

ABN AMRO Covered Bond Company 2 B.V.

Financial statements 28 November 2017 - 31 December 2018

Amsterdam, the Netherlands

ABN AMRO Covered Bond Company 2 B.V.
Prins Bernhardplein 200
1097 JB Amsterdam
The Netherlands
Chamber of Commerce: 70176841

Table of contents

1	Director's report	3
1.1	Activities and results	3
1.1.1	General	3
1.1.2	Financial risk management	3
1.2	Future developments	4
2	Financial statements	6
2.1	Balance sheet as at 31 December 2018	6
2.2	Statement of income and expenses for the period 28 November 2017 until 31 December 2018	7
2.3	General notes to the financial statements	8
2.3.1	General information	8
2.3.2	Transaction structure, management and related parties	8
2.3.3	Financial risk management	9
2.3.4	Principal accounting policies	9
2.3.5	Corporate income tax	10
2.3.6	Contingent liabilities and comments	10
2.4	Notes to the balance sheet and the statement of income	11
2.4.1	Prepaid expenses and other receivables	11
2.4.2	Shareholder's equity	11
2.4.3	Current liabilities (due within one year)	11
2.4.4	Operating expenses	11
2.4.5	Other notes to the financial statements	11
2.4.6	Proposed appropriation	11
2.4.7	Post-balance sheet events	11
3	Other information	12
3.1	Statutory provisions regarding profit appropriation	12
3.2	Independent auditor's report	12

1 Director's report

1.1 Activities and results

1.1.1 General

ABN AMRO Covered Bond Company 2 B.V. ('the Company') was incorporated on 28 November 2017. The shares of the Company are held by Stichting Holding ABN AMRO Covered Bond Company 2. The Company does not employ any personnel. The main objective of the Company is to grant security for the Company's obligations and debts and for the obligations and debts of third parties, including ABN AMRO Bank N.V.; in conformity with the Covered Bonds 2 programme, which is established by ABN AMRO Bank N.V. The covered bonds issued by ABN AMRO Bank NV. (hereafter 'the Issuer') are secured by a portfolio of mortgage loans. At 31 December 2018 the Issuer had issued covered bonds for an amount of EUR 16.0 billion, secured by a portfolio of mortgage loans amounting approximately EUR 19.1 billion. A complete description of the transaction is included in the Base Prospectus dated 28 December 2017 which is publically available.

The Company does not engage in Research & Development and thus no relating expenses are recorded.

The Company does not employ any personnel.

The managing director is not a natural person, therefore, the requirements on information on the human sex ratio of board members can be found in the Director's report of the managing director.

The first financial year is from 28 November 2017 to 31 December 2018.

During the period under review, activities and results of the Company developed in line with expectations. Each month an Asset Cover Test was performed which results were 'pass' during the period under review.

Ernst & Young Accountants LLP (EY) has been appointed as the external auditor.

1.1.2 Financial risk management

The main financial risks the Company is exposed to are credit and concentration risk, interest rate risk and liquidity risk. These risks relate to the Mortgage Loans as collateral.

Credit and concentration risk

As a company that solely invests in residential mortgage loans in the Netherlands, the Company has significant exposure to credit and concentration risks associated with the Dutch housing market.

Credit risk is mainly related to the economic conditions and the risk that individual borrowers might be unable to fulfil their payment obligations. However, these risks are mitigated because each loan is collateralised by the related property, and the loan portfolio is well spread over a large number of individual loans, a variety of mortgage types and geographical areas. If a borrower defaults and the Company forecloses on the property, the Company is entitled to all proceeds of the sale of the related property. If the proceeds from the sale of the property are insufficient to repay the outstanding principal amount of the loan, the Company could record a loss in this respect. Consequently, not only the creditworthiness of the borrower can be recognised as a risk but also the general economic conditions and the housing market in particular have an impact on the probability of a loss.

As detailed in the Future developments section below, the Dutch economy continued to prosper in 2018 and most macro-economic developments are still showing positive trends. These trends are expected to have a continued positive effect on house prices, though the rate of growth in prices is showing signs of levelling out. Whilst the market as a whole is still overheated, the regions that have experienced the most spectacular price rises in recent years are now showing signs of slowing down. This all has a continued positive impact on the expected loss ratios on the loan portfolio as the gap between loan levels and the value of collateral generally rises.

Whilst this has the effect of reducing the Company's exposure to credit and concentration risk, it will not eliminate it. Management is aware of the dangers that an overheated housing market can bring with it. Moreover, the positive expectations for the macro-economic developments in particular are contingent on a number of local and global developments which may or may not materialise, and over which the Company has no control.

