Corporate Banking	38	22	14	11	4
United Arab Emirates	ABN AMRO Bank N.V. Branch UAE/DIFC	Private Banking	587	43	96	3	
Australia	ABN AMRO Clearing Sydney Pty Ltd.	Corporate Banking	200	17	53	8	2
Other			-911	-50	2	-2	
<b>Total</b>			<b>394,482</b>	<b>8,227</b>	<b>21,877</b>	<b>2,456</b>	<b>650</b>

31 December 2015

	Principal subsidiary	Main activity	Total assets	Total operating income (in millions)	Average number of FTEs	Net profit/(loss) for the year (in millions)	Income tax expense (in millions)
Netherlands	ABN AMRO Bank N.V.	Retail Banking	356,881	6,896	18,112	2,227	671
- of which international activities			3,130	95	23	25	6
France	Banque Neuflyze OBC S.A.	Private Banking	4,439	332	966	77	27
Germany	Bethmann Bank AG	Private Banking	2,999	293	730	100	15
Belgium	ABN AMRO Bank N.V. Branch Belgium ID&JG	Private Banking	1,382	90	230	17	11
Great Britain	ABN AMRO Commercial Finance Plc	Corporate Banking	1,366	76	373	44	10
Luxembourg	ABN AMRO Bank (Luxembourg) S.A.	Private Banking	3,221	47	166	6	1
Norway	ABN AMRO Bank N.V. Oslo Branch	Corporate Banking	2,796	59	28	41	12
Jersey	ABN AMRO Bank N.V. Jersey Branch	Private Banking	616	43	61	30	2
Guernsey	ABN AMRO (Guernsey) Ltd.	Private Banking	381	34	93	13	1
United States	ABN AMRO Clearing Chicago LLC	Corporate Banking	19,295	265	381	115	34
Brazil	ABN AMRO Brasil Participações	Corporate Banking	138	24	80	-12	-6
Singapore	ABN AMRO Bank N.V. Branch Singapore	Corporate Banking	9,646	178	465	87	12
Hong Kong	ABN AMRO Bank N.V. Branch Hong Kong	Private Banking	3,916	127	295	31	4
Japan	ABN AMRO Clearing Tokyo Co. Ltd.	Corporate Banking	60	17	14	10	2
United Arab Emirates	ABN AMRO Bank N.V. Branch UAE/DIFC	Private Banking	666	29	92	3	
Australia	ABN AMRO Clearing Sydney Pty Ltd.	Corporate Banking	369	16	54	6	2
Other			-798	-72	2	-72	
<b>Total</b>			<b>407,373</b>	<b>8,455</b>	<b>22,142</b>	<b>2,722</b>	<b>798</b>

No material government grants were received in 2015 and 2016.

## 11 Earnings per share

The following table shows the composition of basic earnings per share at 31 December.

(in millions)	2016			2015		
	Profit/(loss) for the year	Number of shares	Earnings per share (in euros) <sup>1</sup>	Profit/(loss) for the year	Number of shares	Earnings per share (in euros) <sup>1</sup>
Basic earnings <sup>1</sup>	1,762	940	1.87	1,908	940	2.03

<sup>1</sup> Earnings per share consist of profit for the year excluding coupons attributable to AT1 capital securities and results attributable to non-controlling interests divided by the average outstanding and paid-up ordinary shares.

ABN AMRO does not have any dilutive potential ordinary shares. Therefore, only basic earnings per ordinary shares is disclosed. Basic earnings per ordinary shares is calculated by dividing the profit attributable to the shareholders of ABN AMRO Group by the weighted average number of ordinary shares outstanding.

The earnings per share in 2016 amounted to EUR 1.87 (2015: EUR 2.03). This is a decrease of EUR 0.16 or 8%.

A final dividend of EUR 0.44 per share will be proposed for 2016 (2015: EUR 0.44). Including the interim dividend paid on 17 August 2016 (EUR 376 million), the total dividend will amount to EUR 0.84 per share (2015: EUR 0.81).

## 12 Cash and balances at central banks

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 19 Loans and receivables - banks](#).

(in millions)	31 December 2016	31 December 2015
Cash on hand and other cash equivalents	444	535
Balances with central banks readily convertible in cash other than mandatory reserve deposits	21,417	25,660
<b>Total cash and balances at central banks</b>	<b>21,861</b>	<b>26,195</b>

Cash and balances at central banks decreased by EUR 4.3 billion to EUR 21.9 billion in 2016 compared with EUR 26.2 billion in 2015 due to lower outstanding of overnight positions placed at DNB.

## 13 Financial assets and liabilities held for trading

### Accounting policy for financial assets and liabilities held for trading

In accordance with IAS 39, all assets and liabilities held for trading are held at fair value 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 2016	31 December 2015
<b>Trading securities:</b>		
Government bonds	1,152	1,333
Corporate debt securities	400	335
Equity securities	35	19
<b>Total trading securities</b>	<b>1,586</b>	<b>1,686</b>
Trading book loans	21	19
<b>Total assets held for trading</b>	<b>1,607</b>	<b>1,706</b>

Financial assets held for trading decreased by EUR 0.1 billion to EUR 1.6 billion at 31 December 2016. This decrease was due to a combination of lower government bonds (EUR 0.2 billion) and higher corporate debt securities (EUR 0.1 billion).

The decrease in government bonds was mainly related to changes in Dutch, French and German positions. These portfolios are mainly a result of the primary dealership in these countries and for the purpose of client facilitation. Most of these contracts are hedged with short positions in corporate debt securities, government bonds and futures.

### Financial liabilities held for trading

The following table shows the composition of liabilities held for trading.

(in millions)	31 December 2016	31 December 2015
Bonds	690	417
Equity securities	33	19
<b>Total short security positions</b>	<b>723</b>	<b>435</b>
Other liabilities held for trading	67	24
<b>Total liabilities held for trading</b>	<b>791</b>	<b>459</b>

Financial liabilities held for trading increased by EUR 0.3 billion to EUR 0.8 billion at 31 December 2016. The increase resulted from higher short positions in bonds, mainly related to French government bonds and corporate debt securities.

The fair value of assets pledged as security 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. Furthermore, ABN AMRO offers products that are traded on the financial markets to institutional and individual clients and governments.

Derivatives held for risk management purposes include the fair value of all derivatives qualifying as hedging instruments in fair value hedges and in cash flow hedges, hedge accounting derivatives, as well as the fair value of derivatives related to assets and liabilities designated as at fair value through profit or loss, 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.

From a risk perspective, the gross amount of trading assets must be associated together with the gross amount of trading liabilities, which are presented separately on the statement of financial position. However, IFRS does not allow netting of these positions in the statement of financial position.

Derivatives comprise the following:

(in millions)	31 December 2016								
	Derivatives held for trading			Economic hedges			Hedge accounting		Total derivatives
	Interest rate	Currency	Other	Interest rate	Currency	Other	Interest rate	Currency	
<b>Exchange traded</b>									
Fair value assets	2		9			33			44
Fair value liabilities	6		17						22
Notionals	110		258			1,062			1,431
<b>Over-the-counter</b>									
<b>Central counterparties</b>									
Fair value assets									
Fair value liabilities									
Notionals	695,879			5,436			134,496		835,811
<b>Other bilateral</b>									
Fair value assets	8,967	2,367	131	173	507	23	2,173		14,341
Fair value liabilities	6,883	2,555	96	96	660	88	4,126		14,504
Notionals	157,676	156,402	1,350	2,923	25,936	1,263	29,051		374,601
<b>Total</b>									
Fair value assets	8,969	2,367	140	173	507	56	2,173		14,384
Fair value liabilities	6,889	2,555	113	96	660	88	4,126		14,526
Notionals	853,666	156,402	1,608	8,359	25,936	2,325	163,547		1,211,843

(in millions)	31 December 2015								
	Derivatives held for trading			Economic hedges			Hedge accounting		Total derivatives
	Interest rate	Currency	Other	Interest rate	Currency	Other	Interest rate	Currency	
<b>Exchange traded</b>									
Fair value assets	1		7			1			9
Fair value liabilities			13						13
Notionals	255	9	191			1,315			1,770
<b>Over-the-counter</b>									
<b>Central counterparties</b>									
Fair value assets									
Fair value liabilities									
Notionals	690,195			584			73,128		763,907
<b>Other bilateral</b>									
Fair value assets	12,413	2,073	240	242	499	19	3,339	304	19,129
Fair value liabilities	10,570	2,096	279	136	604	27	8,673	26	22,412
Notionals	194,759	181,503	2,038	3,430	26,356	1,434	74,961	560	485,042
<b>Total</b>									
Fair value assets	12,414	2,073	248	242	499	19	3,339	304	19,138
Fair value liabilities	10,570	2,096	292	136	604	27	8,673	26	22,425
Notionals	885,209	181,512	2,230	4,014	26,356	2,749	148,089	560	1,250,719

Over-the-counter derivatives cleared with a CCP are not presented in our Statement of financial position.

The notional amount of the interest derivatives held for trading as at 31 December 2016 amounted to EUR 853.7 billion, a decrease of EUR 31.5 billion compared with EUR 885.2 billion at 31 December 2015. This decrease was mainly due to lower client activity within Financial Institutions. As at 31 December 2016 the fair value of interest rate derivatives decreased mainly due to the conversion of (a large number of) bilateral trades to triparty clearing trades/CCPs.

The notional amount of the currency derivatives held for trading at 31 December 2016 amounted to EUR 156.4 billion, a decrease of EUR 25.1 billion compared with EUR 181.5 billion at 31 December 2015. This decrease was mainly due to lower client activity caused by increased volatility of the foreign exchange market compared with 2015.

The notional amount of the other derivatives held for trading at 31 December 2016 amounted to EUR 1.6 billion, a decrease of EUR 0.6 billion compared with EUR 2.2 billion at 31 December 2015.

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 either 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 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 generally not included in hedge accounting relationships.

Both at the inception of the hedge and on an ongoing basis, ABN AMRO formally assesses whether the derivatives used in its hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of the hedged item, by assessing and measuring whether changes in the fair value or cash flows of the hedged item are offset by the changes in the fair value or cash flows of the hedging instrument.

Hedge ineffectiveness and gains and losses on components of a derivative that are excluded from the assessment of hedge effectiveness are recorded directly in results from financial transactions as part of other 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 is hedging of separate hedged items which can be assets and 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 re-pricing dates is only considered ineffective if it leads to over-hedging.

### Fair value hedges

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 results from financial transactions as part of other 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 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.

### Cash flow hedges

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 equity. 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 income immediately. When a cash flow hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in equity remains in equity.

The cumulative gains or losses recognised in equity are transferred to the income statement at the time 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 equity are recognised in the income statement immediately.

### 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 equity. Amounts deferred in equity 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, but the hedged forecasted transactions or firm commitments are still expected to occur, hedge accounting is discontinued prospectively.

### 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 equity, for the extent they are effective. The cumulative gain or loss recognised in equity is transferred to the income statement on the disposal of the foreign operation.

### 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.

## Derivatives designated and accounted for as hedging instruments

The following results from ineffectiveness are recognised in other income:

(in millions)	2016	2015
Fair value hedges	-4	63
Cash flow hedges	-1	6
Net investment hedging	1	1
<b>Total hedging results</b>	<b>-4</b>	<b>71</b>

The total hedge ineffectiveness results decreased by EUR 75 million compared to 2015. The hedge ineffectiveness recognised in 2015 included a one-off gain resulting from the refinement of (in)effectiveness measurement in the fair value hedge models.



## Overview of the fair value and notional of hedging instruments

(in millions)	Fair value hedges			Cash flow hedges			Economic hedges		
	Notional amount	Fair value		Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities	Assets	Liabilities	
<b>31 December 2016</b>									
<b>Derivatives for risk management purposes</b>									
Interest rate	127,265	1,581	4,126	36,282	592		8,359	173	96
Currency							25,936	507	660
Other							2,325	56	88
<b>Total</b>	<b>127,265</b>	<b>1,581</b>	<b>4,126</b>	<b>36,282</b>	<b>592</b>		<b>36,620</b>	<b>736</b>	<b>844</b>
<b>31 December 2015</b>									
<b>Derivatives for risk management purposes</b>									
Interest rate	94,377	2,265	7,234	53,712	1,074	1,440	4,014	242	136
Currency	560	304	26				26,356	499	604
Other							2,749	19	27
<b>Total</b>	<b>94,937</b>	<b>2,569</b>	<b>7,260</b>	<b>53,712</b>	<b>1,074</b>	<b>1,440</b>	<b>33,118</b>	<b>760</b>	<b>767</b>

<sup>1</sup> Note that the fair values represented in this table are the fair values as recognised in the statement of financial position. Because all over-the-counter derivatives are cleared with a CCP, these instruments have a fair value of zero and are represented by their notional amounts only.

The fair value hedges increased to EUR 127.3 billion at 31 December 2016, up by EUR 32.3 billion compared with 2015 due to a transfer between cash flow hedging and fair value of EUR 25.3 billion with a negative fair value of EUR 1.25 billion. The decision to transfer is based on an analysis of market developments with respect to interest rates on liabilities due to customers. The analysis shows that looking forward, applying fair value hedging instead of cash flow hedging would result in hedge relationships with a higher effectiveness. The transfer is performed by revoking macro cash flow hedging relationships on a selection of liabilities due to customers and interest rate payer swaps and designating these swaps in new macro fair value hedging relationships to mortgages.

During 2016, ABN AMRO faced an increased duration profile on mortgages. In order to hedge the interest rate risk on mortgages, ABN AMRO has entered into long dated interest rate swaps. To correctly reflect its interest rate risk management strategy in its financial statements, these new interest rate swaps have been designated as hedging instruments in the macro fair value hedge model.

In 2016 several cross currency swaps were restructured into separate interest rate swaps and foreign exchange basis swaps. This restructuring was necessary because of a future risk of ineffectiveness for the foreign exchange part. The result of this restructure is that the position of currency fair value hedges is decreased to zero.

In 2016 ABN AMRO reduced exposure on a large counterparty by entering into two opposing interest rate swaps, in effect transferring part of the original exposure to a different counterparty. As a result of these transactions, the notional amount included in interest rate economic hedges increased by EUR 4.3 billion to EUR 8.3 billion in 2016 compared to 2015.

## Fair value hedge accounting

ABN AMRO applies fair value hedge accounting to individual hedged items (micro fair value hedging) as well as to a portfolio of hedged items (macro fair value hedging).

### 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 in the fair value of the hedged item for the risk being hedged are recognised in the income statement.

Net effect of gains/(losses) arising from fair value hedge accounting:

(in millions)	2016	2015
Gains/(losses) on the hedged assets attributable to the fair value hedged risk	490	-704
Gains/(losses) on hedging instruments used for the hedged assets	-500	726
Gains/(losses) on the hedged liabilities attributable to the fair value hedged risk	-42	691
Gains/(losses) on hedging instruments used for the hedged liabilities	22	-728
<b>Net effect micro fair value hedge</b>	<b>-31</b>	<b>-15</b>

Due to a decrease in interest rate curves, the gains and losses on hedged items and hedging instruments in 2016 were opposite to those reported in 2015. Because hedged liabilities on average have shorter maturities and the short tenors on the interest curves showed a smaller decrease, the gains and losses on hedged liabilities are smaller than those for hedged assets.

### Macro fair value hedge accounting

ABN AMRO hedges interest rate exposures of fixed-rate mortgages on a portfolio basis using interest rate swaps. ABN AMRO applies a portfolio fair value hedge ('macro fair value hedge accounting') in which it designates interest rate swaps as hedging instruments and fixed-rate mortgages as hedged items. The hedge accounting relationship is reviewed and redesignated on a monthly basis.

As a result of the hedge, changes in the hedged item's fair value due to changes in the appropriate benchmark interest rate will be booked to the income statement and will be offset by changes in the fair value of the hedging derivative financial instrument.

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.

Mortgages with these features form a portfolio of which the hedged item is designated in a fair value hedge accounting relationship. More than one group (or portfolio) of mortgages can be identified as the hedged item within the fixed-rate mortgage portfolio. Hedged items are designated on a monthly basis to maintain an effective hedge accounting relationship.

Mortgage cash flows are allocated to monthly time buckets based on expected maturity dates. ABN AMRO models the maturity dates of mortgages taking into account a prepayment rate applied to the contractual cash flows and maturity dates of the mortgage portfolio. If the swap notional exceeds 95% of the expected mortgage notional in any given month, then mortgages that mature one month earlier or one month later are designated to the swaps.

Changes in the fair value of mortgages which are attributable to the hedged interest rate risk are recorded under fair value adjustment from hedge accounting in order to adjust the carrying amount of the loan. 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 millions)	2016	2015
Gains/(losses) on the hedged assets attributable to the fair value hedged risk	-80	-408
Gains/(losses) on hedging instruments used for the hedged assets	106	487
<b>Net effect macro fair value hedge</b>	<b>27</b>	<b>79</b>

In 2016 the total gain/(losses) on cash flow hedges decreased by EUR 52 million mainly due to a transfer between cash flow hedging and fair value hedging. The absolute gains and losses on the hedged risk and hedging instruments in 2016 are smaller than in 2015 due to smaller changes in interest rate curves.

### Cash flow hedge accounting

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.

Future cash flows are derived from the projected balance sheet. This projected balance sheet is produced by asset and liability management models and forms the basis for the management of interest rate risk. The model behind the projected balance sheet takes the contractual terms and conditions of financial assets and liabilities and combines these with estimated prepayments, growth rates and interest scenarios, based on statistical market and client data and an economic outlook. The primary interest-sensitive positions in the balance sheet stemming from the non-trading book are loans and receivables, liabilities due to banks and customers, and issued debt securities.

Within the projected balance sheet, new assets and liabilities and the future re-pricing of existing assets and liabilities are grouped based on their specific interest rate index on which they reprice (i.e. one month, three months, six months, one year). Per repricing index all assets and liabilities are allocated to monthly clusters in which they reprice up until their maturity. Interest rate swaps are designated to these clusters based on their repricing index and 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 therefore evaluated on a monthly basis. Changes in cash flow projections could lead to revision of the designation. Furthermore, back testing is performed on the interest rate risk sensitivity models. Historical data are used to review the assumptions applied.

Hedge accounting ineffectiveness recognised in the income statement related to cash flow hedging amounted to a loss of EUR 1 million in 2016 (2015: profit of EUR 6 million).

The maturity profile of forecast principal balances designated in the cash flow hedge is as follows:

(in millions)	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
<b>31 December 2016</b>					
Assets	23,930	23,930	20,430		
Liabilities	3,962	3,962	3,962	3,962	1,695
<b>Net assets/liabilities</b>	<b>19,968</b>	<b>19,968</b>	<b>16,468</b>	<b>-3,962</b>	<b>-1,695</b>
<b>31 December 2015</b>					
Assets	21,155	21,155	21,155		
Liabilities	24,382	18,965	9,135	9,135	2,500
<b>Net assets/liabilities</b>	<b>-3,227</b>	<b>2,190</b>	<b>12,020</b>	<b>-9,135</b>	<b>-2,500</b>

The principal balances divided over several time buckets decreased by EUR 25 billion at 31 December 2016 compared with 2015 due to a transfer between cash flow hedging and fair value hedging.

Net gains/(losses) on cash flow hedges transferred from equity to the income statement is as follows:

(in millions)	2016	2015
Interest income	395	493
Interest expense	382	525
<b>Subtotal</b>	<b>13</b>	<b>-32</b>
Tax expense	3	-8
<b>Total gains/(losses) on cash flow hedges</b>	<b>10</b>	<b>-24</b>

In 2016 the total gain/(losses) on cash flow hedges increased by EUR 34 million mainly due to a transfer between cash flow hedging and fair value hedging.

## 16 Financial investments

Financial investments are classified as available-for-sale or as held at fair value through profit or loss.

### Accounting policy for available for sale investments

Available-for-sale assets are held at fair value with unrealised gains and losses recognised directly in other comprehensive income, net of applicable taxes. Interest earned, premiums, discounts and qualifying transaction costs of interest earning available-for-sale assets are amortised to income on an effective interest rate basis. When available-for-sale assets are sold, collected or impaired, the cumulative gain or loss recognised in other comprehensive income is transferred to other income in the income statement.

