# Achmea Bank N.V.
# Annual Report
# 2016

KvK 27154399

# Contents

# Contents

# Profile

Achmea Bank N.V. (also Achmea Bank or the Bank) is a licensed financial services provider under the Financial Supervision Act (Wft). All shares in the Company are held by Achmea B.V. (hereinafter, together with its subsidiaries and affiliates, referred to as ’Achmea Group’). Achmea Bank provides mostly owner-occupied residential mortgage loans to private customers under the labels Centraal Beheer, Woonfonds and Acier. Mortgage lending is secured by a contingent claim on residential properties in the Netherlands. Centraal Beheer and Woonfonds employ the distributive power of intermediaries to offer mortgage loans. Furthermore Centraal Beheer offers mortgage loans online. The label Acier relates to the former Staalbankiers portfolio that was acquired in 2015 and 2016. Achmea Bank also provides savings products to private customers under the label Centraal Beheer. Achmea Bank obtains a substantial part of its funding from retail savings and unsecured and secured notes issued in the capital markets.

Achmea Bank is the competence and service centre for mortgage and retail savings products within Achmea Group. Our mortgage and savings products complement the wider range of insurance products provided by Achmea Group. Achmea Bank plays an important role in the retirement services strategy of Achmea Group.

Achmea Group, one of the largest insurance companies in the Netherlands, offers its clients a range of insurance and banking products and services. Achmea Group is an innovative service provider with the ambition to provide financial comfort to its customers. The key brands in the Dutch market are Centraal Beheer, Interpolis and Zilveren Kruis.

At year end the main shareholders of Achmea B.V. were Vereniging Achmea (62%) and Coöperatieve Rabobank U.A. (28%).

# Supervisory Board Report

The agenda and the activities of the Supervisory Board have reflected that 2016 was an important year for Achmea Bank in its transition to a network mortgage bank as part of the Achmea retirement services strategy. Achmea Bank saw challenges in respect of commercial production, outsourcing of new mortgage production, product development and the launch of new retail mortgage products and a strengthening of the organisation in light of the strategy. The Supervisory Board noticed a good and constructive cooperation between the Executive Board members of Achmea Bank and with the Supervisory Board as well as the relevant bodies within Achmea.

The Supervisory Board met the Executive Board seven times during the year. Important items on the agenda included the full-year and half year figures, progress on realising the strategy, the status of strategic projects including the outsourcing of the main part of the mortgage servicing process, business goals, rolling forecast, funding plan, governance, risk appetite, staffing and the internal organization.
The Supervisory Board considered and approved the acquisition of the remaining part of the loan activities of Staalbankiers N.V., the private banking entity of Achmea Group.

In 2016 the Supervisory Board executed an external evaluation of its performance. The board identified a number of attention areas as well as possibilities for improvement. These relate to increasing the understanding of the supervisory board in the areas of succession planning, management development and the remuneration policy of Achmea as well as the role of the remuneration committee within the Achmea context. Furthermore, the supervisory board intends to increase the contacts in the bank, in particular with managers, visit critical outsourcing partners and ensure adequate time for and around its meetings.

The Audit & Risk Committee had five meetings during 2016. The Audit & Risk Committee is composed of the members of the Supervisory Board, chaired by Mr Henny te Beest and attended by the Executive Board, Internal Audit and the external independent auditor. At the meetings the following subjects were discussed: integrated risk analysis, risk policies, risk appetite dash board and analyses with focus on credit risk, market risk, capital and liquidity adequacy, operational risk, compliance risk and strategic risk, governance, approval and monitoring of the internal and external audit plan, progress in the resolution of audit issues including IT and compliance related issues, and key financials. Furthermore the Audit & Risk Committee discussed the reports of the specific audits of the internal auditors and the external independent auditor and reports of DNB and AFM. The Committee had a meeting with the external independent auditor and with the internal auditor in absence of the Executive Board to discuss direct and indirect related audit subjects.