ABN AMRO Covered Bond Company 2 B.V.
Financial statements 28 November 2017 - 31 December 2018

The Company only has exposure to credit risk, which is the risk that the Borrowers will be unable to pay amounts in full when due, when a downgrade of ABN AMRO Bank N.V. occurs. Until that moment all risks and rewards associated with the assets are retained by ABN AMRO Bank N.V.

Interest rate risk

The Company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Currently, there is an appreciable gap between the interest attracted on the underlying Mortgage Portfolio on the one hand and the covered bonds on the other hand. This situation is not expected to change appreciably in the coming years. The interest rate risk within the covered bond structure is now mainly mitigated via an interest reserve fund. Additionally there is a minimum interest rate of 0% for eligible mortgages in the cover pool. As both the mortgages and the covered bonds are mainly fixed rate, there is a natural hedging within the covered bond structure.

In view of the above factors, the Company's risk appetite is considered to be low.

1.2 Future developments

The year 2018 has seen a continuation of the positive developments for the Dutch economy for just about all economic indicators, although in most areas, the level of growth was lower than in recent years, and 2017 in particular. The Gross Domestic Product ("GDP") increased by around 2.5% in 2018, as compared to 3.0% in 2017. The growth was mostly fuelled by consumer confidence, still stemming for a large part from the upswing in the domestic house prices. In addition, public sector spending is rising and confidence levels within commercial enterprises are still relatively high. The latter is the result of increased world trade and the continuing low levels of inflation and interest rates. It is expected that the economy will continue to show relatively high growth rates in the coming years with increases of GDP of 1.7% expected for both 2019 and 2020. These are expected to be driven by consumer confidence and increased public spending though this is showing signs of delays due to capacity and raw material problems. Much of these expectations are to a large degree dependent on developments in the rest of the world. The threat of a trade wars, developments in the emerging economies (China in particular) and the consequences of Brexit currently form the biggest dangers to these projections.

A relatively high level of confidence continues in the business and commerce sectors and investment levels are also expected to remain relatively high. There appears to be ample funding available, both from the banking and private sectors, as well as from increased liquidity arising from higher profit levels.

Unemployment levels reduced from 4.9% to 3.8% during 2018 and this trend is also expected to slow down with an estimate of 3.6% at the end of both 2019 and 2020. The slowdown is the result of capacity limits being reached and difficulties being experienced in the recruitment of suitable staff is becoming a greater issue. Vacancy levels are high and are being filled increasingly by older, more experienced employees. The shift in labour markets seen in recent years from fixed to flexible contracts also appears to be coming to an end.

Inflation is expected to rise from some 1.7% in 2018 to 2.7% in 2019 but reducing to 1.8% in 2020. The anticipated rise in 2019 stems from increases in energy prices and the imposed increase in the low rate VAT. The VAT increase will only impact the 2019 inflation rate significantly. For each of the coming years, wage inflation is expected to rise from the 2018 level of around 2.1% as a result of annual wage increase settlements and the trend to employ more experienced personnel. Wage inflation, in combination with lower personal taxes is expected to lead to increases in real disposable income.

The Dutch residential housing market continues to show signs of overheating but the latter part of 2018 showed signs of normalization. There are indications that the price ceiling is being reached, particularly in the regions where the most spectacular price rises have been experienced in recent years. Significant increases in asking prices and bids above the asking price are less commonplace. Another effect is that the relationship between supply and demand seems to be returning to a more normal level. As always, there are significant regional differences. Such variations occur foremost between the Randstad, particularly Amsterdam and surrounding areas, and the rest of the country. Some regions are also affected by local economic and social issues and developments.

For the market as a whole, the number of dwellings changing ownership decreased by some 10% during 2018 as compared to the previous year and with it the average time that dwellings spend on the market. For new developments, recent months have seen a trend of delayed completion, mostly due to capacity issues. The scarcity of labour and some raw materials, as well as a high level of development in urban areas, have also resulted in significant price rises for new dwellings. The expectation is that these trends will continue in the coming years, albeit that they will be less pronounced than in recent years as some degree of

ABN AMRO Covered Bond Company 2 B.V.
Financial statements 28 November 2017 - 31 December 2018

normalization is reached. However, until these levels are reached, the NVM has expressed deep concerns for the market in each of its recent press releases on the subject.