### Accounting policy for assets designated at fair value through profit and loss

Financial investments managed on a fair value through profit or loss basis are designated at fair value through profit or loss when the instruments:

- ▶ are held to reduce an accounting mismatch;
- ▶ include terms that have substantive derivative characteristics in nature; or
- ▶ are managed on the basis of its fair value.

The composition of financial investments is as follows:

(in millions)	31 December 2016	31 December 2015
<b>Financial investments:</b>		
Available-for-sale	44,719	39,772
Held at fair value through profit or loss	778	770
<b>Total financial investments</b>	<b>45,497</b>	<b>40,542</b>

Financial investments amounted to EUR 45.5 billion, an increase of EUR 5.0 billion (2015: EUR 40.5 billion). This increase was mainly caused by purchases in other- and non-OECD government bonds (EUR 1.3 billion), mortgage-backed securities (EUR 1 billion) and securities issued by Financial Institutions (EUR 2.4 billion).

### Investments available for sale

The fair value of the available-for-sale investments (including gross unrealised gains and losses) is specified as follows:

(in millions)	31 December 2016	31 December 2015
<b>Interest-earning securities:</b>		
Dutch government	6,592	6,540
US Treasury and US government	3,497	3,481
Other OECD government	20,987	20,265
Non OECD government	913	348
European Union	1,756	1,637
Mortgage- and other asset-backed securities	3,244	2,318
Financial institutions	7,220	4,805
Non-financial institutions	59	28
<b>Subtotal</b>	<b>44,267</b>	<b>39,422</b>
Equity instruments	473	373
<b>Total investments available-for-sale</b>	<b>44,740</b>	<b>39,795</b>

Most of these instruments are part of the liquidity buffer and are held for liquidity contingency purposes. More information on the liquidity buffer composition can be found in the Risk, funding & capital section.

In 2016 an amount of EUR 82 million in equity accounted investments was reclassified to equity instruments in financial investments available for sale.

## Government bonds by country of origin

(in millions)	31 December 2016			31 December 2015		
	Gross unrealised gains/(losses) and fair value hedges gains/(losses) <sup>1</sup>	Impairments	Fair value	Gross unrealised gains/(losses) and fair value hedges gains/(losses) <sup>1</sup>	Impairments	Fair value
Dutch national government	869		6,592	760		6,540
French national government	348		4,881	334		4,273
German national government	629		4,774	468		4,246
Belgian national government	367		3,387	326		3,077
Finnish national government	252		2,395	212		2,170
Austrian national government	331		1,764	340		1,771
USA national government	-1		3,497	-3		3,481
Japanese national government			1,104			1,968
European Union bonds	180		1,756	180		1,637
Italian national government	39		653	43		408
Spanish national government			500			503
Polish national government	130		421	118		442
Swedish national government	5		260	5		356
Great Britain national government	96		272	72		276
Danish national government	1		101			269
Hong Kong			370			60
Luxembourg national government	20		151	17		148
Brazil national government			156			109
Singapore national government			386			178
Canadian national government	16		324	2		356
<b>Total government bonds</b>	<b>3,281</b>		<b>33,745</b>	<b>2,875</b>		<b>32,271</b>

<sup>1</sup> Of the total gross unrealised gains/(losses), fair value hedge accounting was applied for an amount of EUR 2.7 billion (2015: EUR 2.5 billion) and recognised in profit or loss. In 2016 net gains of EUR 546 million (2015: gains EUR 342 million) were recognised in Equity.

No impairment charges were recorded on these government bonds.

More information on country risk positions is provided in the Risk, funding & capital section.

### Critical accounting estimates and judgements

Interest-bearing securities and equities classified as available-for-sale investments are assessed at each reporting date to determine whether they are impaired. For equities this review considers factors such as the credit standing and prospects of the issuer, any reduction in fair value below cost, its direction and whether the reduction is significant or prolonged. In general, triggers used for a significant or prolonged decline in the fair value below cost are 20% and 9 months respectively.

An interest-bearing security is impaired and an impairment loss incurred if there is objective evidence that an event since initial recognition of the asset has adversely affected the amount or timing of future cash flows from the asset.

If, in a subsequent period, the fair value of a debt security classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the income statement.

Impairment losses recognised on equity instruments can never be reversed through the income statement.

### Investments designated at fair value through profit or loss

The following table provides information at 31 December about the investments that are held at fair value and for which unrealised gains or losses are recorded through profit or loss.

(in millions)	31 December 2016	31 December 2015
Government bonds		134
Corporate debt securities	2	4
Private equities and venture capital	731	577
Equity securities	45	54
<b>Total investments held at fair value through profit or loss</b>	<b>778</b>	<b>770</b>

The decrease in government bonds is mainly related to Dutch government bonds, as a result of primary dealership in the Netherlands and client facilitation.

In Corporate Banking, some private equity investments are measured at fair value through profit or loss, reflecting the business of investing in financial assets to benefit from their total return in the form of interest or dividend and changes in fair value.

## 17 Securities financing

### Accounting policy for securities financing

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 receivables) 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 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 receivables 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 2016		31 December 2015	
	Banks	Customers	Banks	Customers
<b>Assets</b>				
Reverse repurchase agreements	954	8,725	2,415	8,185
Securities borrowing transactions	3,731	3,252	4,445	3,970
Unsettled securities transactions	297	632	131	916
<b>Total</b>	<b>4,981</b>	<b>12,608</b>	<b>6,991</b>	<b>13,071</b>
<b>Liabilities</b>				
Repurchase agreements	2,007	6,059	1,877	6,153
Securities lending transactions	616	1,891	1,138	1,536
Unsettled securities transactions	44	1,008	117	552
<b>Total</b>	<b>2,667</b>	<b>8,958</b>	<b>3,132</b>	<b>8,240</b>

Securities financing transactions include balances relating to reverse repurchase activities and cash collateral on securities borrowed. ABN AMRO controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to ABN AMRO when deemed necessary.

The movements of securities financing assets and liabilities with banks and customers are a result of the cyclical nature of the business.

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, then 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 valued as 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 own credit quality 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 adjustment is applied to positions where it is believed that counterparties will consider ABN AMRO's creditworthiness when pricing trades;
- ▶ 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 over 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, in 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. Reviews for both trading positions and non-trading positions are performed at least once a month. 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. Except for 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. For others, 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, 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 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 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 both 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

The equity instruments that are actively traded on public stock exchanges are valued using the readily available quoted prices and 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 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. The 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.

#### Issued debt

Issued debt securities are valued using discounted cash flow models based on current interest rate curves which incorporate observable inputs. These instruments are classified as level 2.

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 which are not considered to be active; or 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, which has 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 as at the end of the reporting period during which the change occurred.

The following table presents the valuation methods used in determining the fair value of financial instruments carried at fair value.



(in millions)	31 December 2016				31 December 2015			
	Quoted market prices in active markets	Valuation techniques-observable inputs	Valuation techniques-significant unobservable inputs	Total fair value	Quoted market prices in active markets	Valuation techniques-observable inputs	Valuation techniques-significant unobservable inputs	Total fair value
<b>Assets</b>								
Government debt securities	1,152			1,152	1,333			1,333
Corporate debt securities	389	11		400	335			335
Equity securities	35			35	19			19
Other financial assets held for trading		21		21		19		19
<b>Financial assets held for trading</b>	<b>1,576</b>	<b>31</b>		<b>1,607</b>	<b>1,686</b>	<b>19</b>		<b>1,706</b>
Interest rate derivatives	2	11,064	76	11,141	1	15,734	18	15,753
Foreign exchange contracts		2,350	17	2,367		2,377		2,377
Other derivatives	42	820	14	876	8	960	39	1,007
<b>Derivatives</b>	<b>44</b>	<b>14,233</b>	<b>107</b>	<b>14,384</b>	<b>9</b>	<b>19,071</b>	<b>58</b>	<b>19,138</b>
Government debt securities					134			134
Equity instruments	45		730	775	54		577	631
Other	2			3	4			4
<b>Financial investments designated at fair value through profit or loss</b>	<b>47</b>		<b>731</b>	<b>778</b>	<b>192</b>		<b>577</b>	<b>770</b>
Government debt securities	33,324		421	33,745	31,801	60	409	32,271
Corporate debt securities	6,013	1,227	38	7,279	3,771	1,026	36	4,833
Equity instruments	218	59	174	451	110	160	79	350
Other debt securities	2,519		724	3,244	1,489		829	2,318
<b>Financial assets available for sale</b>	<b>42,075</b>	<b>1,286</b>	<b>1,358</b>	<b>44,719</b>	<b>37,172</b>	<b>1,247</b>	<b>1,354</b>	<b>39,772</b>
Unit-linked investments	2,219	1,056		3,275	1,639	904		2,543
<b>Total financial assets</b>	<b>45,961</b>	<b>16,606</b>	<b>2,196</b>	<b>64,763</b>	<b>40,698</b>	<b>21,241</b>	<b>1,989</b>	<b>63,928</b>
<b>Liabilities</b>								
Short positions in								
Government debt securities	390			390	281			281
Corporate debt securities	294	6		300	136			136
Equity securities	33			33	19			19
Other financial liabilities held for trading		67		67		24		24
<b>Financial liabilities held for trading</b>	<b>717</b>	<b>73</b>		<b>791</b>	<b>435</b>	<b>24</b>		<b>459</b>
Interest rate derivatives	6	11,009		11,015		19,244		19,244
Foreign exchange contracts		2,555		2,555		2,122		2,122
Other derivatives	17	926	14	957	27	993	39	1,059
<b>Derivatives</b>	<b>22</b>	<b>14,490</b>	<b>14</b>	<b>14,526</b>	<b>27</b>	<b>22,359</b>	<b>39</b>	<b>22,425</b>
Issued debt		1,398	241	1,639		1,715		1,715
Unit-linked for policyholders	2,219	1,056		3,275	1,639	904		2,543
<b>Total financial liabilities</b>	<b>2,959</b>	<b>17,017</b>	<b>255</b>	<b>20,231</b>	<b>2,101</b>	<b>25,002</b>	<b>39</b>	<b>27,142</b>

## Transfers between levels 1 and 2

There were no material transfers between levels 1 and 2.

## Transfers from levels 1 and 2 into 3

In 2016 there was a transfer of EUR 241 million of issued debt from level 2 to level 3. The transfer was carried out because there were no or only limited publicly quoted prices available for these specific instruments.

## Other transfers

In 2016 there were no other material transfers between levels. In 2015, EUR 781 million of loans originally classified as held for trading were reclassified to loans and receivables. As a result of this reclassification these loans are no longer measured at fair value but at amortised cost.

## 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 carried at fair value.

(in millions)	Assets				Liabilities	
	Financial investments available for sale	Financial investments designated at fair value through profit or loss	Derivatives held for trading	Derivatives not held for trading	Derivatives not held for trading	Issued debt
<b>Balance at 1 January 2015</b>	<b>1,668</b>	<b>271</b>		<b>66</b>	<b>64</b>	
Purchases	1	68				
Sales	-104	-119	-9			
Redemptions	-204	-28				
Gains/(losses) recorded in profit and loss <sup>1</sup>		24				
Unrealised gains/(losses)	-13	59	-12	-26	-26	
Transfer between levels	5		40			
Other movements <sup>2</sup>	1	302				
<b>Balance at 31 December 2015</b>	<b>1,354</b>	<b>577</b>	<b>18</b>	<b>39</b>	<b>39</b>	
Purchases	2	122				
Sales	-2	-55				
Redemptions	-101	-30				
Gains/(losses) recorded in profit and loss <sup>1</sup>	2	28				
Unrealised gains/(losses)	4	16	2	-25	-25	-4
Transfer between levels			72			245
Other movements <sup>3</sup>	99	74				
<b>Balance at 31 December 2016</b>	<b>1,358</b>	<b>731</b>	<b>93</b>	<b>14</b>	<b>14</b>	<b>241</b>

<sup>1</sup> Included in other operating income.

<sup>2</sup> In 2015 an amount of EUR 280 million investments in venture capital was reclassified from equity accounted associates to financial investments.

<sup>3</sup> In 2016 an amount of EUR 82 million in investments in venture capital was reclassified from equity accounted associates and corporate loans to financial investments.

## Level 3 sensitivity information

### Equities designated at fair value through profit or loss

#### Government bonds-Corporate debt securities

ABN AMRO has a position in a Polish bond, denominated in euros (in note 16 Financial investments part of other OECD government), for which the market is relatively illiquid. The 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 by using a range of reasonable valuation spreads.

#### Other

Debt securities consist of non-listed residential mortgage-backed securities (RMBS). These are structured in such a way that prepayments on the underlying mortgage portfolio are used to repay the holder of the A-note. The fair value is determined using a discounted cash flow model based on inputs such as the interest rate curve, discount spread and prepayment rate. The prepayment rate is identified as a significant unobservable input. The sensitivity analysis is performed by stressing this rate.

Preferred shares are shares for which the dividend is fixed for a period of 10 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 designated at fair value through profit and loss classified as level 3 mainly comprise private equity investments.

Private equity shares are designated at fair value, for which two calculation techniques apply:

- ▶ 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 markets and share 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, public or otherwise. As a consequence, the net asset value calculation of an investment is strongly linked with movements in the quarterly performance of the company. No other quantitative information (e.g. future cash flow information) is available and is therefore not included.

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. 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	Weighted average		Reasonably possible alternative assumptions		
				Minimum range	Maximum range	Increase in fair value	Decrease in fair value	
<b>31 December 2016</b>								
Equity shares	Private equity-valuation	EBITDA multiples	186	4.0	6.0	5.1	14	-14
Equity shares	Private equity-valuation	Net asset value	719				25	-27
Interest earning securities-Government bonds	Discounted cash flow	Liquidity and credit spread	421	85	102	95	5	-7
Interest earning securities-other	Discounted cash flow	Prepayment rate	763	7.8%	15.0%	10.4%	3	-5
Derivatives held for trading	Discounted cash flow	Probability of default	93	0.3%	100.0%	71.6%	9	-8
Derivatives not held for trading-assets/liabilities (net)	Discounted cash flow	Prepayment rate		7.8%	15.0%	10.4%		
Issued debt	Discounted cash flow	Credit spread	241	97	130	110	7	-3
<b>31 December 2015</b>								
Equity shares	Private equity-valuation	EBITDA multiples	47	5.0	6.5	5.9	12	-12
Equity shares	Private equity-valuation	Net asset value	609				32	-32
Interest earning securities-Government bonds	Discounted cash flow	Liquidity and credit spread	409	59 bps	90 bps	80 bps	13	-4
Interest earning securities-other	Discounted cash flow	Prepayment rate	865	7.3%	10.1%	9.1%	7	-3
Derivatives held for trading	Discounted cash flow	Probability of default	18	0.6%	100.0%	52.1%		-4
Derivatives not held for trading-assets/liabilities (net)	Discounted cash flow	Prepayment rate	1	7.3%	10.1%	9.1%		

## 19 Loans and receivables-banks

### Accounting policy for loans and receivables from banks and customers

According to IAS 39 Financial Instruments, loans and receivables from banks and customers are held 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.

(in millions)	31 December 2016	31 December 2015
Interest-bearing deposits	5,041	4,841
Loans and advances	5,162	8,114
Mandatory reserve deposits with central banks	306	313
Other	2,978	2,414
<b>Subtotal</b>	<b>13,488</b>	<b>15,682</b>
Less: loan impairment allowance	3	2
<b>Loans and receivables-banks</b>	<b>13,485</b>	<b>15,680</b>

Loans and receivables-banks decreased by EUR 2.2 billion to EUR 13.5 billion at 31 December 2016, mainly as a result of a decrease in the loans and advances.

Loans and advances decreased by EUR 3.0 billion to EUR 5.2 billion at 31 December 2016.

The decrease was caused as certain bilateral contracts with other banks were changed to contracts that are settled daily at a Central Counter Party (CCP). As a consequence, the related collateral under the old contracts was released. This decrease was partly offset by more pledged cash collateral by other collateralised counterparties. This higher cash collateral was driven by the increase in the held for trading financial liabilities of these counterparties.

Other loans and receivables-banks increased by EUR 0.6 billion to EUR 3.0 billion at 31 December 2016 mainly due to an increase in the purchase of trade bills.

## 20 Loans and receivables-customers

The accounting policy for loans and receivables is included in [note 19](#).

(in millions)	31 December 2016	31 December 2015
Residential mortgages (excluding fair value adjustment)	149,255	148,465
Fair value adjustment from hedge accounting on residential mortgages	3,073	3,401
<b>Residential mortgages, gross</b>	<b>152,328</b>	<b>151,866</b>
Less: loan impairment allowances-residential mortgage loans	258	324
<b>Residential mortgages</b>	<b>152,069</b>	<b>151,543</b>
Consumer loans, gross	12,539	15,147
Less: loan impairment allowances-consumer loans	433	561
<b>Consumer loans</b>	<b>12,106</b>	<b>14,587</b>
Corporate loans	90,920	100,387
Fair value adjustment from hedge accounting on corporate loans	1,722	1,448
Financial lease receivables	4,069	3,659
Factoring	2,321	1,866
<b>Corporate loans, gross</b>	<b>99,031</b>	<b>107,359</b>
Less: loan impairment allowances-corporate loans	2,973	3,470
<b>Corporate loans</b>	<b>96,058</b>	<b>103,889</b>
Government and official institutions	1,445	1,558
Other loans	6,003	4,799
<b>Other loans and receivables customers, gross</b>	<b>7,448</b>	<b>6,357</b>
Less: loan impairment allowances-other	2	1
<b>Other loans and receivables customers</b>	<b>7,445</b>	<b>6,357</b>
<b>Loans and receivables-customers</b>	<b>267,679</b>	<b>276,375</b>

Loans and receivables-customers decreased by EUR 8.7 billion to EUR 267.7 billion at 31 December 2016.

Residential mortgages (excluding fair value adjustments) increased by EUR 0.8 billion to EUR 149.3 billion at 31 December 2016. Inflow of new residential mortgages reflecting the improvement of the housing market in the Netherlands is partly offset by mortgage redemptions and voluntary repayments. In addition, ABN AMRO adjusted its treatment of the bank savings mortgages. More information is provided in [note 1](#) Accounting policies: Offsetting.

Consumer loans, gross decreased by EUR 2.6 billion to EUR 12.5 billion, mainly in Private Banking (EUR 2.1 billion) due to the planned sale of activities in Asia and the Middle East. More information is provided in [note 24](#) Non-current assets and disposal groups held for sale.

Corporate loans, gross decreased by EUR 8.3 billion to EUR 99.0 billion. ABN AMRO adjusted the implementation of its offsetting treatment of notional cash pooling agreements, more information is provided in [note 1](#) Accounting policies: Offsetting. Corporate loans decreased in connection with the planned sales within Private Banking. More information is provided in [note 24](#) Non-current assets and disposal groups held for sale.

Other loans and receivable customers increased by EUR 1.1 billion to EUR 7.4 billion, due mainly to higher outstandings at CCPs for the purpose of margin requirements and default fund contributions. Details of loan impairments are provided in the Risk, funding & capital section.

## 21 Fair value of financial instruments not carried at fair value

The categorisation and valuation of financial instruments is determined in accordance with the accounting policies set out in note 18.

The following methods and significant assumptions have been applied to estimate the fair values for the disclosure of financial instruments carried at amortised cost:

- ▶ The fair value of variable rate financial instruments and financial instruments with a fixed rate maturing within six months of the reporting date are assumed to be a reasonable approximation of their carrying amounts, which are net of impairment;
- ▶ The fair value of demand deposits and savings accounts (both included under due to customers) with no specific maturity is assumed to be the amount payable on demand at the reporting date;
- ▶ The fair value of the other loans to customers and loans to banks that are repriced frequently and have had no significant changes in credit risk is estimated using carrying amounts that are assumed to be a reasonable representation of the fair value. The fair value of other loans is estimated by discounted cash flow models based on interest rates that apply to similar instruments;
- ▶ 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 independent quotes from market participants for the debt issuance spreads above average interbank offered rates (at a range of tenors) which the market would demand when purchasing new senior or sub-debt issuances from ABN AMRO. Where necessary, these quotes are interpolated using a curve shape derived from CDS prices.