The Remuneration Committee consists of two members of the Supervisory Board (Mrs. Petri Hofsté and Mr. Jan Molenaar). The execution of the remuneration policy was evaluated twice in 2016. The Remuneration Committee approved the remuneration of the Executive Board members and the senior staff of Achmea Bank. The Supervisory Board evaluates remunerations in the context of the remuneration policy of Achmea Group. More details regarding remuneration policies can be found in the Remuneration Report and on www.achmea.nl or www.achmea.com.

Every year the members of the Supervisory Board and Executive Board attend a number of permanent education (PE) meetings. The main topics covered in 2016 in these meetings were financial risk, hedge accounting and corporate governance.

In June 2016 Mrs. Margreet van Ee stepped down as Chairman of the Executive Board and in February 2017 Mr. Ronald Buwalda stepped down as Director of Finance and Risk, to accept the position of Director of Financial Management of Achmea B.V. The Supervisory Board takes this opportunity to thank both for their important contribution to the bank during their membership of the Board in the past years. Mr. Pierre Huurman has been appointed as Chairman of the Executive Board as of 1 July 2016. The process for the appointment of a new Director of Finance and Risk is progressing.

The Dutch Act on Management and Supervision came into force in 2013. In consequence, Achmea Bank monitors the number of supervisory duties of each member of the Supervisory Board. All appointments and reappointments of Supervisory Board members are assessed in terms of compliance with the Act.

The Supervisory Board would like to thank the Executive Board and the staff of Achmea Bank for their commitment and the results achieved in 2016.

Tilburg, 13 March 2017

The Supervisory Board

Mrs. Petri H.M. Hofsté (chairman)
Mr. Jan B.J.M. Molenaar
Mr. Henny W. te Beest

# Executive Board Report

## GENERAL

Throughout 2016 we improved customer satisfaction and service levels through process optimizations and continuous management focus. We invested in the implementation of the Achmea retirement services strategy which will lead to future growth in savings and mortgages. We improved operations and risk management and signed an outsourcing agreement with Quion for the main part of the mortgage servicing process. Through the partnership with Quion, Achmea Bank aims to improve customer service standards. The outsourcing agreement will result in significant cost savings from 2017 onwards. Furthermore we have investigated the possibilities for the renewal of our saving and payments platform.

As of 2016 we offer, produce and service mortgages for both the balance sheets of Achmea Bank and Achmea Pensioen & Leven (AP&L). In 2016 we further improved the dialogue and cooperation with our partners. For example we invested in the relationship with our distribution partners Centraal Beheer and Woonfonds which helped us to launch a new retail mortgage product named the “Thuis Hypotheek” and mortgages for self-employed customers. Furthermore we started online mortgage sales. At the end of 2016, we acquired the remaining part of the Staalbankiers loan activities.

In June 2016 Mrs. Margreet van Ee was succeeded by Mr. Pierre Huurman as CEO. In February 2017 Mr. Ronald Buwalda stepped down as Director of Finance and Risk, to accept the position of Director of Financial Management of Achmea B.V.

## STRATEGY

**MISSION: PROVIDE LONG-TERM SECURITY TO OUR CUSTOMERS**

Achmea Bank is part of Achmea, one of the largest insurers in the Netherlands. With a history stretching back more than 200 years, we are building on the trust that our customers have shown in the Achmea brands. We provide savings and mortgage products which are part of the propositions of Achmea.

Our goal is to provide long-term security for our customers and our people put our customers first. That means manage the savings of our customers in a careful and responsible manner and maintain a responsible lending policy. It also means that Achmea Bank is committed to safeguard the continuity and reliability of its services. We have a healthy balance sheet, a low risk mortgage portfolio and a sound risk management structure.

Our main focus is on the sustainability, reliability and performance of the services we offer. The management of our business is geared towards the long-term interests of customers and other stakeholders. We aspire to gain the full trust of our customers, distribution partners, employees, regulators and investors as well as of our shareholder Achmea. No decision is taken without careful consideration of the interests of all our stakeholders.