Risk levels for homeowners and lenders alike have again decreased since last year and this is expected to continue in the coming years, though regional differences continue. New home owners have been subjected to stricter lending conditions and existing home owners have seen debt ratios decrease as a result of rising prices. Additionally, lenders are accelerating repayments in situations where they are locked into mortgage agreements at relatively high interest rates. The latter is one of the restrictions in the growth of mortgage debt levels and so the prospects of growth in the mortgage market will be tempered somewhat in the coming years and will probably not match increases in house prices. There are clear indications that borrowers are increasingly finding alternative sources for the funding of house purchases and this is leading to an easing of acceptance criteria used by mortgage lenders.

In the light of the risk factors facing the Company, as described above, the economic developments over the past year or so and outlook are generally considered positive for the Company. Management believes that the Company's risks are adequately mitigated by the various credit enhancements, as described in the Financial statements and the Prospectus. Moreover, the Company's obligations to Noteholders are of limited recourse (see above). Consequently, no noticeable changes in the current position of the Company are expected for the next 12 months.

The historical information and prospective trends in this report were primarily derived from public reports issued by DNB and the NVM.

Amsterdam, 11 June 2019
Managing director
Intertrust Management B.V.

2 Financial statements

2.1 Balance sheet as at 31 December 2018

(after appropriation of result)

	<i>Notes</i>	<u>December 31, 2018</u>
		EUR
ASSETS		
Current assets		
Prepaid expenses and other receivables	<i>2.4.1</i>	29.015
Cash and cash equivalents		
Issuer Dutch Account	<i>2.4.2</i>	-
		<u>29.015</u>
SHAREHOLDER'S EQUITY AND LIABILITIES		
Shareholder's equity		
Share capital	<i>2.4.3</i>	-
Current liabilities		
Accrued expenses and other liabilities	<i>2.4.4</i>	29.015
		<u>29.015</u>

2.2 Statement of income and expenses for the period 28 November 2017 until 31 December 2018

		28 November 2017 - 31 December 2018	
		<u>EUR</u>	<u>EUR</u>
Income	<i>2.4.5</i>		
Guarantee fee		15.000	
Reimbursed expenses		<u>30.558</u>	
			45.558
Operating expenses	<i>2.4.6</i>		
Administration fee		4.000	
Auditor fee		<u>26.015</u>	
			<u>30.015</u>
			15.543
Financial income and expenses	<i>2.4.7</i>		
Interest expenses		<u>(543)</u>	
			(543)
Income before taxation			<u>15.000</u>
Corporate tax			3.000
Net result			<u><u>12.000</u></u>

2.3 General notes to the financial statements

2.3.1 General information

ABN AMRO Covered Bond Company 2 B.V., ("the Company") was incorporated as a private company with limited liability under the laws of the Netherlands on 28 November 2017. The Company is registered under registration number 70176841 at the Chamber of Commerce of Amsterdam. The registered office of the Company is at Prins Bernhardplein 200 in Amsterdam, the Netherlands.

The objectives of the Company are:

- a. to obtain, to hold, to transfer, encumber and otherwise dispose of assets, including claims on private persons, enterprises and public authorities, whether or not embodied in securities or bonds and to exercise all accessory and ancillary rights connected thereto;
- b. to raise funds through, inter alia, borrowing under loan agreements, entering into financial derivatives or otherwise and to invest and put out funds obtained by the Company in, inter alia, (interests in) loans, bonds, debt instruments and other evidences of indebtedness, shares, warrants and other similar securities and also financial derivatives;
- c. to grant security for the Company's obligations and debts and for the obligations and debts of third parties, including ABN AMRO Bank N.V.;
- d. to enter into agreements, including, but not limited to, financial derivatives such as interest and/or currency exchange agreements, in connection with the objects mentioned under (a), (b) and (c);
- e. to enter into agreements, including, but not limited to, bank, securities and cash administration agreements, asset management agreements and agreements creating security in connection with the objects mentioned under (a), (b), (c) and (d) above, everything in conformity with Covered Bonds Programs, which by the public Company ABN AMRO Bank N.V., with statutory seat at Amsterdam, are or will be established.

The first financial year is from 28 November 2017 to 31 December 2018.

2.3.2 Transaction structure, management and related parties

The covered bonds issued by ABN AMRO Bank N.V. are secured by a portfolio of mortgage loans. In the event that the Issuer ("ABN AMRO Bank N.V.") cannot meet its payment obligations on the covered bonds or after a significant downgrade of the Issuer's rating, cashflows start running through the Company. The principal and interest payments of the mortgage portfolio will be used by the Company to meet its principal and interest payment obligations on the covered bonds.

The structure of the covered bond programme can be described as follows:

The Company guarantees the Covered Bonds issued by ABN AMRO Bank N.V. The guarantee is secured by residential mortgage loans transferred to the Company by the Originators via silent assignment (stille cessie). Other assets may be included subject to contractual conditions.