The following table presents the type of valuation techniques used in determining the fair value of financial instruments carried at amortised cost. In addition, the carrying amount of these financial assets and liabilities recorded at amortised cost is compared with their estimated fair value based on the assumptions mentioned above.

31 December 2016

	Carrying value			Total fair value	Difference
	Quoted market prices in active markets	Valuation techniques-observable inputs	Valuation techniques-significant unobservable inputs		
(in millions)					
<b>Assets</b>					
Cash and balances at central banks	21,861	21,861		21,861	
Securities financing	17,589	17,589		17,589	
Loans and receivables-banks	13,485	4,503	8,982	13,485	
Loans and receivables-customers	267,679	6,645	270,216	276,861	9,182
<b>Total</b>	<b>320,614</b>	<b>50,598</b>	<b>279,198</b>	<b>329,796</b>	<b>9,182</b>
<b>Liabilities</b>					
Securities financing	11,625	11,625		11,625	
Due to banks	13,419	3,209	10,210	13,419	
Due to customers	228,758	612	228,146	228,758	
Issued debt	79,639	31,615	48,942	80,557	-918
Subordinated liabilities	11,171	5,762	5,998	11,759	-588
<b>Total</b>	<b>344,613</b>	<b>37,377</b>	<b>70,386</b>	<b>346,119</b>	<b>-1,506</b>

31 December 2015

	Carrying value			Total fair value	Difference
	Quoted market prices in active markets	Valuation techniques-observable inputs	Valuation techniques-significant unobservable inputs		
(in millions)					
<b>Assets</b>					
Cash and balances at central banks	26,195	26,195		26,195	
Securities financing	20,062	20,062		20,062	
Loans and receivables-banks	15,680	7,304	8,375	15,679	
Loans and receivables-customers	276,375	7,321	278,409	285,730	9,355
<b>Total</b>	<b>338,312</b>	<b>60,882</b>	<b>286,785</b>	<b>347,667</b>	<b>9,355</b>
<b>Liabilities</b>					
Securities financing	11,372	11,372		11,372	
Due to banks	14,630	3,842	10,788	14,630	
Due to customers	247,353	226	247,127	247,353	
Issued debt	74,492	31,638	43,810	75,448	-957
Subordinated liabilities	9,708	5,285	4,789	10,074	-366
<b>Total</b>	<b>357,555</b>	<b>36,923</b>	<b>64,040</b>	<b>358,877</b>	<b>-1,322</b>

During the first half of 2016 the Group reclassified cash collateral received from or paid to counterparties in relation to Credit Support Annexes (CSA) from level 3 to level 2 due to a refinement in measurement. This impacts loans and receivables-banks and loans and receivables-customers as well as due to banks and due to customers in the table above. The comparative amounts have been reclassified accordingly.

## 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 as of 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 date of acquisition.

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 for 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.

### Assets and liabilities of acquisitions and divestments

The following table provides details on the assets and liabilities resulting from the acquisitions or disposals of subsidiaries and equity-accounted investments at the date of acquisition or disposal.

(in millions)	31 December 2016		31 December 2015	
	Acquisitions	Divestments	Acquisitions	Divestments
<b>Assets and liabilities of acquisitions and divestments</b>				
Loans and receivables-banks	3			
Equity accounted investments	29	26	25	-103
Goodwill and other intangible assets	1			
Other assets	354			
Other liabilities	-354			
Non-controlling interests	-1			
<b>Net assets acquired/Net assets divested</b>	<b>31</b>	<b>26</b>	<b>25</b>	<b>-103</b>
Result on divestments, gross		81		28
<b>Cash used for acquisitions/received from divestments:</b>				
Total purchase consideration/Proceeds from sale	-31	56	-25	132
Cash and cash equivalents acquired/divested	3			
<b>Cash used for acquisitions/received from divestments</b>	<b>-28</b>	<b>56</b>	<b>-25</b>	<b>132</b>

Acquisitions and divestments include increases and decreases in the investments in several equity accounted investments for 2016 and 2015.

### Acquisitions in 2016

ABN AMRO obtained the remaining 30% of the shares in ABN AMRO Pensioeninstelling N.V. As a result, ABN AMRO has control and ABN AMRO Pensioeninstelling N.V. is consolidated as of the first quarter of 2016. An amount of EUR 2 million in goodwill was recognised. ABN AMRO Pensioeninstelling N.V. is a private pension company.

### Divestments in 2016

As a result of the merger of Equens SE and Worldline SA on 30 September 2016, ABN AMRO's interest in Equens SE has been diluted from 18.4% to 7.0% and is therefore reclassified from equity accounted investment to financial investment available for sale at fair value.

### Acquisitions in 2015

No major assets and liabilities were acquired in 2015.

### Divestments in 2015

ABN AMRO no longer has an associate interest in RFS Holdings B.V., as the underlying assets and liabilities have been sold.

## Composition of the group

### 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 with 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 the 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 interest. 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, 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 the control over the investment. Joint control only exists when decisions about the relevant activities require the unanimous consent of the parties sharing control. The activities conducted through joint ventures include cash transfer, 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 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 income in the income statement. When 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 which are not held for trading or not designated at fair value through profit or loss are classified as available-for-sale.



The following table provides an overview of the most significant investments in associates and joint ventures at 31 December.

(in millions)	Principle place of business	Business line	31 December 2016		31 December 2015	
			Carrying amount	Equity interest (in %)	Carrying amount	Equity interest (in %)
<b>Joint ventures:</b>						
Neuflize Vie S.A.	France	Private Banking	217	60%	215	60%
Richmond Preferente Aandelen C. B.V.	The Netherlands	Corporate Banking	25	50%	25	50%
<b>Associates:</b>						
Delta Lloyd ABN AMRO Verzekeringen Holding B.V.	The Netherlands	Retail Banking	197	49%	221	49%
Equens S.E. <sup>1</sup>	The Netherlands	Group Functions			60	18%
Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden N.V.	The Netherlands	Group Functions	100	20%	60	20%
European Merchant Services B.V.	The Netherlands	Corporate Banking	23	49%	20	49%
Compagnie Maritime Monegasque OSV B.V.	The Netherlands	Corporate Banking	24	75%		
Private Equity Investments			122		116	
Other			58		61	
<b>Total equity accounted investments</b>			<b>765</b>		<b>778</b>	

<sup>1</sup> Reclassification to financial investments.

Neuflize Vie is a joint venture whereby 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 765 million at 31 December 2016, a decrease of EUR 13 million compared with EUR 778 million at 31 December 2015. This decrease was mainly the result of the change in the carrying value of Delta Lloyd ABN AMRO Verzekeringen Holding B.V. and reclassification of Equens SE.

As a result of the merger of Equens SE and Worldline SA on 30 September 2016, ABN AMRO's interest in Equens SE has been diluted from 18.4% to 7.0% and is therefore reclassified from equity accounted investment to financial investment available for sale at fair value.

Other investments in associates and joint ventures represent a large number of associates and joint ventures with an individual carrying amount of less than EUR 15 million.

The combined financial information of the associates and joint ventures include the following assets and liabilities, income and expenses, and represent the proportionate share:

(in millions)	31 December 2016			31 December 2015		
	Associates	Joint ventures	Total	Associates	Joint ventures	Total
<b>Assets</b>						
Financial assets held for trading	2,487		2,487	2,528		2,528
Financial investments	443	7,250	7,693	342	6,771	7,113
Loans and receivables-banks and customers	1,713	196	1,910	1,473	235	1,708
Property and equipment	71	204	275	90	165	255
Other assets	334	71	405	420	326	745
<b>Total assets</b>	<b>5,048</b>	<b>7,722</b>	<b>12,770</b>	<b>4,852</b>	<b>7,497</b>	<b>12,349</b>
<b>Liabilities</b>						
Due to banks and customers	1,320	145	1,464	1,290	51	1,341
Provisions	2,548	3,955	6,503	2,424	3,624	6,048
Other Liabilities	246	3,380	3,626	258	3,575	3,833
<b>Total liabilities</b>	<b>4,115</b>	<b>7,479</b>	<b>11,594</b>	<b>3,973</b>	<b>7,250</b>	<b>11,223</b>
Total operating income	522	46	569	562	51	613
Operating expenses	408	24	432	503	26	529
<b>Operating profit/(loss)</b>	<b>114</b>	<b>23</b>	<b>137</b>	<b>60</b>	<b>25</b>	<b>85</b>
Income tax expense	26	8	34	19	9	28
<b>Profit/(loss) for the period</b>	<b>88</b>	<b>15</b>	<b>103</b>	<b>41</b>	<b>16</b>	<b>57</b>

Assets related to associates are mainly held by Delta Lloyd ABN AMRO Verzekeringen Holding B.V. (EUR 2,839 million compared with EUR 2,737 million in 2015) and by Nederlandse Financieringsmaatschappij voor Ontwikkelingslanden N.V. (EUR 1,652 million compared with EUR 1,418 million in 2015).

Neuflyze Vie holds the majority of assets under joint ventures (EUR 7,696 million compared with EUR 7,208 million in 2015).

The profit for the period regarding the associates increased, mainly to due the better results of the abovementioned associates.

### Impairments on equity accounted investments

The following table shows the changes in impairments on equity accounted investments.

(in millions)	2016	2015
<b>Balance as at 1 January</b>	<b>4</b>	<b>16</b>
Increase in impairments	5	28
Reversal of impairments	-1	
Other	-4	-41
<b>Balance as at 31 December</b>	<b>4</b>	<b>4</b>

Impairments on equity accounted investments remained at EUR 4 million at 31 December 2016, equal to the amount at 31 December 2015. The increase and decrease in impaired assets were mainly related to the variance of the carrying value of the primary assets of some of ABN AMRO's associates compared with its fair value.

## 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;
- ▶ a narrow and well defined objective;
- ▶ insufficient equity to permit the structured entity to finance its activities without subordinated financial support;
- ▶ financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks;
- ▶ relevant activities are directed by contractual arrangements.

ABN AMRO Bank is mainly involved in one type of structured entities: securitisations of its own originated assets. ABN AMRO Bank uses securitisation transactions primarily to diversify its funding sources and to manage its liquidity profile. Financial assets included in these transactions are residential mortgages and loans to small and medium-sized enterprises (SME). All securitised assets were originated in the Netherlands by ABN AMRO Bank (or one of its predecessors).

## Consolidated structured entities

The total amount of notes sold to external parties amounted to EUR 2.4 billion at 31 December 2016, a decrease of EUR 0.6 billion compared with EUR 3.0 billion at year-end 2015. The decrease was primarily due to the calling of several securitisation transactions including Beluga and Fishbowl (mortgage loans).

The securitisation transactions are primarily used for funding and liquidity purposes. There was no RWA (REA) relief at year-end 2016 (year-end 2015: no relief).

The bank had only true sale (traditional) securitisation transactions outstanding in 2016. In a true sale securitisation transaction a foundation (*stichting*) incorporates a structured entity, resulting in a bankruptcy remote structure. ABN AMRO sells a portfolio of receivables to the structured entity. The structured entity funds the purchase by issuing notes. In all securitisation transactions, ABN AMRO provides key ancillary roles such as 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 might 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 which are part of a number of securitisation transactions, most of which relate to transactions for which 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. The look-through approach is therefore used and REA 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 downgrade and default risk under stressed market conditions is assessed.

### Overview of securitisation positions and securitised assets

The total amount of assets securitised in true sale securitisations decreased to EUR 39.7 billion at 31 December 2016 (2015: EUR 52.2 billion). Securitisation transactions for the purpose of capital relief were not originated in 2016.

### Securitisation overview of own originated assets (overall pool size)

(in millions)	31 December 2016		31 December 2015	
	True sale securitisations		True sale securitisations	
	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	39,687		52,177	
<b>Total assets securitised</b>	<b>39,687</b>	<b>39,687</b>	<b>52,177</b>	<b>52,177</b>

### Details on retained and purchased securitisation positions

The tables in the following sections contain data 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 1.3 billion at 31 December 2016 (31 December 2015: EUR 1.1 billion).

## Overview of retained, transferred and purchased securitisation positions

(in millions, Exposure at Default)	31 December 2016			31 December 2015	
	True sale securitisations		Total	True sale securitisations	
	Mortgage loans	SME loans		Mortgage loans	SME loans
Securitisation position in purchased securitisations	1,265		1,265	1,125	
					1,125

Of the EUR 1.3 billion purchased securitisation positions as per 31 December 2016, the full position is risk-weighted at 7%. Of the EUR 1.1 billion purchased securitisation positions as per 31 December 2015, the full position is risk-weighted at 7%.

### Details on total notes outstanding per structured entity

The following table provides details on 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.

(in millions)	31 December 2016		31 December 2015	
	Total notes issued	% of total assets	Total notes issued	% of total assets
<b>Category</b>				
Dolphin Master Issuer B.V.	30,472	7.7%	30,472	7.5%
Goldfish Master Issuer B.V.	9,656	2.4%	12,407	3.0%
SMILE Securitisation Company 2007 B.V. <sup>1</sup>	15	0.0%	18	0.0%
Fishbowl Master Issuer B.V.			7,139	1.8%
Beluga Master Issuer B.V.			3,136	0.8%
<b>Total</b>	<b>40,143</b>		<b>53,172</b>	

<sup>1</sup> 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 obligated to do so, nor does ABN AMRO intend to do so in the future.

### Unconsolidated structured entities

ABN AMRO invested EUR 0.7 billion in securitisations which were not set up by ABN AMRO in 2016 (2015: EUR 0.8 billion). These securitisation notes are part of the liquidity buffer. ABN AMRO does not consolidate the structured entities as the bank does not have control over these entities. As ABN AMRO has not engaged in any additional contractual obligations with these entities, the maximum exposure to these structured entities is the same as the invested amount.

To raise funding, ABN AMRO has interests in two structured entities: Simba Finance B.V. (Simba) and Pumbaa Finance B.V. (Pumbaa). Simba and Pumbaa are unconsolidated structured entities as ABN AMRO does not have the power over these entities and does not have the ability to affect the amount of their returns.

### 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 2016.

## 23 Property and equipment, goodwill and other intangible assets

### Accounting policy for property and equipment

In accordance with IAS 16, property and equipment is stated at cost less accumulated depreciation and any amount for impairment. 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;
- ▶ 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 determined in accordance with IFRS 3 Business Combinations and IAS 36 Impairments of Assets. 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 date of acquisition, 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 highest 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 lifetime 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 acquisition 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.

The following table shows the carrying amount for each category of property and equipment at 31 December.

(in millions)	31 December 2016	31 December 2015
Land and buildings held for own use	706	781
Leasehold improvements	47	43
Equipment	664	539
Other	1	3
<b>Total property and equipment</b>	<b>1,418</b>	<b>1,366</b>

Total property and equipment increased by EUR 52 million to EUR 1,418 million at 31 December 2016.

The decrease in land and buildings relates to sales in the Netherlands and depreciation of buildings. The increase in equipment is due to leasing.

The following table shows the carrying amount for goodwill and other intangible assets at 31 December.

(in millions)	31 December 2016	31 December 2015
Goodwill	144	149
Purchased software	56	54
Internally developed software	11	6
Other	40	54
<b>Total goodwill and other intangible assets</b>	<b>251</b>	<b>263</b>

No material movements in goodwill and other intangible assets occurred during 2016.

The book value of property, equipment, intangible assets and goodwill changed as follows for the years 2016 and 2015.

(in millions)						2016		
	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
<b>Acquisition costs as at 1 January</b>	<b>1,683</b>	<b>218</b>	<b>1,464</b>	<b>3</b>	<b>3,368</b>	<b>202</b>	<b>1,202</b>	<b>1,403</b>
Acquisitions/divestments of subsidiaries						2		2
Additions	52	12	340		405		37	37
Reversal of cost due to disposals	-137	-7	-225		-369		-299	-299
Foreign exchange differences	-2		-13		-14	-11	-1	-12
Other	6	10	12	-2	26	-2	1	-1
<b>Acquisition costs as at 31 December</b>	<b>1,602</b>	<b>235</b>	<b>1,579</b>	<b>1</b>	<b>3,416</b>	<b>190</b>	<b>939</b>	<b>1,129</b>
<b>Accumulated depreciation/ amortisation as at 1 January</b>	<b>-891</b>	<b>-176</b>	<b>-924</b>		<b>-1,991</b>		<b>-1,066</b>	<b>-1,066</b>
Depreciation/amortisation	-44	-18	-173		-236		-46	-46
Reversal of depreciation/amortisation due to disposals	89	7	173		268		300	300
Foreign exchange differences	1						1	1
Other	-41		11		-30		1	1
<b>Accumulated depreciation/ amortisation as at 31 December</b>	<b>-888</b>	<b>-188</b>	<b>-913</b>		<b>-1,989</b>		<b>-810</b>	<b>-810</b>
<b>Impairments as at 1 January</b>	<b>-10</b>		<b>-1</b>		<b>-11</b>	<b>-53</b>	<b>-22</b>	<b>-75</b>
Increase of impairments charged to the income statement	-13			-2	-14			
Reversal of impairments due to disposals	13				13			
Foreign exchange differences						7		7
Other	1			2	3			
<b>Impairments as at 31 December</b>	<b>-8</b>		<b>-1</b>		<b>-9</b>	<b>-46</b>	<b>-22</b>	<b>-68</b>
<b>Total as at 31 December</b>	<b>706</b>	<b>47</b>	<b>664</b>	<b>1</b>	<b>1,418</b>	<b>144</b>	<b>107</b>	<b>251</b>



(in millions)	2015							
	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
<b>Acquisition costs as at 1 January</b>	1,742	203	1,451	36	3,432	198	1,162	1,360
Additions	56	17	210		282		41	42
Reversal of cost due to disposals	-86	-3	-198	-38	-324		-3	-3
Foreign exchange differences	3	2	7	3	14	4	2	7
Other	-32		-6	2	-36		-1	-2
<b>Acquisition costs as at 31 December</b>	<b>1,683</b>	<b>218</b>	<b>1,464</b>	<b>3</b>	<b>3,368</b>	<b>202</b>	<b>1,202</b>	<b>1,403</b>
<b>Accumulated depreciation/ amortisation as at 1 January</b>	-911	-165	-927	-4	-2,007		-1,034	-1,034
Depreciation/amortisation	-51	-12	-154		-217		-34	-34
Reversal of depreciation/amortisation due to disposals	41	3	161	5	209		4	4
Foreign exchange differences	-1	-1	-4		-6		-2	-2
Other	30				29			
<b>Accumulated depreciation/ amortisation as at 31 December</b>	<b>-891</b>	<b>-176</b>	<b>-924</b>		<b>-1,991</b>		<b>-1,066</b>	<b>-1,066</b>
<b>Impairments as at 1 January</b>	-11		-2		-13	-51	-21	-71
Increase of impairments charged to the income statement	-4				-4		-1	-1
Reversal of impairments due to disposals	6		1		7			
Foreign exchange differences						-3		-3
Other	-1				-1	1		1
<b>Impairments as at 31 December</b>	<b>-10</b>		<b>-1</b>		<b>-11</b>	<b>-53</b>	<b>-22</b>	<b>-75</b>
<b>Total as at 31 December</b>	<b>781</b>	<b>43</b>	<b>539</b>	<b>3</b>	<b>1,366</b>	<b>149</b>	<b>114</b>	<b>263</b>

The fair value of land and buildings held for own use is estimated at EUR 621 million at 31 December 2016 (2015: EUR 694 million). Of this fair value 97% is based on external valuations performed in 2016 or 2015 and 3% is based on Dutch local government property tax valuations with a discount of 0% to reflect the current market situation. There are some properties that have a lower fair value than the recorded 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 lease are EUR 486 million (2015: EUR 380 million), of which EUR 336 million (2015: EUR 338 million) matures within five years.

## Impairment of goodwill

Impairment testing on goodwill is performed at least annually by comparing the recoverable amount of the cash-generating units (CGU) to their carrying amount. The CGU is the smallest identifiable group of assets that:

- ▶ generate cash inflows from continuing use; and
- ▶ are largely independent of the cash inflows from other assets or groups of assets.

Identification of an asset's cash-generating unit involves judgement. If the recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows. The recoverable amount is determined by the highest of the value in use or fair value less costs to sell. The type of the acquired entity determines the definition of the type of CGU.

The value in use of a CGU is assessed through a discounted cash flow model of the anticipated future cash flows of the CGU. The discounted cash flow model uses assumptions which depend on various financial and economic variables, including the risk-free rate in a given country and a premium to reflect the inherent risk of the entity being evaluated. The values assigned to each key assumption reflect past experience that was modified based on management's expectation for the future and are consistent with external sources of information.

Besides the discount rates stated in the following table, calculation of the value in use was also based on cash flows, projected based on past experience, actual operating results and the 5-year budget plan. Cash flows for a further 5-year period were extrapolated using the long-term growth rate stated for the CGU.

(in millions)	Segment	Method used for recoverable amount	Discount rate	Long term growth rate	Impairment charges	31 December 2016	31 December 2015
						Goodwill	Goodwill
<b>Entity</b>							
Bethmann Bank	Private Banking	Value in use	10.0%	1.0%		99	99
ABN AMRO (Guernsey)	Private Banking	Fair value	10.0%	1.0%		23	27
ABN AMRO Commercial Finance Holding	Corporate Banking	Value in use	10.0%	2.0%		10	11
Banque Neuflyze	Private Banking	Value in use	10.0%	0.0%		6	6
Banco ABN AMRO S.A.	Corporate Banking	Value in use	10.0%	2.0%		4	3
Other						2	2
<b>Total goodwill and impairment charges</b>						<b>144</b>	<b>149</b>

(in millions)	2016	2015
<b>Depreciation on tangible assets</b>		
Land and buildings held for own use	44	51
Leasehold improvements	18	12
Equipment	75	74
<b>Amortisation on intangible assets</b>		
Purchased software	28	23
Internally developed software	3	3
Other intangible assets	16	8
<b>Impairment losses on tangible assets</b>		
Land and buildings held for own use (incl. held for sale)	13	4
Other	2	
<b>Impairment losses on intangible assets</b>		
Goodwill		
Purchased software		1
<b>Total depreciation and amortisation</b>	<b>198</b>	<b>177</b>

Impairment losses on land and buildings held for own use include an impairment amount of EUR 6 million at 31 December 2016 (2015: EUR 4 million) for assets held for sale.

## 24 Non-current assets and disposal groups held for sale

### Accounting policy for non-current assets and disposal groups held for sale

In accordance with IFRS 5, 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. Held-for-sale assets 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 millions)	31 December 2016	31 December 2015
<b>Assets</b>		
Financial assets held for trading	28	
Consumer Loans	1,634	
Corporate Loans	1,785	
Property and equipment	32	32
Other assets	2	
<b>Assets of businesses held for sale</b>	<b>3,481</b>	<b>32</b>
<b>Liabilities</b>		
Financial liabilities held for trading	7	
Demand Deposits	3,283	
Saving Deposits	233	
Time Deposits	2,143	
<b>Liabilities of businesses held for sale</b>	<b>5,667</b>	

At 31 December 2016, total assets of businesses held for sale amounted to EUR 3,481 million (2015: EUR 32 million) the liabilities of businesses held for sale amounted to EUR 5,667 million.

In line with the strategic update announced on 16 November 2016, ABN AMRO decided to sell its private banking operations in Asia and the Middle East. A total amount of EUR 3,449 million in assets and EUR 5,667 million in liabilities relate to this transfer.

## 25 Other assets

The following table shows the components of other assets at 31 December.

(in millions)	31 December 2016	31 December 2015
Accrued other income	514	490
Prepaid expenses	27	24
Unit-linked investments	3,275	2,543
Reinsurers share, trade and other receivables	1,758	1,385
Other	476	452
<b>Total other assets</b>	<b>6,050</b>	<b>4,893</b>

In the 2015 Annual Financial Statements, assets held for sale were included in other assets. For 2016 a separate note, Non-current assets and disposal groups held for sale ([note 24](#)), is provided.

Unit-linked investments are investments on behalf of insurance contract policyholders who bear the investment risk. Minimum guaranteed rates are agreed for certain contracts.

Reinsurers share, trade and other receivables include the amount of the receivables purchased by ABN AMRO (the factor) from its clients under contract of non-recourse factoring.

Other assets in 2016 and 2015 include a net receivable of EUR 204 million mainly related to the bankruptcy of DSB Bank.

## 26 Due to banks

### Accounting policy for due to banks and due to customers

According to IAS 39 Financial Instruments, amounts due to banks and customers are held at amortised cost. That is, fair value at initial recognition adjusted for repayment and amortisation of coupon, fees and expenses to represent the effective interest rate of the instrument.

This item is comprised of amounts due to banking institutions, including central banks and multilateral development banks.

(in millions)	31 December 2016	31 December 2015
<b>Deposits from banks:</b>		
Demand deposits	2,591	2,728
Time deposits	1,475	1,332
Other deposits	9,329	10,544
<b>Total deposits</b>	<b>13,394</b>	<b>14,604</b>
Other Due to banks	25	26
<b>Total due to banks</b>	<b>13,419</b>	<b>14,630</b>

Due to banks decreased in total by EUR 1.2 billion to EUR 13.4 billion at 31 December 2016 (31 December 2015: EUR 14.6 billion). This decrease was mainly due to a decline in other deposits of EUR 1.2 billion. Other deposits decreased mainly as a result of a decrease in deposits from several central banks by EUR 0.5 billion and credit institutions by EUR 0.7 billion. ABN AMRO repaid EUR 4.0 billion TLTRO I in June 2016 and participated in TLTRO II in December 2016 for the same amount. The maturity of TLTRO II is 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 June 2018.

## 27 Due to customers

The accounting policy for due to customers is included in [note 26](#).

(in millions)	31 December 2016	31 December 2015
Demand deposits	119,848	134,632
Saving deposits	92,740	94,005
Time deposits	16,169	18,555
<b>Total deposits</b>	<b>228,758</b>	<b>247,192</b>
Other due to customers		160
<b>Total due to customers</b>	<b>228,758</b>	<b>247,353</b>

Due to customers decreased by EUR 18.6 billion to EUR 228.8 billion at 31 December 2016, mainly as a result of the decline in demand deposits (EUR 14.8 billion), saving deposits (EUR 1.3 billion) and time deposits (EUR 2.4 billion), reflecting lower client demand for these types of investments.

Demand deposits decreased by EUR 14.8 billion to EUR 119.8 billion at 31 December 2016 mainly due to lower outstanding positions held by large corporates (EUR 14.8 billion) and a decrease in Private Banking (EUR 1.9 billion) due to the planned sale of activities in Asia and the Middle East. More information is provided in [note 24 Non-current assets and disposal groups held for sale](#). This is partly offset by higher positions held by retail clients (EUR 1.9 billion). In Q2 2016 ABN AMRO adjusted the implementation of its offsetting treatment of notional cash pooling agreements. More information is provided in [note 1 Accounting policies: Offsetting](#).

Saving deposits decreased by EUR 1.3 billion to EUR 92.7 billion mainly due to a decrease in Private Banking. In Q4 2016 ABN AMRO adjusted its treatment of bank savings mortgages. More information is provided in [note 1 Accounting policies: Offsetting](#).

Time deposits decreased by EUR 2.4 billion to EUR 16.2 billion, due to the planned sale of activities in Asia and the Middle East. More information is provided in [note 24 Non-current assets and disposal groups held for sale](#).

## 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, unless they are of a hybrid or structured nature and irrevocably designated at initial recognition to be held 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 its fair value or include terms that have substantive derivative characteristics in nature.

ABN AMRO applies IAS 32 Financial Instruments: Presentation to determine whether funding is either 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 measurement of liabilities held 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. Exchange-traded own debt 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.

(in millions)	31 December 2016	31 December 2015
Bonds and notes issued	62,882	64,613
Certificates of deposit and commercial paper	16,705	9,820
Saving certificates	52	59
<b>Total at amortised cost</b>	<b>79,639</b>	<b>74,492</b>
Designated at fair value through profit or loss	1,639	1,715
<b>Total issued debt</b>	<b>81,278</b>	<b>76,207</b>
- of which matures within one year	27,754	19,607

Total issued debt increased by EUR 5.1 billion to EUR 81.3 billion at 31 December 2016. This increase was mainly caused by the issuance of EUR 6.9 billion in certificates of deposits and commercial paper. Movements in these debt instruments are a continuous process of redemption and issuance of long-term and short-term funding.

The amounts of issued debt issued and redeemed during the period are shown in the 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 2016	31 December 2015
Cumulative change in fair value of the structured notes attributable to changes in credit risk	13	7
Change during the year in fair value of the structured notes attributable to changes in credit risk	6	-6

The cumulative change of the fair value of the structured notes attributable to change in credit risk amounted to a loss of EUR 13 million (2015: EUR 7 million).

For all financial liabilities designated at fair value through profit or loss, the amount that ABN AMRO would contractually be required to pay at maturity was EUR 1.5 billion (2015: EUR 1.7 billion).

The following table specifies the issued and outstanding subordinated liabilities at 31 December.

(in millions)	31 December 2016	31 December 2015
Perpetual loans		1,255
Other subordinated liabilities	11,171	8,453
<b>Total subordinated liabilities</b>	<b>11,171</b>	<b>9,708</b>

Subordinated liabilities increased by EUR 1.5 billion to EUR 11.2 billion at 31 December 2016. This increase was driven mainly by a newly issued EUR 1.0 billion 2.875% subordinated loan, the settlement date of which is January 2023. In addition, several new subordinated loans in SGD and USD were issued. Perpetual loans were redeemed for a total of EUR 1.3 billion in 2016, these are therefore no longer included in Additional Tier 1 and Tier 2 capital.

The 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 costs expectations.

Provisions are established for certain guarantee contracts for which ABN AMRO is responsible to pay upon default of payment.

The following table shows the breakdown of provisions at 31 December.

(in millions)	31 December 2016	31 December 2015
Insurance fund liabilities	127	154
Provision for pension commitments	86	85
Restructuring provision	417	200
Other staff provision	117	144
Legal provisions	731	292
Other provisions	193	381
<b>Total provisions</b>	<b>1,672</b>	<b>1,256</b>

### Insurance fund liabilities

Insurance fund liabilities include the insurance companies' actuarial reserves, premium and claims reserves. The expected cash outflow for 2017 is approximately EUR 64 million and approximately EUR 10 million for the 2018-2021 period.

### Provision for pension commitments

Provision for pension commitments includes early retirement benefits payable to non-active employees. In 2014 the pension scheme was changed from a defined benefit plan to a defined contribution plan. Further details are provided in note 30.

### Restructuring

Restructuring provisions cover the costs of restructuring plans for which implementation has been formally announced. Restructuring provisions are related to the integration and to further streamlining of the organisation and infrastructure. Restructuring provisions include allowances for staff and other operating expenses. The pre-2014 restructuring programme is almost completed. The remaining balance relates to ongoing costs that are still payable based on the ABN AMRO Social Plan. In 2014 ABN AMRO announced a new restructuring plan for Retail Banking which is scheduled to be completed by the end of 2019. The financial settlement may take up to five years after completion. The increase in the restructuring provision was mainly due to the announced reorganisation of the control and support activities recorded in Q3 2016 and further digitalisation and process optimisation in Q4 2016.

### 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 year-end and take 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 involved in concluding litigations. Any provision recognised does not constitute an admission of wrongdoing or legal liability.



### Interest rate derivatives to SME clients

In 2015 ABN AMRO started a review, at the request of both 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 with respect to the sale of interest rate derivatives to SME clients. In the second quarter of 2015 ABN AMRO first recognised a provision for the compensation of clients who had suffered damage.

In December 2015 the AFM announced that it found the review performed by banks to be insufficient. In light of this finding, the Dutch Minister of Finance appointed a committee of independent experts (the Committee) to develop a uniform recovery framework in consultation with the participating banks.

On 5 July 2016 the Committee presented the Uniform Recovery Framework. On that same date ABN AMRO announced it would adhere to it. As a result, ABN AMRO increased its provision. In the months since 5 July 2016, the Committee, the AFM, the banks and the external file reviewers have worked together to monitor how the Uniform Recovery Framework works in practice. The Committee has now added the findings to the Uniform Recovery Framework, which was finalised on 19 December 2016.

ABN AMRO has set up its own client reassessment process and the related checks and balances. In the first quarter of 2017 ABN AMRO will begin reassessments of around 6,800 clients with some 9,000 interest rate derivatives. ABN AMRO aims to propose a solution under the Uniform Recovery Framework for each of these clients before the end of 2017. At various points in the process, the reassessments will be checked by an independent external file reviewer, in ABN AMRO's case audit firm PwC and supervised by the AFM. The total provision for SME derivatives-related issues taken in 2015 and 2016 amounts to EUR 530 million.

### Euribor-based mortgages

ABN AMRO has sold mortgage loans with floating, often Euribor-based, interest rates (close to 1% of the total mortgage portfolio) to consumers. An important element of the pricing model of these mortgage loans is the ability for ABN AMRO to charge costs, allocated and unallocated, on to its clients by adjusting the margin charge on top of the prevailing floating interest rate. In many of these products, ABN AMRO has structured its ability to do so in provisions in its terms and conditions that allow it to unilaterally adjust pricing or contract terms. ABN AMRO's external funding costs (spread on top of Euribor) have gone up and ABN AMRO has adjusted the margin charge upward in many cases. As a result, clients are contesting the ability of ABN AMRO to do so. The complaints are based on a number of specific and general legal principles. In 2012, on top of multiple individual cases, class actions were brought by Stichting Stop de Banken and Stichting Euribor in relation to mortgage agreements with a floating interest rate based on Euribor, alleging that ABN AMRO was contractually not allowed to unilaterally increase the level of the applicable margin and violated its duty of care. ABN AMRO lost the class action cases in the lower court in November 2015. In its judgement, the Amsterdam court took a rather principled view of unconditional (pricing) amendment provisions. ABN AMRO has filed for an appeal against this judgement. The Appeal Court judgement is expected in 2017. For this matter ABN AMRO has recognised a provision.

### 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 customers have been provided with loans above their lending capacity. This has been reported to the AFM. ICS has drafted a redress scheme that addresses remedial measures for customers that have been affected, which will inter alia include financial compensation for certain customers. ICS expects to roll out the redress scheme in Q2 2017 and expects to finalise the process by the end of 2018. ABN AMRO has recognised a provision in respect of this redress scheme.

### Other duty of care matters

Stichting Belangenbehartiging Gedupeerde Beleggers van den Berg represents victims of a large Ponzi scheme fraud set up by Mr René van den Berg through his Fortis Bank Nederland accounts. Fortis Bank Nederland is one of the predecessors of ABN AMRO. The victims of this fraud are claiming damages from ABN AMRO by reason of breaching a public duty of care. ABN AMRO has recognised a provision for partial compensation of the victims.

### Other provisions

Other provisions include provisions for tax purposes. The tax provisions are based on best estimates available at 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.

### Discussions with tax authorities in Switzerland and Germany

The tax treatment of certain transactions relating to discontinued securities financing activities are currently the subject of discussions with the Swiss and German tax authorities. In Switzerland, the discussion regards the beneficial ownership of shares held by subsidiaries of former Fortis Bank Nederland (FBN). Those subsidiaries reclaimed dividend withholding tax, while according to the Swiss tax authorities they were not entitled to reclaim this tax. In 2016 ABN AMRO repaid some outstanding amounts, while retaining its legal position.

The German tax authorities have issued tax assessments against a former German subsidiary of FBN and against a German branch to reclaim dividend withholding tax amounts previously reclaimed by that German company and that branch. The German tax authorities dispute these reclaims. ABN AMRO has also received liability notices related to these reclaims.

ABN AMRO has recognised provisions which are currently considered sufficient to cover potential claims made by the Swiss and German tax authorities.

Changes in provisions during the year are as follows:

(in millions)	Insurance fund liabilities	Provision for pension commitments	Restructuring provision	Other staff provision	Legal provisions	Other	Total
<b>At 1 January 2015</b>	<b>183</b>	<b>91</b>	<b>233</b>	<b>182</b>	<b>112</b>	<b>202</b>	<b>1,003</b>
Increase of provisions	3		75	1	178	163	420
Reversal of unused provisions	-1		-22	-1	-3	-20	-48
Utilised during the year			-86		-8	-50	-144
Accretion of interest			1		16	34	50
Foreign exchange differences						4	5
Other	-32	-7		-38	-1	48	-30
<b>At 31 December 2015</b>	<b>154</b>	<b>85</b>	<b>200</b>	<b>144</b>	<b>292</b>	<b>381</b>	<b>1,256</b>
Increase of provisions	3		369	1	513	83	969
Reversal of unused provisions	-4		-20	-2	-30	-44	-100
Utilised during the year			-132		-70	-201	-402
Accretion of interest					26	5	31
Foreign exchange differences					-1		-1
Other	-26	1		-25	1	-31	-81
<b>At 31 December 2016</b>	<b>127</b>	<b>86</b>	<b>417</b>	<b>117</b>	<b>731</b>	<b>193</b>	<b>1,672</b>

Total provisions increased by EUR 416 million to EUR 1,672 million at 31 December 2016 compared with EUR 1,256 million at 31 December 2015. This was mainly due to increases in legal provisions and restructuring provisions. The increase in legal provisions was mainly due to interest rate derivatives to SME clients, Euribor-based mortgages and the ICS Redress scheme.

## 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 and IAS 19 applies to the accounting of these schemes. 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 yearly contributions 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 schemes, the net obligation of each plan is determined as the difference between the present value of the defined benefit obligations and the fair value of plan assets.

The actuarial assumptions used in calculating the present value of the defined benefit obligation include discount rates based on high-quality corporate bonds, 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 obligation.

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 determined 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 the pension costs and the 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) and are recognised in other comprehensive income and will not be recycled to profit or loss in later periods. In determining the actual return on plan assets, the costs of managing the plan assets and any tax payable by the plan itself are deducted.

#### 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.

### Amounts recognised in the income statement for pensions and other post-retirement benefits

(in millions)	2016	2015
Current service cost	5	6
Interest cost	3	4
Interest income	-1	-2
Past service cost		-5
Losses/(gains) on settlements and curtailment	-1	-1
Other	1	1
<b>Pension expenses relating to defined benefit plans</b>	<b>6</b>	<b>3</b>
Defined contribution plans	343	322
<b>Total Pension expenses</b>	<b>349</b>	<b>324</b>

The increase in the total pension expenses of EUR 25 million in 2016 was mainly due to a decrease in the interest rate related to the defined contribution plans. The pension expenses for defined contribution plans consist mainly of the cash contributions to the Dutch Collective Defined Contribution plan.

### Dutch defined contribution plan

The Dutch defined contribution plan is based on an average salary plan. The normal retirement age is set at 67 years. The contribution payable by pension fund participants is 5.5% (5.5% in 2015).

### Reconciliation to the statement of financial position and other comprehensive income

(in millions)	2016	2015
Present value of defined benefit obligations-funded	132	134
Fair value of plan assets	87	94
	<b>45</b>	<b>40</b>
Present value of unfunded obligations	40	45
<b>Net recognised liabilities/(assets) at 31 December</b>	<b>86</b>	<b>85</b>
Remeasurements arising from changes in demographic assumptions DBO	1	3
Remeasurements arising from changes in financial assumptions DBO	-6	-1
Remeasurements arising from changes in financial assumptions Plan assets	2	1
<b>Remeasurements in Other comprehensive income</b>	<b>-3</b>	<b>3</b>

## Change in defined benefit obligation

(in millions)	2016	2015
<b>Defined benefit obligation as at 1 January</b>	179	187
Current service cost	5	6
Interest cost	3	4
Past service cost		-5
Losses/(gains) on settlements and curtailment	-11	-4
Participants' contributions	-3	-3
Benefits paid	-2	-3
Remeasurements arising from changes in demographic assumptions defined benefit obligation	-1	-3
Remeasurements arising from changes in financial assumptions defined benefit obligation	6	1
Acquisitions and disposals of subsidiaries	4	
Foreign exchange differences	-2	1
Other	-5	-1
<b>Defined benefit obligation as at 31 December</b>	<b>173</b>	<b>179</b>

The net defined benefit liabilities/(asset) balance as per 31 December 2016 consist of pensioners with a profit share, the indexation of benefits insured at an insurance company and several small defined benefit plans outside the Netherlands.