This means that legal title has been transferred to the Company without notification to the borrowers. ABN AMRO Bank N.V. continues to receive all cash flows until notification to the Borrowers occurs following the occurrence of a Notification Event. Borrowers may be notified of the assignment and cash flows start running through the Company following a default of the Issuer on its obligations under the Covered Bonds or a significant downgrade of the Issuer's ratings.

The Guarantee Support Agreement provides that the transfer of the mortgage loans will be effectuated through a silent assignment (stille cessie) by the Originators to the Company. This means that legal ownership of the mortgage loans will be transferred to the Company by registration of a duly executed deed of assignment with the Dutch Tax Authority (Belastingdienst), without notifying the debtors of such transfer. The Company has granted a first ranking right of pledge over the Company rights to Stichting Trustee ABN AMRO Covered Bond Company. The exercise of the pledge is subject to certain terms and conditions. Not meeting the Company's obligations to certain secured parties, including the Covered Bond holders, can lead to exercising the right of pledge by Stichting Trustee ABN AMRO Covered Bond Company. ABN AMRO BANK N.V. and subsidiaries are considered related parties.

Programme

The net amount outstanding of the issued Bonds at year-end is EUR 16.0 billion (previous year: nil) against a portfolio of mortgage loans totalling EUR 19.1 billion (previous year: nil).

The long term rating for ABN AMRO Bank N.V. is

Fitch	"A+"	stable outlook	1 March 2019
Moody's	"A1"	stable outlook	21 December 2018

ABN AMRO Covered Bond Company 2 B.V.
Financial statements 28 November 2017 - 31 December 2018

Management

Intertrust Management B.V. manages the Company and ABN AMRO Hypotheken Groep B.V. handles the cash management, statutory accounting and Investment Reporting. Intertrust Management B.V. is not related to ABN AMRO Hypotheken Groep B.V. in any way.

The Company has an authorized share capital of EUR 100 of which all shares are issued and un-paid.
The Stichting Holding ABN AMRO Covered Bond Company holds all shares.

Stichting Holding ABN AMRO Covered Bond Company 2 is a foundation incorporated under the laws of the Netherlands on 24 November 2017. The objectives of Stichting Holding ABN AMRO Covered Bond Company 2 are to incorporate, acquire and to hold shares of the Company and to exercise all rights attached to such shares and to dispose and encumber such shares. Intertrust Management B.V. is the director of Stichting Holding ABN AMRO Covered Bond Company 2.

2.3.3 Financial risk management

The main financial risks the Company is exposed to are credit and concentration risk, interest rate risk and liquidity risk. These risks relate to the Mortgage Loans as collateral.

Credit and concentration risk

As a company that solely invests in residential mortgage loans in the Netherlands, the Company has significant exposure to credit and concentration risks associated with the Dutch housing market.

Credit risk is mainly related to the economic conditions and the risk that individual borrowers might be unable to fulfil their payment obligations. However, these risks are mitigated because each loan is collateralised by the related property, and the loan portfolio is well spread over a large number of individual loans, a variety of mortgage types and geographical areas. If a borrower defaults and the Company forecloses on the property, the Company is entitled to all proceeds of the sale of the related property. If the proceeds from the sale of the property are insufficient to repay the outstanding principal amount of the loan, the Company could record a loss in this respect. Consequently, not only the creditworthiness of the borrower can be recognised as a risk but also the general economic conditions and the housing market in particular have an impact on the probability of a loss.

As detailed in the Future developments section below, the Dutch economy continued to prosper in 2018 and most macro-economic developments are still showing positive trends. These trends are expected to have a continued positive effect on house prices, though the rate of growth in prices is showing signs of levelling out. Whilst the market as a whole is still overheated, the regions that have experienced the most spectacular price rises in recent years are now showing signs of slowing down. This all has a continued positive impact on the expected loss ratios on the loan portfolio as the gap between loan levels and the value of collateral generally rises.

Whilst this has the effect of reducing the Company's exposure to credit and concentration risk, it will not eliminate it. Management is aware of the dangers that an overheated housing market can bring with it. Moreover, the positive expectations for the macro-economic developments in particular are contingent on a number of local and global developments which may or may not materialise, and over which the Company has no control.

The Company only has exposure to credit risk, which is the risk that the Borrowers will be unable to pay amounts in full when due, when a downgrade of ABN AMRO Bank N.V. occurs. Until that moment all risks and rewards associated with the assets are retained by ABN AMRO Bank N.V.