## Change in fair value of plan assets

(in millions)	2016	2015
<b>Fair value of plan assets as at 1 January</b>	94	91
Interest Income	1	2
Remeasurements arising from changes in financial assumptions plan assets	2	1
Employer's contributions	3	6
Benefits paid	-2	-3
Asset distributed on settlements	-9	-3
Foreign exchange differences	-2	1
Other	-1	
<b>Fair value of plan assets as at 31 December</b>	<b>87</b>	<b>94</b>

## Principal actuarial assumptions

	2016	2015
Discount rate	1.8%	2.2%
Indexation rate	1.7%	1.8%
Expected return on plan assets as at 31 December	1.8%	2.2%
Future salary increases	2.5%	2.4%

The assumptions above 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 2016.

(in millions)	31 December 2016	31 December 2015
Accrued other expenses	1,287	1,204
Liability to unit-linked policyholders	3,275	2,543
Sundry liabilities and other payables	1,941	1,982
<b>Total other liabilities</b>	<b>6,503</b>	<b>5,729</b>

Obligations to policyholders whose return is dependent on the return of unit-linked investments recognised in the balance sheet are measured at fair value with changes through income. The increase is mainly the result of full consolidation of ABN AMRO Pensioeninstelling N.V. in 2016 (see [note 22](#) Group structure).

## 32 Equity attributable to shareholders and other components of equity

### Share capital and other components of equity

#### Ordinary shares and depositary receipts for ordinary shares

As at 31 December 2016, all shares in the capital of ABN AMRO Group are held by two foundations: NLFI and STAK AAG. On that date, NLFI held 70% and STAK AAG held 30% of the shares in the issued capital of ABN AMRO Group. Both foundations have issued depositary receipts in ABN AMRO Group. Only STAK AAG's depositary receipts are issued with the cooperation of ABN AMRO Group and traded on Euronext Amsterdam. For more information about the STAK AAG and the depositary receipts, please refer to the Governance section of this report. More details on the shares are provided in the ABN AMRO Shares section.

#### Preference shares

Preference shares which are non-redeemable and upon which dividends are declared at the discretion of the company are classified as equity.

#### Compound financial instruments

Components of compound financial instruments (liability and equity parts) are classified in their respective areas of the statement of financial position.

#### Other reserves

The other reserves mainly comprise retained earnings, profit for the period and legal reserves.

#### 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

In this component, gains and losses arising from a change in the fair value of available-for-sale assets are recognised, net of taxes, 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.

### Cash flow hedging reserve

The cash flow hedging reserve is comprised of the effective portion of the cumulative net change in the fair value of cash flow hedging instruments, net of taxes, that will be recycled to the income statement when the hedged transactions affect profit or loss.

### Net investment hedging reserve

The net investment hedging reserve is comprised of the currency translation differences arising on translation of the currency of these instruments to euros, for the extent they are effective.

### 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 permission of the European Central Bank to carry out limited repurchases from investors and to sell back in the market.

The following table shows the composition of equity attributable to shareholders of the parent company at 31 December 2016 and 31 December 2015.

(in millions)	31 December 2016	31 December 2015
Share capital	940	940
Share premium	12,970	12,970
Other reserves (incl. retained earnings/profit for the period)	4,037	3,059
Other components of equity	-9	-394
<b>Equity attributable to shareholders of the parent company</b>	<b>17,939</b>	<b>16,575</b>
Capital securities	993	993
Equity attributable to non-controlling interests	5	17
<b>Total equity</b>	<b>18,937</b>	<b>17,584</b>

At 31 December 2016, 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 per share.

At 31 December 2016, issued and paid-up capital by ABN AMRO Group N.V. consisted of 940,000,001 ordinary shares (EUR 940 million).



In September 2015 ABN AMRO Bank N.V. issued EUR 1.0 billion in capital securities including a premium discount of EUR 7 million. Capital securities qualify as Additional Tier 1 as described in CRD IV and CRR. The capital securities are perpetual, unsecured and deeply subordinated. Redemption is discretionary to ABN AMRO Bank N.V. on the interest reset date in year 5 subject to regulatory approval. The securities can be called on a yearly basis after year 5. There is a fixed interest coupon of 5.75%, payable semi-annually. Interest is non-cumulative and fully at the discretion of ABN AMRO Bank N.V. No interest will be paid if there are insufficient distributable items and/or maximum distributable amount (MDA) restrictions are constraining. ABN AMRO Bank N.V. will give due consideration to the hierarchy of the instrument with regard to distribution.

In 2016, a final dividend relating to 2015 of EUR 414 million was paid out to ordinary shareholders, bringing the total dividend for 2015 to EUR 764 million. An interim dividend of EUR 376 million was paid to ordinary shareholders in August 2016 (2015: EUR 350 million).

The following table shows the number and paid-up and unpaid-up capital of the authorised, unissued and issued share capital at 31 December 2016 and 31 December 2015.

	31 December 2016		31 December 2015	
	Class A ordinary shares	Class B ordinary shares	Class A ordinary shares	Class B ordinary shares
<b>Number of shares</b>				
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	
<b>Amount of shares</b>				
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 assumes a contractual obligation to pay the cash flows to a third party; or
- ▶ alternatively, transferred a financial asset when the counterparty has the right to re-pledge or to re-sell 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 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 its pledge. Encumbered assets are those that are pledged or other assets which we believed to be restricted 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 (see note 25 other assets);
- ▶ 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;
- ▶ 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 noncontrolling interests might 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 understand which risks the bank is exposed to when the assets are transferred.

If transferred financial assets continue to be recognised on the balance sheet, ABN AMRO Group is still exposed to changes in the fair value of the assets.

### Transferred financial assets that are not derecognised in their entirety

The following table shows transferred financial assets that are not derecognised in their entirety.

(in millions)	31 December 2016			31 December 2015		
	Loans and receivables (at amortised cost)	Financial assets held for trading (at fair value through profit and loss)	Total	Loans and receivables (at amortised cost)	Financial assets held for trading (at fair value through profit and loss)	Total
<b>Securitisations</b>						
Carrying amount Transferred assets	2,342		2,342	2,915		2,915
Carrying amount Associated liabilities	2,350		2,350	2,950		2,950
Fair value of assets	2,533		2,533	3,155		3,155
Fair value of associated liabilities	2,365		2,365	2,969		2,969
<b>Net position</b>	<b>168</b>		<b>168</b>	<b>186</b>		<b>186</b>
<b>Other</b>						
Carrying amount Transferred assets		60	60		221	221
Carrying amount Associated liabilities		72	72		133	133
Fair value of assets		60	60		221	221
Fair value of associated liabilities		72	72		133	133
<b>Net position</b>		<b>-11</b>	<b>-11</b>		<b>88</b>	<b>88</b>
<b>Totals</b>						
Carrying amount Transferred assets	2,342	60	2,402	2,915	221	3,136
Carrying amount Associated liabilities	2,350	72	2,422	2,950	133	3,083
Fair value of assets	2,533	60	2,594	3,155	221	3,376
Fair value of associated liabilities	2,365	72	2,437	2,969	133	3,101
<b>Net position</b>	<b>168</b>	<b>-11</b>	<b>157</b>	<b>186</b>	<b>88</b>	<b>274</b>



### Securitisations

The bank uses securitisations as a source of funding whereby the Special Purpose Entity (SPE) issues debt securities. Pursuant to 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 re-sell or re-pledge them, the bank considers these assets transferred assets.

### Continuing involvement in transferred financial assets that are 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 2016	31 December 2015
<b>Assets pledged</b>		
Cash and balances at central banks	1	
Financial assets held for trading	94	106
Financial investments available-for-sale	837	
Loans and receivables-banks		
- Interest bearing deposits	4,503	7,164
Loans and receivables-customers		
- Residential mortgages	79,579	87,874
- Commercial loans	6,476	5,298
<b>Total assets pledged as security</b>	<b>91,492</b>	<b>100,442</b>
<b>Differences between pledged and encumbered assets</b>		
Financial investments available-for-sale	-724	410
Loans and receivables-banks <sup>1</sup>	270	863
Loans and receivables-customers <sup>2</sup>	-28,221	-42,846
Other assets <sup>3</sup>	3,275	2,543
<b>Total differences between pledged and encumbered assets</b>	<b>-25,400</b>	<b>-39,030</b>
<b>Total encumbered assets</b>	<b>66,093</b>	<b>61,412</b>
<b>Total assets</b>	<b>394,482</b>	407,373
<b>Total encumbered assets as percentage of total assets</b>	<b>16.8%</b>	15.1%

<sup>1</sup> Includes mandatory reserve deposits.

<sup>2</sup> Excludes mainly mortgage-backed securities.

<sup>3</sup> Includes unit-linked investments.

Total encumbered assets increased by EUR 4.7 billion to EUR 66.1 billion in December 2016 compared with EUR 61.4 billion in 2015, mainly due to the increase in covered bonds.

### 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 to standard professional securities transactions.

ABN AMRO controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral value on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

(in millions)	31 December 2016	31 December 2015
Fair value of securities received which can be sold or repledged	51,696	56,300
- of which: fair value of securities repledged/sold to others	39,660	33,894

ABN AMRO has an obligation to return the 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 its consolidated financial statements to evaluate the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the Group.

At balance sheet date, the Group did not have any material non-controlling interests and therefore did not give rise to significant restrictions.

Restricted financial assets consist of assets pledged as collateral against an existing liability or contingent liability and encumbered assets. Other restrictions impacting the Group's ability to use assets:

- ▶ assets as a result of collateralising repurchase and borrowing agreements (2016: EUR 16.7 billion, 2015: EUR 19.1 billion);
- ▶ assets held in certain jurisdictions to comply with local liquidity requirements and are subject to restrictions in terms of their transferability within the Group (2016: EUR 3.3 billion, 2015: EUR 1.8 billion).

ABN AMRO Group in general is not subject to significant restrictions that would prevent the transfer of dividends and capital within the Group, except for regulated subsidiaries which are required to maintain capital to comply with local regulations (2016: EUR 1.3 billion, 2015: EUR 1.3 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 the higher of the amount initially recognised less cumulative amortisation, when appropriate, and the best estimate of the amount expected to settle the obligation.

#### 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 on the balance sheet but are disclosed unless the outflow of economic resources is remote.

### Committed credit facilities

Commitments to extend credit take the form of approved but undrawn loans, overdraft 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. In addition, ABN AMRO has entered into transactions to guarantee various liabilities with respect to insurance-related regulatory reserve financing transactions.

The contractual amounts of commitments and contingent liabilities are set out by category in the following table. The amounts stated in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if the relevant contract parties completely failed to perform as contracted.

Many of the contingent liabilities and commitments are expected to expire without being advanced 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 its affiliated companies (see also chapter Other information).

The committed credit facilities, guarantees and other commitments at 31 December 2016 and 2015 are summarised in the following table.

(in millions)	Payments due by period				Total
	Less than one year	Between one and three years	Between three and five years	After five years	
<b>31 December 2016</b>					
<b>Committed credit facilities</b>	<b>15,473</b>	<b>4,920</b>	<b>5,014</b>	<b>1,892</b>	<b>27,299</b>
<b>Guarantees and other commitments:</b>					
Guarantees granted	244	378	69	1,967	2,659
Irrevocable letters of credit	4,306	852	445	575	6,178
Recourse risks arising from discounted bills	6,790	209	4	35	7,037
<b>Total guarantees and other commitments</b>	<b>11,340</b>	<b>1,439</b>	<b>518</b>	<b>2,577</b>	<b>15,873</b>
<b>Total</b>	<b>26,813</b>	<b>6,358</b>	<b>5,532</b>	<b>4,469</b>	<b>43,173</b>
<b>31 December 2015</b>					
<b>Committed credit facilities</b>	<b>9,136</b>	<b>4,173</b>	<b>4,667</b>	<b>3,583</b>	<b>21,559</b>
<b>Guarantees and other commitments:</b>					
Guarantees granted	299	124	70	1,947	2,440
Irrevocable letters of credit	3,675	1,042	407	613	5,737
Recourse risks arising from discounted bills	5,440	196	18	37	5,691
<b>Total guarantees and other commitments</b>	<b>9,414</b>	<b>1,362</b>	<b>495</b>	<b>2,597</b>	<b>13,868</b>
<b>Total</b>	<b>18,550</b>	<b>5,535</b>	<b>5,162</b>	<b>6,180</b>	<b>35,427</b>

Total commitments and contingent liabilities increased by EUR 7.7 billion to EUR 43.2 billion at 31 December 2016 compared with EUR 35.4 billion at 31 December 2015. This increase was mainly caused by an increase of EUR 5.7 billion in the committed credit facilities and an increase of EUR 1.3 billion in the recourse risks arising from discounted bills.

The increase in committed credit facilities by EUR 5.7 billion to 27.3 billion at 31 December 2016 related to a higher volume of outstanding credit offers of EUR 3.4 billion and higher irrevocable credit lines of EUR 2.4 billion.

## Leasing

ABN AMRO mainly enters into leases classified as operating leases (including property rental). 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. There are no contingent rents payable. ABN AMRO also leases equipment under non-cancellable lease arrangements. Total operating lease arrangements amounted to EUR 398 million in 2016 (2015: EUR 448 million), of which EUR 321 million (2015: EUR 376 million) is due within five years.

### Other contingencies

ABN AMRO is involved in a number of legal proceedings in the ordinary course of business in a number of 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.

Provisions are not recognised for matters for which expected cash outflow cannot be reasonably estimated or are not considered 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 an amount of EUR 1.75 billion plus 8.75% coupon until 7 December 2030 from four issuers, among which ABN AMRO, in relation to the conversion of Ageas mandatory convertible securities. On 23 March 2012, the Commercial Court in Brussels (Belgium) rejected all claims of the hedge funds. This verdict underlines the verdict in the summary proceedings (*kort geding*) of November 2010.

Certain hedge funds have filed an appeal against the verdict. ABN AMRO remains confident that it has acted within its rights and therefore also continues to be optimistic about the outcome of the currently pending appeal 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 the custodial services has resulted in a number of legal claims, including by BLMIS' trustee in bankruptcy (Irving Picard), and liquidators of certain funds, as they pursue legal actions in attempts to recover payments made as a result of the Madoff fraud and/or to compensate their alleged losses. Certain ABN AMRO subsidiaries are defendants in these proceedings. In light of the preliminary status of those claims and other arrangements that may mitigate litigation exposure, it is not possible to estimate the total amount of ABN AMRO's potential liability, if any. ABN AMRO continues to investigate and implement strategies for recovering the losses suffered. As previously reported, a total amount of EUR 16 million (exclusive of costs) was recovered in the first half of 2009. In 2011, 2012 and 2013, one of ABN AMRO's subsidiaries was able to sell shares and limited partnership interests that were provided to it as collateral or which it had bought to hedge its exposure in the context of the collateralised loans and total return swap transactions referred to above. These sales resulted in proceeds of EUR 52 million, EUR 78 million and EUR 253 million respectively and an equivalent amount provided for in 2008 was subsequently released.

The Imtech N.V. group has been in financial difficulties ever since certain fraudulent events, perpetrated by certain managers and staff, were discovered a few years ago and was declared bankrupt in August 2015. ABN AMRO has extended credit to the Imtech N.V. group of businesses and it holds shares in Imtech N.V. further to its underwriting commitment in the Imtech N.V. rights offering of October 2014. In April 2015, Stichting ImtechClaim threatened to initiate a collective action lawsuit against, among others, Imtech N.V. and the four underwriters (including ABN AMRO Bank) of the Imtech N.V. rights offering of October 2014. Since a claim has not yet been formally filed, the complaint is not entirely clear but ABN AMRO expects that it would, among other complaints, appear to refer to prospectus liability and inappropriate behaviour as a result of conflicts of interest (*dubieuze dubbelrol*). The amount of damages that Stichting ImtechClaim can claim depends on the number of people in the class.

In August 2007, Sentinel Management Group, Inc. ('Sentinel'), a futures commission merchant that managed customer segregated funds for ABN AMRO, filed for bankruptcy. Shortly before Sentinel filed for bankruptcy, Sentinel sold securities to Citadel Equity Fund, Ltd. The US Bankruptcy Court ordered funds from the sale to Citadel Equity Fund, Ltd be distributed to certain Sentinel customers. ABN AMRO received its pro rata share of in total USD 53 million. On or about 15 September 2008, the bankruptcy trustee filed an adversary proceeding against all of the recipients of the court-ordered distribution of funds from the Citadel Equity Fund, Ltd sale, including ABN AMRO, claiming the repayment of the amounts received. The complaint also includes a claim for other monies ABN AMRO received shortly before Sentinel filed for bankruptcy. This regards an amount of USD 4 million and a claim for pre-judgement interest which could range from USD 0.4 million to USD 10 million.



On 16 August 2016, ABN AMRO received a writ of summons from housing corporation Stichting Havensteder (Havensteder) relating to two extendable loans (the Loans) with a total principal amount of EUR 64 million. Havensteder claims partial annulment (*partiële vernietiging*) of the extendable part of the Loans since, according to Havensteder, the Loans conflict with the interest of public housing and public housing laws. Alternatively, Havensteder claims that as a result of unforeseen circumstances the interest rates on the Loans should be lowered to approx. 2.45% or 3.0%. In the further alternative, Havensteder claims partial annulment (*partiële vernietiging*) of the extendable part of the Loans in view of error (*dwaling*), breach of duty of care and breach of information duties. A court hearing in this matter is expected to take place in September 2017.

On 22 August 2016 ABN AMRO received a writ of summons from the indirect shareholders of ABN AMRO's former clients, the Partner Logistics Group. The claimants allege that ABN AMRO, among other defendants, acted wrongfully in relation to the bankruptcy of the Partner Logistics Group. Based on this, they claim damages in the amount of EUR 205 million. The litigation is ongoing and ABN AMRO filed its statement of defence in January 2017.

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 customers have been provided with loans above their lending capacity. This has been reported to the AFM. ICS has drafted a redress scheme that addresses remedial measures for customers that have been affected, which will inter alia include financial compensation for certain customers. ICS has created a financial reserve of EUR 63 million in respect of this redress scheme. ICS expects to roll out the redress scheme in Q2 2017 and expects to finalise the process by the end of 2018.

Other contingencies includes EUR 14 million related to an irrevocable payment commitment (IPC) to the Single Resolution Board (SRB) in Brussels. In April 2016, the SRB provided credit institutions the option to fulfil part of the 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 and a larger number of proceedings have been threatened. Where applicable, provisions for these matters have been made.

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, 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. The uncertainties are likely to continue for some time. As a result, although the consequences could be substantial for ABN AMRO, with 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. In conclusion, although claims in relation to alleged breach of the duty of care remain contingent, they have been (partly) provisioned.

## Interest rate derivatives sold to SME clients

Since 2014, there has been a public debate in the Netherlands on a bank's duty of care towards SMEs with respect to interest rate derivatives.

As explained in note 29 Provisions, the bank has entered into interest rate derivatives with approximately 6.800 SME clients in combination with floating interest rate loans. These SME clients entered into an interest rate derivative with the purpose of fixing their interest rate risk on their floating rate loans. A combination of a floating interest rate loan together with an interest rate swap was less expensive for the 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 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, prior to its maturity date.

### Individual or class action complaints and litigation

Some SME clients needed or wanted to repay their floating interest rate loans prior to their maturity date. As a consequence, the interest rate swap needed to be unwound in order to assure that no overhedge was created. 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 payment may be compared to the penalty interest on a fixed rate loan. The bank received multiple complaints and some clients and/or interest groups instigated legal proceedings about the bank's alleged violation of its duty of care, for instance that the bank did not properly inform them of the risks associated with interest rate swaps. In most of these cases, the client's claim was denied. In some other cases, the bank paid compensation to the client.

For litigation in relation to SME derivatives, the bank 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. The uncertainties are likely to continue for some time. In conclusion, claims in relation to the alleged breach of duty of care remain contingent.