Interest rate risk

The Company is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Currently, there is an appreciable gap between the interest attracted on the underlying Mortgage Portfolio on the one hand and the covered bonds on the other hand. This situation is not expected to change appreciably in the coming years. The interest rate risk within the covered bond structure is now mainly mitigated via an interest reserve fund. Additionally there is a minimum interest rate of 0% for eligible mortgages in the cover pool. As both the mortgages and the covered bonds are mainly fixed rate, there is a natural hedging within the covered bond structure.

In view of the above factors, the Company's risk appetite is considered to be low.

2.3.4 Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of presentation

The financial statements are prepared in accordance with Generally Accepted Accounting Principles in the Netherlands and comply with Section 9 Book 2 of the Dutch Civil Code. The financial statements are prepared under the historical cost convention and presented in the joint currency of the European Monetary Union, the euro ("EUR"). In principle, unless otherwise stated, assets and liabilities are stated at nominal value and financial assets and financial liabilities are stated at amortised cost using the effective interest method. If deemed necessary, a provision is deducted from the nominal amount of accounts receivable. Initial measurement is at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The going concern assumption was applied during the preparation of the financial statements.

The Company is considered a small entity for Dutch statutory reporting purposes and therefore, in accordance with the provisions of Article 396, Title 9 of Book 2 of the Netherlands Civil Code, certain exemptions apply to the Company's financial statements and the Notes thereto.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

Revenue recognition

Income is recognised in the statement of income when an increase in economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be estimated with a sufficient reliability. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be estimated with sufficient reliability. The revenue and expenses are allocated to the period to which they relate.

Comparison last year

If deemed necessary, comparative amounts have been reclassified or restated to conform to the current year's presentation.

Critical accounting estimates and judgements

The preparation of the financial statements requires management to form opinions and to make estimates and assumptions that influence the application of principles and the reported values of assets and liabilities and of income and expenditure. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

2.3.5 Corporate income tax

Corporate income tax is calculated by applying the nominal tax rate to the profit before taxation of the financial year.

On 28 September 2017 the Company was granted a tax ruling by the Dutch Tax Authority.

In this ruling it is agreed that the Company will report a yearly result before taxes of EUR 15.000.

2.3.6 Contingent liabilities and comments

The Company has granted a first ranking right of pledge over the CBC Rights to Stichting Trustee ABN AMRO Covered Bond Company 2.

2.4 Notes to the balance sheet and the statement of income

2.4.1 Prepaid expenses and other receivables

The prepaid expenses and other receivables relate to a receivable on ABN AMRO Hypotheken Groep B.V.

2.4.3 Shareholder's equity

Share capital

The authorized share capital amounts to EUR 100 and consists of 100 ordinary shares of EUR 1,- each, of which all shares are issued and un-paid. During 2018, no movements occurred in the shareholder's equity.

Result current year

The result out of the financial year 28 November 2017 until 31 December 2018 of EUR 12.000 was distributed as interim dividend in December 2018.

2.4.4 Current liabilities (due within one year)

Corporate income tax payable

The provision for corporate income tax has been calculated in accordance with the policies as set out in paragraph 2.3.5.

Accrued expenses and liabilities

The accrued expenses and liabilities relate to the Ernst & Young Accountants LLP audit fee.

2.4.6 Operating expenses

General and administrative expenses

Ernst & Young Accountants LLP charged the Company EUR 26.015 (previous year: N/A) for the audit of the financial statements. Ernst & Young Accountants LLP did not deliver any other services to the Company during the period 28 November 2017 until 31 December 2018.

2.4.8 Other notes to the financial statements

Employees

During the reporting period the Company did not employ any personnel.

Remuneration of the Directors Board of Supervisory Directors

The Board of Directors consists of one corporate director; the remuneration of the Director is nil. The Company does not have a Board of Supervisory Directors.

2.4.9 Proposed appropriation

The profit for the year ended 31 December 2018 is EUR 12.000.

The Company paid an interim dividend in December 2018 of EUR 12.000.

Management proposes to declare dividend of EUR 12.000 as the final dividend for the year 2018

2.4.10 Post-balance sheet events

Management is not aware of any events that took place after balance sheet date that could have a major effect on the financial position of the Company.

Amsterdam, 11 June 2019
Managing director,
Intertrust Management B.V.

3 Other information

3.1 Statutory provisions regarding profit appropriation

In accordance with Article 20 of the Articles of Association, the result for the year is at the disposal of the Annual General Meeting of Shareholders.

3.2 Independent auditor's report

We refer to the next page for the independent auditor's report.