### 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 for advice on the reassessment of SME and middle market interest rate derivatives. On 5 July 2016 the draft Uniform Recovery Framework prepared by this panel of independent experts was presented, and ABN AMRO committed to this framework. Based on the content of the Uniform Recovery Framework, ABN AMRO recognised a provision at year-end, the details of which are included in note 29 Provisions. After the presentation of the Uniform Recovery Framework the panel of independent experts, the banks involved, the AFM and interest groups worked together to finalise the Uniform Recovery Framework. On 19 December 2016 the final version of the Uniform Recovery Framework was presented by the panel of independent experts. The Uniform Recovery Framework will lead to revised compensation solutions for clients. At this time it is unclear how the Uniform Recovery Framework will impact pending and future litigation.

As this is a possible liability dependent on a future event, there is no provision for this possible outflow of resources and it is therefore considered a contingency. In this respect reference is made to [note 29 Provisions](#).

### Cross-liability

A legal demerger may cause so-called cross-liabilities. Pursuant to 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. For 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 or 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 did acquire or retain the obligation has failed 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 billion, whereas ABN AMRO Bank N.V.'s contingent liability is limited to EUR 1.8 billion (which amount remained unchanged as per 31 December 2016). 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 (2015: 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 NLF1) 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 NLF1 about a claim it had received from RBS relating to these assets and liabilities in RFS Holdings B.V. This gives NLF1 the right to file a claim with ABN AMRO. As of the publication date of these Consolidated Annual Financial Statements ABN AMRO is not aware that a claim will be filled by NLF1. This situation could change in the future.

## 35 Related parties

Parties related to ABN AMRO include NLF1 with control, the Dutch State with significant influence, STAK AAG, associates, pension funds, joint ventures, the Managing Board, 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.

Total outstanding loans and advances to members of the Managing Board and Supervisory Board of ABN AMRO amounted to EUR 7.1 million in 2016 (2015: EUR 6.8 million). The outstanding loans and advances to members of the Managing Board and the Supervisory Board mainly consist of residential mortgages granted under standard personnel conditions. Other loans and advances are granted under client conditions (further information is provided in the Remuneration chapter of the Governance section).

Loans and bank guarantees in the ordinary course of business may be granted by ABN AMRO companies to executive managers or to close family members of Board members and close family members of executive managers. At 31 December 2016, there were no outstanding credits, loans or bank guarantees, other than the ones included in the ordinary course of business noted above.

## Balances with joint ventures, associates and other

(in millions)	Joint ventures	Associates	Other	Total
<b>31 December 2016</b>				
Assets	14	382		396
Liabilities	205	710		914
Guarantees given		15		15
Guarantees received		7		7
Committed credit facilities		26		26
<b>2016</b>				
Income received	34	45		79
Expenses paid	14	12	296	321
<b>31 December 2015</b>				
Assets	15	364		379
Liabilities	232	991		1,222
Guarantees given		15		15
Guarantees received	9	38		47
Committed credit facilities		28		28
<b>2015</b>				
Income received	35	46		81
Expenses paid	15	9	281	305

Liabilities with joint ventures decreased by EUR 27 million as of 31 December 2016 compared with year-end 2015 due to lower customers deposits with financial institutions.

Liabilities with associates decreased by EUR 281 million as of 31 December 2016 compared with year-end 2015 due to lower customers deposits held by other financial corporations.

Guarantees received with associates decreased by EUR 31 million at 31 December 2016 compared with year-end 2015 mainly due to the sale of an entity.

## Balances with the Dutch State

(in millions)	31 December 2016	31 December 2015
<b>Assets:</b>		
Financial assets held for trading	269	423
Derivatives	1,701	1,891
Financial investments-available for sale	6,592	6,540
Loans and receivables-customers	782	882
Other assets	99	99
<b>Liabilities:</b>		
Derivatives	2,371	2,641
Due to customers <sup>1</sup>	830	1,811
Financial liabilities held for trading	9	204
Subordinated loans		
	<b>2016</b>	<b>2015</b>
<b>Income statement:</b>		
Interest income	141	150
Interest expense	44	107
Net trading income	-24	-8
Net fee and commission income		1
Other income	39	1

<sup>1</sup> Part of Due to customers (EUR 0.8 billion) is related to liabilities the Dutch State acquired from Ageas on 3 October 2008.

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 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 and financial liabilities held for trading decreased mainly as a result of lower Dutch government bonds related to the primary dealership in the Netherlands and of client facilitation. Most of these contracts are hedged with short positions in government bonds.

Derivatives related to both assets and liabilities decreased as of 31 December 2016 compared with 2015 mainly due to lower lending positions of the Dutch State. Derivatives transactions with the Dutch State are related to the normal course of business.

Due to customers decreased by EUR 1.0 billion as of 31 December 2016 compared with year-end 2015, due to the redemption of part of the loan (including accrued interest) acquired from the Dutch State related to Ageas on 3 October 2008.



Interest expenses decreased by EUR 63 million as of 31 December 2016 compared with year-end 2015 due to redemptions within due to customers in 2016 and 2015.

Net trading income decreased by EUR 16 million as of 31 December 2016 compared with year-end 2015 due to sold government bonds within segment Capital Markets Solutions.

Other income increased by EUR 38 million as of 31 December 2016 compared with year-end 2015 as a result of generated results on financial investments – available for sale.

## 36 Remuneration of Managing Board and Supervisory Board

### Remuneration of Managing Board

ABN AMRO's remuneration policy was formally approved by shareholders and adopted by the Supervisory Board.

The remuneration package for the Managing Board consists of the following components:

- ▶ annual base salary;
- ▶ benefits and other entitlements;
- ▶ severance payments.

The following statement summarises the income components for the individual Managing Board members for the year 2016.

2016

(In thousands)	Base salary <sup>1</sup>	Variable remuneration <sup>2</sup>	Total pension related contributions <sup>3</sup>		Severance payments	Total
			Post employee pension (3a)	Short-term allowances (3b)		
G. Zalm	775		34	275		1,084
J. van Hall	620		34	213		867
C. van Dijkhuizen	620		34	171		825
C.E. Princen	620		34	213		867
W. Reehoorn	620		34	213		867
C.F.H.H. Vogelzang	620		34	213		867
J.G. Wijn	620		34	213		867
<b>Total</b>	<b>4,495</b>		<b>238</b>	<b>1,511</b>		<b>6,244</b>

2015

(In thousands)	Base salary <sup>1</sup>	Variable remuneration <sup>2</sup>	Total pension related contributions <sup>3</sup>		Severance payments	Total	Repayment temporary fixed income	Repayment post-employment pension	Total recognised in profit and loss
			Post employee pension (3a)	Short-term allowances (3b)					
G. Zalm	767		31	252		1,050			1,050
J. van Hall	614		31	195		840	-100	-28	712
C. van Dijkhuizen	614		31	154		799	-100	-30	669
C.E. Princen	614		31	195		840	-100	-32	708
W. Reehoorn	614		31	195		840	-100	-28	712
C.F.H.H. Vogelzang	614		31	195		840	-100	-28	712
J.G. Wijn	614		31	195		840	-100	-31	709
<b>Total</b>	<b>4,451</b>		<b>217</b>	<b>1,381</b>		<b>6,049</b>	<b>-600</b>	<b>-177</b>	<b>5,272</b>

<sup>1</sup> Inclusive 1% salary adjustment in accordance with the developments in the collective labour agreement for the banking industry ("CAO Banken").

<sup>2</sup> As a consequence of the applicability of the Bonus Prohibition Act the Managing Board Members are not entitled to receive variable compensation. This prohibition applies since the performance year 2011.

<sup>3</sup> The Managing Board Members participate in Group's pension plans as applicable to the employees in The Netherlands. Total pension related contributions as applicable as of 2015 refer to (3a) the employer contribution to the pension fund (for the CDC pension scheme for pensionable income up to EUR 101,519) and (3b) the arrangement in accordance with the ABN AMRO Collective Labour Agreement ("ABN AMRO CAO") as described in the Remuneration policy on page 237.

## Loans from ABN AMRO to Managing Board members

The following table summarises outstanding loans to the members of the Managing Board at 31 December.

(In thousands)	2016			2015		
	Outstanding 31 December	Redemptions	Interest rate	Outstanding 31 December	Redemptions	Interest rate
J. van Hall	69		3.5%	69		3.5%
C.E. Princen	747	47	2.6%	794	16	3.0%
W. Reehoorn	1,429		3.8%	1,429		3.8%
C.F.H.H. Vogelzang	1,402	13	1.7%	1,415	11	1.9%
J.G. Wijn	247	403	2.3%	650	111	1.8%



## Remuneration of the Supervisory Board

The following statement summarises the income components for the individual Supervisory Board members.

(In thousands)	2016 <sup>a</sup>	2015 <sup>a</sup>
O.L. Zoutendijk <sup>1</sup>	86	77
D.J.M.G. van Slingelandt <sup>2</sup>	34	91
S. ten Have	63	62
J.M. Roobeek	68	63
J.S.T. Tiemstra <sup>3</sup>	77	
A.C. Dorland <sup>3</sup>	70	
F.J. Leeftang <sup>3</sup>	61	
J.B.J. Stegmann <sup>4</sup>	41	
A. Meerstadt <sup>5</sup>	20	65
H.P. de Haan <sup>6</sup>	30	78
M.J. Oudeman <sup>7</sup>		54
P.N. Wakkie <sup>8</sup>		19
<b>Total</b>	<b>550</b>	<b>507</b>

<sup>1</sup> O.L. Zoutendijk was appointed as Chairman as of 18 May 2016.

<sup>2</sup> D.J.M.G. van Slingelandt stepped down as Chairman and member of the Supervisory Board as of 18 May 2016.

<sup>3</sup> A.C. Dorland, J.S.T. Tiemstra and F.J. Leeftang were appointed as member of the Supervisory Board as per 18 May 2016. The remuneration reflects the full year 2016.

<sup>4</sup> J.B.J. Stegmann acted as member of the Supervisory Board as of 10 June 2016 and was appointed as member of the Supervisory Board on 12 August 2016. The remuneration reflects the period 10 June 2016 till 31 December 2016.

<sup>5</sup> A. Meerstadt stepped down as member of the Supervisory Board as of 7 April 2016.

<sup>6</sup> H.P. de Haan stepped down as member of the Supervisory Board as of 18 May 2016.

<sup>7</sup> M.J. Oudeman stepped down as Member of the Supervisory Board as of 30 September 2015.

<sup>8</sup> P.N. Wakkie stepped down as member of the Supervisory Board as of 1 April 2015.

<sup>9</sup> Remuneration amounts excluding VAT.

## Loans from ABN AMRO to Supervisory Board members

The following table summarises the outstanding loans to the members of the Supervisory Board at 31 December.

(In thousands)	2016			2015		
	Outstanding 31 December	Redemptions	Interest rate	Outstanding 31 December	Redemptions	Interest rate
J.M. Roobeek	1,700	150	3.5%	1,850		4.0%
S. ten Have	600		3.8%	600		3.8%
J.B.J. Stegmann <sup>1</sup>	900		0.2%			

<sup>1</sup> J.B.J. Stegmann was appointed as member of the Supervisory Board as of 12 August 2016.



## 37 Employee share option and share purchase plans

No employee share based payments plans were in place for the years 2016 and 2015. However, the variable compensation plan will change in 2017 and will be a share-based payment plan for Identified Staff only. The main features are summarised below.

### Variable compensation Identified Staff

Eligibility to participate in the Variable Compensation Plan (VCP) is at the sole discretion of the Supervisory Board. Due to the Bonus Prohibition Act, the Managing Board is not eligible to receive variable income as long as the Dutch State holds an interest in the ABN AMRO Group, and therefore they do not participate in the VCP.

A VCP reward is made in March of the calendar year following the performance year. Sixty percent of each award is an upfront award and forty percent is deferred. The deferred portion vests in three tranches: on the first, second and third anniversaries following the end of the performance period. 50% of each payment is in the form of cash, and the other 50% is in non-cash instruments. As a result of ABN AMRO Group N.V. being a listed company, the non-cash instrument will be based on listed depository receipts (DRs) instead of performance certificates as from the performance year 2016. All outstanding performance certificates awarded up to and including 2016 will be phased out over time.

The terms and conditions regarding the non-cash instrument to be used had not been finalised as of 31 December 2016. These terms will be finalised in 2017 and communicated to the relevant employees after the issuance date of these Annual Financial Statements. For the 2016 performance year, the non-cash instrument as of the award date in March 2017 is expected to be structured in the form of a number of restricted stock units (RSUs) that entitles employees to DRs reflecting the initial value of the reward. When calculating the number of RSUs, ABN AMRO intends to take the average DR price over a number of trading days preceding the date of granting the reward to reduce the effect of incidental share price movements.

The RSUs will be subject to a two-year retention period once vested. Although ex-post risk adjustment provisions cease to apply to vested RSUs, adjustment, cancellation and clawback provisions continue to apply during the retention period. The RSUs will be converted into DRs after the end of the retention period, subject to an employee's continued employment until this date or a good leaver status under the VCP.

## 38 Post balance sheet events

There have been no significant events between the year-end and the date of approval of these accounts which would require a change to or disclosure in the accounts.

# Statutory financial statements 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 in Title 9 Book 2 of the Dutch Civil Code. ABN AMRO Group N.V. prepares its Consolidated 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 that are used in the Consolidated 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 Financial Statements. Reference is made to the accounting policies section in the Consolidated 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 Managing Board and authorised for issue by the Supervisory Board and Managing Board on 14 March 2017.

## Change in accounting approach

In 2016 ABN AMRO implemented a change of accounting approach in its statutory financial statements. The capital securities of EUR 993 million have been excluded from the statutory equity of ABN AMRO Group N.V. The securities classify as an equity instrument under IFRS for ABN AMRO Bank N.V. Consequently, the participating interest in Group companies decreased by the same amount.

ABN AMRO is of the opinion that this change results in more relevant information for the users of the statutory financial statements. The capital securities issued by ABN AMRO Bank N.V. are part of the consolidated equity of the Group. However, excluding these instruments from the statutory equity of ABN AMRO Group N.V. emphasises the fact that these instruments are held by third parties. The comparative 2015 Statement of financial position has been adjusted accordingly.

## 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).

## Statutory income statement ABN AMRO Group N.V.

(in millions)	2016	2015
<b>Income:</b>		
Share in result from participating interests after taxation	1,805	1,919
<b>Profit/(loss) for the year</b>	<b>1,805</b>	<b>1,919</b>

Share in result from participating interests after taxation decreased by EUR 114 million to EUR 1,805 million (2015: an increase of EUR 785 million).

## Statement of financial position ABN AMRO Group N.V.

(before appropriation of profit)

(in millions)	31 December 2016	31 December 2015
<b>Assets</b>		
Participating interest in Group companies	17,939	16,575
<b>Total assets</b>	<b>17,939</b>	<b>16,575</b>
<b>Equity</b>		
Share capital	940	940
Share premium	12,970	12,970
Legal reserves	77	-281
Other reserves (incl. retained earnings/profit for the period)	3,951	2,946
<b>Total statutory equity ABN AMRO Group N.V.</b>	<b>17,939</b>	<b>16,575</b>
<i>Reconciliation to consolidated equity ABN AMRO Group N.V.<sup>1</sup></i>		
Capital securities	993	993
Equity attributable to non-controlling interests	5	17
<b>Total consolidated equity ABN AMRO Group N.V.</b>	<b>18,937</b>	<b>17,584</b>

<sup>1</sup> This 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 is incorporated in total equity of ABN AMRO Group N.V.

## Statement of changes in equity ABN AMRO Group N.V.

(in millions)	Share capital	Share premium	Legal reserves	Other reserves including retained earnings <sup>1</sup>	Total statutory equity ABN AMRO Group N.V.	Reconciliation to consolidated equity ABN AMRO Group N.V. <sup>2</sup>		Total consolidated equity ABN AMRO Group N.V.
						Capital securities	Equity attributable to non-controlling interests	
<b>Balance at 1 January 2015</b>	<b>940</b>	<b>12,970</b>	<b>-704</b>	<b>1,659</b>	<b>14,865</b>		<b>12</b>	<b>14,877</b>
Total comprehensive income			422	1,912	2,335		5	2,340
Dividend				-625	-625			-625
Increase/(decrease) of capital						993		993
Other changes in equity							-1	-1
<b>Balance at 31 December 2015</b>	<b>940</b>	<b>12,970</b>	<b>-281</b>	<b>2,946</b>	<b>16,575</b>	<b>993</b>	<b>17</b>	<b>17,584</b>
Total comprehensive income			357	1,833	2,190		1	2,191
Dividend				-790	-790		-12	-802
Interest AT 1 capital securities				-41	-41			-41
Other changes in equity			1	4	5			5
<b>Balance at 31 December 2016</b>	<b>940</b>	<b>12,970</b>	<b>77</b>	<b>3,951</b>	<b>17,939</b>	<b>993</b>	<b>5</b>	<b>18,937</b>

<sup>1</sup> Other changes in equity relates to a correction of previous years.

<sup>2</sup> This 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 is incorporated in total equity of ABN AMRO Group N.V.

During the year 2016, ABN AMRO has performed a review of the presentation of its reserves in these statements. In order to align the presentation of the reserves with its peers, ABN AMRO has chosen to present its total reserves as legal reserves and other reserves going forward. Comparative figures have been adjusted accordingly.

Legal reserves includes reserves such as currency translation reserve, available-for-sale reserve, results retained from participating interests and cash flow hedge reserve, which are non-distributable reserves.

Total comprehensive income includes EUR 1,805 million profit from participating interests (2015: EUR 1,919 million profit).

The total dividend paid in 2016 was EUR 790 million (2015: EUR 625 million). This contains the final dividend 2015 of EUR 414 million and the interim dividend 2016 of EUR 376 million (2015: EUR 275 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.

Movements in participating interests in group companies are shown in the following table.

(in millions)	2016	2015
<b>Balance as at 1 January</b>	<b>16,575</b>	14,865
Result from participating interests	1,805	1,915
Dividend upstream	-790	-625
Interest AT 1 capital securities	-41	
<i>Actuarial gains/(losses) on defined benefit pension plans</i>	28	-2
<i>Currency translation</i>	29	101
<i>Available for sale</i>	84	144
<i>Cash flow hedge</i>	213	166
<i>Share of OCI of associates and joint ventures</i>	31	11
<i>Other</i>		
Other comprehensive income	385	420
Other changes	5	
<b>Balance as at 31 December</b>	<b>17,939</b>	<b>16,575</b>

## Issued capital and reserves

As at 31 December 2016, 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 per share.

As at 31 December 2016, issued and paid-up capital by ABN AMRO Group N.V. consisted of 940,000,001 ordinary shares (EUR 940 million).

## Issued guarantees

For a few group companies established in the Netherlands, general guarantees have been issued within the scope of Article 403, Book 2 of the Dutch Civil Code by ABN AMRO Group N.V. for an amount of EUR 181.3 billion (2015: EUR 186.2 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 the parent company in the Consolidated Annual Financial Statements.

## Post balance sheet events

For more information refer to [note 38](#) 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 become jointly and severally liable for the corporate income tax liabilities of the fiscal unity.

## Authorisation of Parent Company Annual Accounts

14 March 2017

### The Supervisory Board

O.L. (Olga) Zoutendijk, 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

### The Managing Board

C. (Kees) van Dijkhuizen, CEO and Chairman  
J. (Johan) van Hall, COO and Vice-Chairman  
W. (Wietze) Reehoorn, CRO

# Other information

## Major subsidiaries and participating interests

The following table shows the Branches, major subsidiaries and participating interests at 31 December 2016.

ABN AMRO Bank N.V.		Amsterdam, The Netherlands
<b>Retail banking</b>		
ABN AMRO Digital Impact Investments B.V.		Amsterdam, The Netherlands
ABN AMRO Digital Impact Fund B.V.		Amsterdam, The Netherlands
ABN AMRO Hypotheken Groep B.V. <sup>1</sup>		Amersfoort, The Netherlands
ABN AMRO Pensioeninstelling N.V.		Amsterdam, The Netherlands
ALFAM Holding N.V. <sup>1</sup>		Bunnik, The Netherlands
Delta Lloyd ABN AMRO Verzekeringen Holding B.V.	49%	Zwolle, The Netherlands
International Card Services B.V. <sup>1</sup>		Diemen, The Netherlands
MoneYou B.V. <sup>1</sup>		Amsterdam, The Netherlands
<b>Private banking</b>		
ABN AMRO Bank (Luxembourg) S.A.		Luxembourg, Luxembourg
ABN AMRO Life Capital Belgium N.V.		Brussels, Belgium
ABN AMRO Life S.A.		Luxembourg, Luxembourg
ABN AMRO Social Impact Investments B.V.		Amsterdam, The Netherlands
ABN AMRO Social Impact Fund B.V.		Amsterdam, The Netherlands
ABN AMRO (Guernsey) Ltd		St Peter Port, Guernsey, Channel Islands
Banque Neufilze OBC S.A.	99.86%	Paris, France
Bethmann Bank A.G.		Frankfurt am Main, Germany
Bethmann Liegenschaft K.G.	50%	Frankfurt am Main, Germany
Cofiloisirs S.A.	45%	Paris, France
Neufilze Vie S.A.	60%	Paris, France
Triodos MeesPierson Sustainable Investment Management B.V.	50%	Zeist, The Netherlands
<b>Corporate banking</b>		
ABN AMRO Capital USA LLC		New York, USA
ABN AMRO Clearing Bank N.V. <sup>1</sup>		Amsterdam, The Netherlands
ABN AMRO Clearing Chicago LLC		Chicago, USA
ABN AMRO Clearing Hong Kong Ltd		Hong Kong, China
ABN AMRO Clearing Singapore Pte Ltd		Singapore, Singapore
ABN AMRO Clearing Sydney Pty		Sydney, Australia
ABN AMRO Clearing Tokyo Ltd		Tokyo, Japan
ABN AMRO Commercial Finance Holding B.V. <sup>1</sup>		s-Hertogenbosch, The Netherlands
ABN AMRO Commercial Finance (UK) Ltd		Haywards Heath, United Kingdom
ABN AMRO Commercial Finance GmbH		Köln, Germany
ABN AMRO Commercial Finance N.V. <sup>1</sup>		s-Hertogenbosch, The Netherlands
ABN AMRO Commercial Finance S.A.		Paris, France
ABN AMRO Effecten Compagnie B.V. <sup>1</sup>		Amsterdam, The Netherlands
ABN AMRO Groenbank B.V. <sup>1</sup>		Amsterdam, The Netherlands
ABN AMRO Investment Holding B.V. <sup>1</sup>		Amsterdam, The Netherlands
ABN AMRO Jonge Bedrijven Fonds B.V. <sup>1</sup>		Amsterdam, The Netherlands
ABN AMRO Lease N.V. <sup>1</sup>		Utrecht, The Netherlands





ABN AMRO Participaties Fund I B.V. <sup>1</sup>		Amsterdam, The Netherlands
ABN AMRO Participaties NPE Fund N.V. <sup>1</sup>		Amsterdam, The Netherlands
ABN AMRO Securities USA LLC		New York, USA
Aline Holding S.A.	50%	Majuro, Marshall Islands
Alma Maritime Ltd	42%	Majuro, Marshall Islands
Attema B.V.	93%	Gorinchem, The Netherlands
Banco ABN AMRO S.A.		São Paulo, Brasil
Bass Drill Alpha Ltd	26%	Hamilton, Bermuda
CM Bulk Ltd	50%	Nassau, Bahamas
Edda Accommodation Holding AS	20%	Oslo, Norway
European Merchant Services B.V.	49%	Diemen, The Netherlands
European Central Counterparty N.V.	20%	Amsterdam, The Netherlands
Graig MCI Ltd	49%	Cardiff, United Kingdom
Holland Venture B.V.	45%	Amsterdam, The Netherlands
ICE Clear Netherlands B.V.	25%	Amsterdam, The Netherlands
Iceman IS	39%	Oslo, Norway
Icestar B.V.		Rotterdam, The Netherlands
Maas Capital Investments B.V. <sup>1</sup>		Rotterdam, The Netherlands
Maas Capital Offshore B.V.		Amsterdam, The Netherlands
Maas Capital Renewables B.V.		Amsterdam, The Netherlands
Poseidon Containers Holdings LLC	6%	Majuro, Marshall Islands
Principal Finance Investments Holding B.V. <sup>1</sup>		Amsterdam, The Netherlands
Richmont Preferente aandelen C B.V.	50%	Amsterdam, The Netherlands
Safe Ship Investment Company S.C.A. SICAR	48%	Luxembourg, Luxembourg

### Group functions

ABN AMRO Arbo Services B.V. <sup>1</sup>		Amsterdam, The Netherlands
ABN AMRO Funding USA LLC		New York, USA
ABN AMRO Holding International AG		Zug, Switzerland
ABN AMRO Holdings USA LLC		New York, USA
Currence Holding B.V.	36%	Amsterdam, The Netherlands
equensWorldline S.E.	7%	Utrecht, The Netherlands
Geldservices Nederland B.V.	33%	Amsterdam, The Netherlands
Nederlandse Financieringsmij voor Ontwikkelingslanden N.V.	20%	Den Haag, The Netherlands
Stater N.V.		Amersfoort, The Netherlands

### Branches/Representative Offices

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 Arab Emirates
ABN AMRO Bank N.V. (UK) Branch	London, United Kingdom
ABN AMRO Bank N.V. Branch Spain	Marbella, Spain
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. Representative Office (Dubai Multi Commodities Centre)	Dubai, United Arab Emirates
ABN AMRO Bank N.V. Representative Office Greece	Piraeus, Greece
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 Lease N.V. (UK) Branch	London, United Kingdom
ABN AMRO Lease N.V. Branch Deutschland	Frankfurt am Main, Germany
International Card Services B.V. Branch Deutschland	Düsseldorf, Germany

<sup>1</sup> 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.

The interest is 100%, unless otherwise stated.

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.

### Provisions of Article 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 the approval of the Supervisory Board, the Managing 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 Management Board, subject to the approval of the Supervisory Board.

ABN AMRO announced its dividend policy in September 2015, which targets a payout ratio of 40% of the reported net annual profit for 2015 and rising to 50% of the 2017 net profit. This target was increased based on the expected strong capital generation, while allowing for a further build-up of capital. Even though ABN AMRO remains well capitalised under Basel III, the bank would like to further build up additional capital buffers in order to execute its strategic ambitions and manage the impact of new regulations (Basel IV).

Any distribution of dividend remains discretionary, and deviations from the above policy may be proposed by ABN AMRO.

### 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 become jointly and severally liable for the corporate income tax liabilities of the fiscal unity.



# 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.

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## Independent auditor's report

To: the shareholders and Supervisory Board of ABN AMRO Group N.V.

### Report on the audit of the financial statements 2016 included in the Annual Report 2016

#### Our opinion

We have audited the financial statements 2016 of ABN AMRO Group N.V. (ABN AMRO or the Company) based in Amsterdam. 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 2016, and of its result and its cash flows for 2016 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 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

#### The consolidated financial statements comprise:

- ▶ The consolidated statement of financial position as at 31 December 2016
- ▶ The following statements for 2016: the consolidated income statement, the consolidated statements of comprehensive income and changes in equity and the consolidated statement of cash flows
- ▶ The notes comprising a summary of the significant accounting policies and other explanatory information

#### The company financial statements comprise:

- ▶ The company statement of financial position as at 31 December 2016
- ▶ The company income statement for 2016
- ▶ 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 "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.



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#### Materiality

Materiality	EUR 130 million
Benchmark applied	5% of operating profit before taxation
Explanation	Based on our professional judgment, a benchmark of 5% of operating profit before taxation is an appropriate quantitative indicator of materiality and it best reflects the financial performance of ABN AMRO. We have applied the initial planning materiality of EUR 130 million (rounded) as set in our planning phase. Based on the 2016 actual operating profit before taxation, we reassessed the materiality and concluded to continue to apply the materiality initially set.

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

We agreed with the Supervisory Board that misstatements in excess of EUR 6.5 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 the Netherlands, Germany, France and United States based on size and risk. All components in scope for group reporting are audited by EY member firms. Collectively, the EY member firms completed procedures covering approximately 89% of the group's total assets and approximately 85% of operating profit before taxation.

By performing our procedures at group entities, together with procedures at group level, we have been able to obtain sufficient coverage 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	
Key audit matter	<p>The appropriateness of the loan impairment allowances for loans and receivables requires judgment of management. Impairment losses are incurred if there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the loans and receivables that can be reliably estimated. The identification of impairment and the determination of the recoverable amount are part of the estimation process at ABN AMRO including, amongst others, the assessment of objective evidence for impairment, the financial condition of the counterparty, the expected future cash flows and the value of collateral. The use of different modelling techniques and assumptions could lead to different estimates of impairment charges on loans and receivables. Furthermore, associated risk management disclosures are complex and dependent on high quality data. As the loans and receivables represent the majority of ABN AMRO's balance sheet and given the related estimation uncertainty on impairment charges, we consider this a key audit matter.</p> <p>Please refer to the Critical accounting estimates and judgments section in note 1 to the financial statements, note 20 Loans and receivables - customers and related disclosures of credit risk within the Risk, funding &amp; capital section of the Managing Board report.</p>
Our audit approach	<p>We assessed and tested the design and operating effectiveness of the controls within the loan origination process, risk management process and the estimation process of determining impairment allowances. For loan impairment allowances determined on an individual basis we have performed detailed credit file reviews. We challenged the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. For loan impairment allowances calculated on a collective basis we tested, supported by our specialists, the underlying models including the Company's model approval and validation process. We also tested the appropriateness and accuracy of the inputs to those models, such as recovery and cure rates, and where available, compared data and assumptions made to external benchmarks. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS.</p>
Estimation uncertainty with respect to provisions	
Key audit matter	<p>Provisions are liabilities of uncertain timing or amount and require judgment of management. The use of estimates and the determination of possible outcomes is an essential part of the recognition and measurement of a provision. In 2016, ABN AMRO recorded, amongst others, provisions for SME derivative compensation, for restructuring programs, for tax related investigations and for the ICS recovery framework. As it is difficult to determine the size of the provisions and as the amounts involved are significant, we consider this a key audit matter.</p> <p>Please refer to the Critical accounting estimates and judgments in note 1 and note 29 Provisions to the financial statements.</p>



Our audit approach	Controls designed to ensure the completeness and adequacy of the provisions recorded were tested. We assessed whether the provisions recognized are adequate and do meet ABN AMRO's accounting policies and other legal requirements. We examined the composition of the provisions and assessed the assumptions and judgment made by management. Possible outcomes were considered for material provisions to independently assess the appropriateness of the judgment made by ABN AMRO. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS.
<b>Estimation uncertainty with respect to financial instruments measured at fair value</b>	
Key audit matter	<p>The current economic conditions and low interest rate environment impact the fair value measurements of ABN AMRO's portfolio measured at fair value. Valuation techniques and models used can be subjective in nature and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Furthermore, valuation adjustments are subject to the use of credit spreads. If no direct credit spreads are available, ABN AMRO performs a probability of default assessment for each counterparty and allocates an appropriate internal credit risk measure. As the use of different assumptions could produce different estimates of fair value and any fair value change is reflected in the statement of comprehensive income or the income statement, we consider this a key audit matter.</p> <p>Please refer to the Critical accounting estimates and judgments in note 1 and note 18 Fair value of financial instruments to the financial statements.</p>
Our audit approach	We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing and model validation. We assessed the appropriateness of the model calculation methodology with the assistance of our valuation experts and we performed recalculation of the fair valuation on a sample basis. This includes the assessment of market data inputs and key assumptions, including third party prices, pre-payment rates, constant loss given default and discount rates as critical factors used in the fair value models, based on our experience and market practice. Furthermore, we performed substantive procedures with respect to the reconciliation of collateral data to contract data. Finally, we assessed the completeness and accuracy of the disclosures relating to the fair values of these financial instruments to assess compliance with disclosure requirements included in EU-IFRS, including valuation sensitivity and fair value hierarchy.



Reliability and continuity of the information technology and systems	
Key audit matter	<p>ABN AMRO is dependent on the IT infrastructure for the continuity and reliability of their business processes and financial reporting. ABN AMRO continuously makes investments to further improve the IT environment and IT systems. The role of financial disclosures is important to stakeholders and increasing data granularity in financial reporting and regulatory reporting requirements urge for high quality data and an adequate IT environment. We therefore consider this as a key audit matter.</p> <p>Please refer to the Risk, funding &amp; capital section of the Managing Board report.</p>
Our audit approach	<p>We tested the IT general controls related to logical access and change management and application controls relied upon for financial reporting and embedded in ABN AMRO's key processes. In some areas we performed additional procedures on access management and related systems. We also assessed the reliability and continuity of the IT environment and the possible impact of changes during the year either from ongoing internal restructuring initiatives or from external factors such as reporting requirements. We assessed the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the financial statements. In addition, our audit procedures consisted of assessing the developments in the IT infrastructure and analyzing the impact on the IT organization.</p>

## Report on other information included in the Annual Report 2016

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

- ▶ Introduction
- ▶ Strategy
- ▶ Business
- ▶ Risk, funding & capital
- ▶ Leadership
- ▶ Governance
- ▶ Other

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

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

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





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The Managing Board is responsible for the preparation of the other information, including the Managing Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Engagement

We were 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 incoming statutory auditor ever since that date.

## Description of responsibilities for the financial statements

### Responsibilities of the Managing Board and the Supervisory Board for the financial statements

The Managing Board 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, the Managing Board is responsible for such internal control as the Managing Board 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, the Managing Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Managing Board should prepare the financial statements using the going concern basis of accounting unless the Managing Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Managing Board 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 assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

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

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

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

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



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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 the Managing Board
- ▶ Concluding on the appropriateness of the Managing Board'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.

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

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 14 March 2017

Ernst & Young Accountants LLP

signed by W.J. Smit



## Assurance report of the independent auditor

To: the shareholders and Supervisory Board of ABN AMRO Group N.V.

### Our conclusion

We have performed a limited assurance engagement on the disclosures marked with “limited assurance” (hereafter: selected disclosures) in the Annual Report 2016 of ABN AMRO Group N.V. based in Amsterdam (hereafter: ABN AMRO). Our scope is further explained in the section “Our scope”.

Based on our procedures performed, nothing has come to our attention that causes us to believe that the selected disclosures are not prepared, in all material respects, in accordance with the reporting criteria of ABN AMRO as disclosed on page 2 of the Annual Report 2016. We believe these criteria are suitable for the purpose of our assurance engagement.

### Basis for our conclusion

We conducted our assurance engagement on the selected disclosures in accordance with Dutch law, including the Dutch Standard 3000, “Assurance engagements other than audits or reviews of historical financial information”. Our responsibilities under those standards are further described in the section “Our responsibilities” in this assurance report.

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

### Our Independence

We are independent of ABN AMRO in accordance with 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. This includes that we do not perform any activities that could result in a conflict of interest with our independent assurance engagement. Furthermore, we have complied with the “Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics)”.

### Our Scope

Our assurance engagement is restricted to the selected disclosures. These disclosures relate to topic numbers 1-12, 14 and 16, which are part of the 20 topics as determined in the chapter “What matters most” on pages 16-19 in the Annual Report 2016. The selected disclosures reflect ABN AMRO’s approach and performance with respect to the 14 topics. We have not performed assurance procedures on any other information in the Annual Report 2016 in light of this engagement.

An overview with reference to the selected disclosures, marked with “limited assurance” throughout the Annual Report 2016, is included in the chapter “What matters most”.

The information included in the selected disclosures for the periods before 2016 was not subject to an assurance engagement. Consequently, we do not provide assurance on the corresponding information in the selected disclosures for the periods before 2016.

The selected disclosures contain prospective information, such as ambitions, strategy, targets, expectations and projections. Inherent to this information is that actual results may differ in the future and are therefore uncertain. We do not provide any assurance on the achievability and feasibility of prospective information.

### Responsibilities

#### Responsibilities of Management and the Supervisory Board

Management is responsible for the preparation of the selected disclosures in accordance with the reporting criteria of ABN AMRO as disclosed on page 2 of the Annual Report 2016, including the identification of the intended users, the determination of material issues and the reporting criteria being applicable for the purposes of the intended users. The choices made by management with respect to the scope of the selected disclosures are included in the chapter “What matters most” of the Annual Report 2016.



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Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the selected disclosures that are free from material misstatement, whether due to fraud or error.

The Supervisory Board is responsible for overseeing the company's reporting process.

#### Our responsibilities

Our responsibility is to plan and perform the assurance engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence for our conclusion.

We apply the "Nadere voorschriften accountantskantoren ter zake van assurance opdrachten RA" and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

This assurance engagement is aimed at obtaining limited assurance. The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

We have exercised professional judgment and have maintained professional skepticism throughout the assurance engagement, in accordance with the Dutch Standard 3000, ethical requirements and independence requirements.

Our assurance engagement included amongst others the following:

- ▶ Performing an external environment analysis and obtaining insight into relevant social themes and issues and the characteristics of the organization.
- ▶ Evaluating the appropriateness of the reporting criteria and its consistent application, including the evaluation of the results of the stakeholders dialogue and the reasonableness of management's estimates.
- ▶ Evaluating the design and implementation of the reporting systems and processes related to the selected disclosures.
- ▶ Interviewing management and relevant staff at group and business levels responsible for the preparation and consolidation of the selected disclosures.
- ▶ Performing analytical review of the data and trend explanations submitted for consolidation at group level.

Amsterdam, 14 March 2017

Ernst & Young Accountants LLP

signed by J. Niewold



# Our external reporting landscape

Our Reports	Purpose	Frameworks applied	Contents	Assurance
<b>Annual Report ABN AMRO Group (this report)</b>	Inform about our financial and non-financial performance, sustainability performance, an update on our strategic priorities and an assessment of how we create value over time	<ul style="list-style-type: none"> <li>▶ International Financial Reporting Standards (IFRS)</li> <li>▶ Dutch Civil Code Title 9, Book 2</li> <li>▶ Capital requirements regulations (Basel III, CRD IV, CRR, EBA)</li> <li>▶ Financial supervision act</li> <li>▶ Corporate Governance Code</li> <li>▶ Dutch Banking Code</li> <li>▶ Enhanced Disclosure Task Force (EDTF)</li> <li>▶ International integrated reporting framework (IIRC)</li> <li>▶ DMA approach as described in Global Reporting Initiative (GRI G4) for disclosures on material topics</li> </ul>	<ul style="list-style-type: none"> <li>▶ Strategy</li> <li>▶ Business</li> <li>▶ Risk, funding &amp; capital</li> <li>▶ Leadership</li> <li>▶ Governance</li> <li>▶ Annual Financial Statements</li> </ul>	<ul style="list-style-type: none"> <li>▶ EY has audited the Annual Financial Statements, including certain disclosures in the Risk, funding &amp; capital Report, and has expressed an unqualified audit opinion</li> <li>▶ EY has performed a limited assurance engagement on selected disclosures, which are labelled &lt;'limited assurance'&gt; in their respective headings. For more information see below the table<sup>1</sup></li> <li>▶ Please refer to the independent auditor's report on financial statements and the assurance report of the independent auditor on the selected disclosures</li> </ul>
<b>Annual Report ABN AMRO Bank</b>	Inform about our financial and non-financial performance to comply with regulatory requirements	<ul style="list-style-type: none"> <li>▶ International Financial Reporting Standards (IFRS)</li> <li>▶ Dutch Civil Code Title 9, Book 2</li> <li>▶ Capital requirements regulation (Basel III, CRD IV, CRR, EBA)</li> <li>▶ Financial Supervision Act</li> <li>▶ Corporate Governance Code</li> <li>▶ Dutch Banking Code</li> </ul>	<ul style="list-style-type: none"> <li>▶ Business</li> <li>▶ Risk, funding &amp; capital</li> <li>▶ Leadership and Governance</li> <li>▶ Annual Financial Statements</li> </ul>	EY has audited the Annual Financial Statements, including certain disclosures in the Risk, funding & capital Report, and has expressed an unqualified audit opinion
<b>Additional Pillar 3 disclosures</b>	Inform about how we manage risk and capital adequacy to comply with regulatory requirements	Capital requirements regulation (CRR, EBA)	Selected Pillar 3 information in addition to the Pillar 3 information published in the Annual Report ABN AMRO Group	The figures presented in this document have been neither audited nor reviewed by our external auditor
<b>Additional (sustainability) reporting<sup>2</sup></b>	The additional (sustainability) reporting on the website is part of the annual reporting		Contains a balanced and comprehensive analysis of our sustainability performance in addition to the Annual Report ABN AMRO Group	The figures presented on this webpage have been neither audited nor reviewed by our external auditor

<sup>1</sup> The Annual Report focuses on the material topics and presents results to all stakeholders. The overall framework is IIRC. The Reporting criteria for the material topics are based on the DMA structure as described in Global Reporting Initiatives (GRI G4) and own definitions. ABN AMRO reports performance on some material topics based on quantitative metrics, while other material topics are covered by our policies and governance framework as they cannot be measured quantitatively. The description of material topics and the definitions of metrics are provided in Definitions and important terms.

<sup>2</sup> [abnamro.com/en/sustainable-banking/reporting-and-publications/reporting/index.html](https://abnamro.com/en/sustainable-banking/reporting-and-publications/reporting/index.html).

# Definitions of important terms

## ABN AMRO or the Group

ABN AMRO Group N.V. incorporated on 18 December 2009 'ABN AMRO Group' (or 'the Company') and its consolidated subsidiaries.

## ABN AMRO Bank

ABN AMRO Bank N.V. (formerly known as 'ABN AMRO II N.V.').

## Advanced Internal Ratings Based (AIRB)

The highest and most detailed level of credit risk calculation for determining capital adequacy levels under Basel II, based on the use of internal models to assess risk.

## Advanced Measurement Approach (AMA)

The highest and most detailed level of operational risk calculation for determining capital adequacy levels under Basel II, based on the use of internal models to assess risk.

## Ageas

Refers to ageas SA/NV (formerly known as Fortis SA/NV) and ageas N.V. (formerly known as Fortis N.V.) together.

## Basel I

The Basel Capital Accord is the 1988 agreement among the G10 central banks to apply common minimum capital standards to the banking industry.

## Basel II

The Basel II Framework offers a new set of standards for establishing minimum capital requirements for banks. It was prepared by the Basel Committee on Banking Supervision.

## Basel III

The third set of Basel accords, which was developed in response to the financial crisis of the late 2000's. The Basel III standards include higher and better-quality capital, better risk coverage and the introduction of a maximum leverage ratio

## Basis point (bp)

One hundredth of 1 percentage point.

## Capital adequacy

Measure of a company's financial strength, often expressed in equity as a percentage of balance sheet total or – for banks – in the BIS ratio.

## Certificate of deposit (CD)

Certificate of deposit is an unsecured short-term funding instrument with maturities up to one year.

## Clearing

Refers to the clearing businesses of ABN AMRO.

## Client assets

Assets, including investment funds and assets of private individuals and institutions, which are professionally managed with the aim of maximising the investment result. Client assets also include cash and securities of clients held on accounts with ABN AMRO.

## Commercial paper (CP)

Commercial paper is an unsecured short-term funding instrument with maturities up to one year.

## Consortium

Refers to The Royal Bank of Scotland Group plc ('RBS Group'), Ageas and Banco Santander S.A. ('Santander'), which jointly acquired ABN AMRO Holding on 17 October 2007 through RFS Holdings B.V. ('RFS Holdings'). On 3 October 2008 the State of the Netherlands became the successor of Ageas.

## Core Equity Tier 1 ratio

The bank's core capital, excluding preference shares, expressed as a percentage of total risk exposure amount.

### Cost of risk

The cost of risk is defined as annualised impairment charges on loans and other receivables - customers for the period divided by the average loans and receivables customers on basis gross carrying amount and excluding fair value adjustment from hedge accounting.

### Country risk

Country risk is part of credit risk and is defined as the risk of losses due to country-specific events or circumstances (political, social, economic) relevant for credit exposures that are cross-border in nature.

### Coverage ratio

The coverage ratio shows to which extent the impaired exposures are covered by impairment allowances for identified credit risk.

### Credit equivalent

Sum of the costs of replacement transactions (when counterparties fail to fulfil their obligations) and the potential future credit risk, reflected in a mark-up percentage on the principal of the contract. The mark-up percentage depends on the nature and remaining term of the contract.

### Covered bonds

Covered bonds (CB) are secured long-term funding instruments. This type of bond differs from a standard bond by recourse to a pool of assets. In a default event, the bondholder has recourse to the issuer and this pool of assets.

### Credit rating

Assessment of a credit rating agency expressed in a combination of letters and/or figures indicating the creditworthiness of a country, company or institution.

### Credit risk

Credit risk is the risk of a financial loss that occurs if a client or counterparty fails to meet the terms of a contract or otherwise fails to perform as agreed.

### Credit valuation adjustments

Market value adjustments for counterparty credit risk.

### Defaulted exposures

Exposures for which there are indicators that a counterparty may not be able to meet its contractual obligations and/or when an exposure is more than 90 days past due.

### Derivatives

Financial instruments whose value is derived from the price of one or several underlying assets (e.g. currencies, securities, indices).

### Dow Jones Sustainability Index (DJSI)

A family of benchmarks, performed by Robeco SAM, for investors who believe sustainable business practices may lead to long-term shareholder value.

### Duration of equity

Duration of equity indicates the sensitivity of the market value of equity to a 1% parallel change in the yield curve. The targeted interest risk profile results in a limit of the duration of equity between 0 and 7 years.

### Earnings per share

Profit for the period excluding coupons attributable to AT1 capital securities (net of tax) and results attributable to non-controlling interests divided by the average outstanding and paid-up ordinary shares.

### Economic capital

An estimate of the amount of capital that the bank should possess in order to be able to sustain larger-than-expected losses with a given level of certainty.

### Economic profit

Net profit after tax less risk-adjusted cost of capital.

### Economic value

The value of future economic profits discounted to the present.

### Employee Engagement

A business management concept that describes the level of enthusiasm and dedication a worker feels toward his/her job.

### Encumbered assets

Assets that were pledged or subject to an arrangement, either explicitly or implicitly, in any way to secure, collateralise or credit enhance a transaction.

### ESE/ESG criteria

ESG/ESE criteria are criteria that are used in sustainability assessments to assess ethical, social, environmental and/or governance risks of clients, their conduct or entities they invest in.

### Exposure at Default (EAD)

EAD models estimate the expected exposure at the time of a counterparty default.

### Fortis Bank Nederland (FBN)

The legal entity Fortis Bank (Nederland) N.V., previously named Fortis Bank Nederland (Holding) N.V., which merged with ABN AMRO Bank Standalone pursuant to the Legal Merger.

### Full time equivalent (FTE)

The ratio of the total number of paid hours during a period by the number of working hours in that period.

### Global sustainability risk index (GSRI)

A tool that is used to assess credit applications on environmental, social and ethical (ESE) aspects.

### Green bond

A product that enables investors to invest in mortgages of highly energy-efficient homes, loans for solar panels on existing homes and sustainable commercial property.

### Global Reporting Initiative (GRI)

A reporting framework that provides metrics and methods for measuring and reporting sustainability-related impacts and performance.

### Hedge

Protecting a financial position by going either long or short, often using derivatives.

### Impaired exposures

Exposures for which not all contractual cash flows are expected and/or exposures more than 90 days past due for which impairments are determined on a portfolio basis.

### Impaired ratio

The impaired ratio shows which fraction of the gross carrying amount of a financial asset category consists of impaired exposures.

### Interest rate mismatch

Interest rate mismatch is the difference in interest maturity between funds lent and funds borrowed.

### International Financial Reporting Standards (IFRS)

IFRS, formerly known as International Accounting Standards, are drawn up and recommended by the International Accounting Standards Board. The European Union requires that IFRS be used by all exchange-listed companies in the EU starting from the financial year 2005.

### Liquidity coverage ratio (LCR)

The LCR is intended to promote resilience to potential liquidity disruptions over a thirty-day horizon. The LCR requires banks to hold sufficient highly-liquid assets equal to or greater than the net cash outflow during a thirty-day period.

### Loan impairment allowance

Balance sheet allowance held against non-performing loans.

### Market risk (banking book)

Market risk in the banking book, mainly interest rate risk, is the risk of yield curve development that is unfavourable for the bank. Other market risks are limited in the banking book either through hedging (foreign rate exchange risk) or in general (other market risk types).

### Market risk (trading book)

Market risk in the trading book is the risk of loss resulting from unfavourable market price movements which can arise from trading or holding positions in financial instruments in the trading book.



## Materiality

Materiality is the threshold at which topics become sufficiently important to be reported. Material topics are those that may reasonably be considered important for reflecting the organisation's economic, environmental and social impacts, or influencing the decisions of stakeholders, and, therefore, potentially merit inclusion in a report.

## Medium-term notes (MTN)

Medium-term notes are unsecured funding instruments with maturities up to ten years issued in several currencies.

## Net Promoter Score (NPS)

This metric shows the extent to which customers would recommend ABN AMRO to others. The customer is regarded as a 'promoter' (score of 9 or 10), as 'passively satisfied' (score of 7 or 8) or as a 'detractor' (score of 0 to 6). The NPS is calculated by subtracting the percentage of 'detractors' from the percentage of 'promoters'. The score is expressed as an absolute number between -100 and +100.

## Net Stable Funding Ratio (NSFR)

The objective of the NSFR is to promote resilience over a longer time horizon by creating additional incentives to fund activities with more stable sources of funding on an ongoing basis.

## NII-at-Risk

The NII-at-Risk metric indicates the change in net interest income during the coming 12 months, comparing the NII calculated using a constant yield curve with the NII calculated using a yield curve that is gradually shifted to a total of 200 basis points. The net interest income is negatively impacted when rates rise.

## NLFI

Stichting administratiekantoor beheer financiële instellingen (NL Financial Investments (foundation)). On 29 September 2011 the Dutch State transferred its shares in ABN AMRO Group N.V. and in ABN AMRO Preferred Investments B.V. to NLFI. NLFI was set up as a means to avoid potential conflicting responsibilities that the Minister of Finance might otherwise face, as a shareholder and as a regulator, and to avoid political influence being exerted.

## Non-performing loans

Exposures for which there are indicators that a counterparty may not be able to meet its contractual obligations and/or when an exposure is more than 90 days past due.

## OECD Guidelines

The OECD Guidelines for Multinational Enterprises provide non-binding principles and standards for responsible business conduct in a global context.

## Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.

## Options (shares and currencies)

Contractual right to buy (call option) or sell (put option) a specified amount of underlying shares or currency at a fixed price during a specified period or on a specified date.

## Past due exposure

A financial asset is past due if a counterparty has failed to make a payment when contractually due, if it has exceeded an advised limit or if it has been advised of a limit lower than its current outstanding.

## Past due ratio

The past due ratio shows which fraction of the gross carrying amount of a financial asset category is past due but not impaired.

## Permanent modification

Terms and conditions of a contract such as interest, principal, repayment terms, tenor or financial covenants are changed permanently.

## Preference share

Share that receives a fixed rate of dividend prior to ordinary shares.

### Qualifying revolving exposures

Qualifying revolving exposures are revolving, unsecured, and uncommitted exposures to private individuals that meet additional criteria specified in the CRD. These outstanding balances are permitted to fluctuate based on their decisions to borrow and repay, up to a limit established by the bank.

### RARORAC

A combination of two other measures: risk-adjusted return on capital (RAROC) and return on risk-adjusted capital (RORAC).

### Refinancing

A contract is considered to be refinanced when the objective of the new contract is to enable the (partly) repayment of another existing contract of which the counterparty is unable to meet the existing obligations.

### Regulatory capital adequacy

Measure of a bank's financial strength, often expressed in risk-bearing capital as a percentage of total risk exposure amount.

### Repurchase agreement (Repo)

The sale of securities together with an agreement for the seller to buy back the securities at a later date.

### Residential mortgage backed securities (RMBS)

Residential mortgage backed securities are secured long-term funding instruments. A pool of underlying assets, in this case own-originated residential mortgages, provides the cash flows to bondholders.

### Return on equity (ROE)

Annualised net profit attributable to ordinary shareholders of the parent company divided by average shareholders' equity.

### Risk-weighted assets (RWA)

Total assets and off-balance sheet items calculated on the basis of the risks relating to the various balance sheet items.

### Royal Bank of Scotland (RBS)

The Royal Bank of Scotland N.V., formerly known as ABN AMRO Bank N.V. prior to the Legal Demerger.

### Saving certificates

Saving certificates are non-exchange traded instruments with an annual coupon payment and have the same characteristics as bonds.

### Savings mortgages

Savings mortgages are mortgages with a separate savings account whereby the balance of savings is used for redemption of the principal at maturity.

### Securities financing transaction (also referred to as 'professional securities transaction')

A transaction whereby securities are temporarily transferred from a lender to a borrower, with the commitment to re-deliver the securities.

### Securitisation

Restructuring credits in the form of marketable securities.

### Social impact bond

A contract with the public sector or governing authority, whereby it pays for better social outcomes in certain areas and passes on part of the savings achieved to investors.

### Social impact fund

Investing that aims to generate specific beneficial social or environmental effects in addition to financial gain.

### Standardised Approach (Basel II)

The standardised approach for credit risk measures credit risk in a standardised manner, supported by external credit assessments.

### Stress testing

Method of testing the stability of a system or entity when exposed to exceptional conditions.

### Sustainable client assets

Sustainable client assets are assets that ABN AMRO invests for its clients in investment funds, products and securities that explicitly base their investment approach and decisions on sustainable criteria. These investments explicitly factor in the social and environmental effects of investments.



### Temporary modification

Terms and conditions of a contract such as interest, principal, repayment terms, tenor or financial covenants are changed temporarily.

### Three lines of defence

ABN AMRO's approach to risk management. The three-lines-of-defence principle consists of 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.

### Tier 1 ratio

Tier 1 capital, the sum of CET1 capital and AT1 capital, of the bank expressed as a percentage of total risk-weighted assets.

### Trust Monitor AFM/NvB

A survey conducted by market research institute GfK on how Dutch people think about banks in general, their own bank and how they experience various aspects of services provided by banks.

### UN Global Compact

The United Nations Global Compact is a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation.

### Uniform Counterparty Rating (UCR)

The UCR is an obligor rating and refers to the probability of default by an obligor, i.e. the likelihood that a counterparty fails to pay interest and/or principal and/or other financial obligations to the bank.

### Value-at-Risk banking book

Value-at-Risk banking book (VaR banking book) is used as a statistical measure for assessing interest risk exposure. It estimates potential losses and is defined as the predicted maximum loss that might be caused by changes in risk factors under normal circumstances, over a specified period of time, and at a specified level of statistical confidence. A VaR for changes in the interest rate for the banking book is calculated at a 99% confidence level and a two-month holding period.



# Abbreviations

AACB	ABN AMRO Clearing Bank	ECT	(ABN AMRO's) Energy, Commodities & Transportation
AFM	Autoriteit Financiële Markten (Netherlands Authority for the Financial Markets)	EDTF	Enhanced Disclosure Task Force
AFS	Annual Financial Statements	EMIR	European Market Infrastructure Regulation
AIRB	Advanced Internal Ratings Based (Approach)	EPS	Earnings per share
ALCO	(ABN AMRO's) Asset & Liability Committee	ESE	Environmental, Social and Ethical
ALM	Asset & Liability Management	ESG	Environmental, Social and Governance
AMA	Advanced Measurement Approach	EU	European Union
BIS	Bank for International Settlements	EUR	Euro
BLMIS	Bernard L Madoff Investment Securities	EVCA	European Private Equity and Venture Capitalist Association
bp(s)	Basis point(s)	FATCA	Foreign Account Tax Compliance Act
BREEAM	Building Research Establishment Environmental Assessment Methodology	FBN	Fortis Bank Nederland
BRRD	Bank Recovery and Resolution Directive	FCCM	Financial Collateral Comprehensive Method
CAO	Collectieve Arbeidsovereenkomst (collective labour agreement)	Fed	Federal Reserve
CBS	Centraal Bureau voor de Statistiek (Statistics Netherlands)	FR&R	(ABN AMRO's) Financial Restructuring & Recovery
CD	Certificate of Deposit	FTE	Full-Time Equivalent (a measurement of number of staff)
CDO	Collateralised Debt Obligation	FVA	Funding Value Adjustment
CDS	Credit Default Swap	FX	Foreign exchange
CEBS	Committee of European Banking Supervisors	GBP	British pound
CET1	Common Equity Tier 1	GDP	Gross Domestic Product
CHF	Swiss Franc	GfK	Gesellschaft für Konsumforschung (Society for Consumer Research)
CP	Commercial Paper	GSRI	Global Sustainability Risk Index Tool
CRD	(the EU's) Capital Requirements Directive	GRESB	Global Real Estate Sustainability Benchmark
CRE	Commercial Real Estate	GRI	Global Reporting Initiative
CRR	Capital Requirements Regulation	HR	Human Resources
CVA	Credit Value Adjustment	IAS	International Accounting Standards
DGS	Deposit Guarantee Scheme	IASB	International Accounting Standards Board
DJSI	Dow Jones Sustainability Index	IBNI	Incurred But Not Identified
DNB	De Nederlandsche Bank N.V. (Dutch Central Bank)	ICS	International Card Services
DSTA	Dutch State Treasury Agency	ICB	Industry Classification Benchmark
DTA	Deferred Tax Asset	ID&JG	(ABN AMRO's) International Diamond & Jewellery Group
DTL	Deferred Tax Liability	IFRIC	IFRS Interpretations Committee
DVA	Debit Value Adjustment	IFRS	International Financial Reporting Standards
EAD	Exposure At Default	IMA	Internal Models Approach
EBA	European Banking Authority	INSEAD	Institut Européen d'Administration des Affaires (European Institute of Business Administration)
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation	IPO	Initial Public Offering
EC	European Commission		
ECB	European Central Bank		



IRB	Internal Ratings-Based (Approach)	PR&I	People, Regulations & Identity
KPI	Key Performance Indicator	RARORAC	Risk-Adjusted Return On Risk-Adjusted Capital
LCR	Liquidity Coverage Ratio		
LGD	Loss Given Default	RBS	The Royal Bank of Scotland plc
LtD	Loan-to-Deposit (ratio)	REA	Risk exposure amount
LtMV	Loan-to-Market-Value	RMBS	Residential Mortgage-Backed Securities
MCI	Maas Capital Investment B.V.	ROE	Return on Equity
MiFID	(the EU's) Markets in Financial Instruments Directive	RWA	Risk-Weighted Assets
MiFIR	(the EU's) Markets in Financial Instruments Regulation	SA	Standardised Approach
MtM	Mark-to-Market	SEC	Securities and Exchange Commission
MTN	Medium-term notes	SGD	Singapore dollar
NHG	Nationale Hypotheek Garantie (Dutch State-guaranteed mortgages)	SMEs	Small and Medium-sized Enterprises
NII	Net Interest Income	SMOS	Sustainability Management Operating System
NLFI NL	Financial Investments (foundation)	SPE	Special Purpose Entity
NPS	Net Promoter Score	SRM	Single Resolution Mechanism
NSFR	Net Stable Funding Ratio	SSM	Single Supervisory Mechanism
OCI	Other Comprehensive Income	TLTRO	Targeted Long Term Refinancing Operations
OECD	Organisation for Economic Co-operation and Development	TOPS	(ABN AMRO's) Technology, Operations & Property Services
OOE	One Obligor Exposure	UCR	Uniform Counterparty Rating
OTC	Over-The-Counter	UNGP	United Nations Guiding Principles
PD	Probability of Default	USD	US dollar
		VaR	Value-at-Risk
		WSW	Waarborgfonds Sociale Woningbouw

# Cautionary statements

The Group has included in this Annual Report, and from time to time may 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 EC, 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/corporatereporting](http://abnamro.com/corporatereporting)

Information on our websites does not form part of this Annual Report, unless expressly stated otherwise.

# Acknowledgements

## General coordination

Finance and Communications & Sustainability departments

## Photography

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Sumis



Other / Enquiries

- Introduction
- Strategy
- Business
- Risk, funding & capital
- Leadership
- Governance
- Annual Financial Statements
- Other**



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