We report in a clear and transparent way about our activities, services and products, as well as about the financial stability of our business. Our staff is trustworthy, knowledgeable and professional and treat our customers and other stakeholders with due care and respect. The obligation of care is deeply embedded in our corporate culture.

**STRATEGY: AN INTEGRAL PART OF ACHMEA’s RETIREMENT SERVICES STRATEGY**

Achmea aims to be a leading player in retirement services. Achmea strongly position itselves in this market, because Achmea believes that our customers will continue to need to build up future income. Achmea Bank’s strategy is aligned with this Achmea strategy. Our products form a critical component of the retirement services and of the solutions offered by Centraal Beheer. We provide expertise in the fields of product management, balance sheet management, product pricing, operating processes, risk management and compliance. The retirement services strategy will lead to future growth in the Bank’s mortgage and savings portfolio.

As an independent legal entity with a banking licence, Achmea Bank N.V. has access to the capital market. We originate mortgages for our own balance sheet as well as the balance sheet of Achmea Pensioen & Leven. We ensure adequate liquidity and capital to meet our obligations to our investors and our customers.

Achmea Bank is a service organisation for mortgages and savings products. We aim to have processes that contribute to a high level of customer satisfaction and to be competitive in terms of costs. Our business model is to a large extent based on the margin on mortgage products. It is vital to have a sustainable and profitable business model. For that reason Achmea Bank aims to:

- be cost efficient: improving the cost-to-income ratio through outsourcing of our mortgage servicing activities (to Quion) and renewing our IT platform for savings and payments;
- increase our mortgage book: Achmea Bank aims for growth in the mortgage portfolio in the years ahead;

# Executive Board Report

- realize economics of scale and effective balance sheet management: by originating mortgages for Achmea Bank as well as for Achmea Pensions & Life (AP&L) and by optimizing funding, capital and liquidity.

Through the partnership with Quion, Achmea Bank aims to improve customer service standards and satisfaction. During 2016 we started with outsourcing the handling and servicing of our new mortgage production to Quion. We also worked on the preparation of the outsourcing of the existing portfolio, which is expected to be finalized by the middle of 2017. The outsourcing of our total mortgage handling and servicing process to Quion will result in a significant reduction of employees within Achmea Bank and will also lead to a structural cost reduction from 2017 onwards.

## MARKET DEVELOPMENTS

In 2016 the volume of the Dutch mortgage market increased to approximately EUR 82 billion (2015: EUR 65 billion). The underlying factors for this growth were increasing consumer confidence in the economy, combined with lower interest rates and reduction of unemployment. Due to low interest rates, consumers are choosing longer interest rates periods. The demand for interest rates with a term of 20 years has grown from 33% to almost 40% in 2016. Moreover, low housing prices (due to the earlier economic crisis) in combination with low interest rates have led to improved affordability for potential buyers. However, there are considerable differences between regions with housing prices in the Randstad area, and more particularly Amsterdam and Utrecht, performing exceptionally well. On the other hand, the strict maximum levels set for loan-to-value and loan- to-income are putting a cap on market growth and price increases.

In 2016 the savings market grew with EUR 5 billion. The volume of fixed deposits stabilized at EUR 53 billion and savings available on demand increased to EUR 287 billion. This shows that as a result of the low interest rates consumers are less interested in fixed deposits. However, despite the low interest rates, saving is still popular.

## RISK MANAGEMENT

As part of an ongoing internal risk management process, the Bank has embedded the key risks and controls defined for its primary processes in the entire organization. The focus on risk management led to further improvements in 2016. The Bank continuously reviews and fine-tunes the monitoring and managing of its financial and non-financial risks. More detailed information about the financial risks and how Achmea Bank manages that can be found in the section ‘Capital and Financial Risk Management’. On the whole, the Bank has shown that it is in control of its risks and balance sheet management. The Executive Board is satisfied with the progress and developments.

## CORPORATE GOVERNANCE

Achmea Bank adheres to the Banking Code as described in the section ‘Implementation of and compliance with the Banking Code’.

## LIQUIDITY AND CAPITAL POSITION

The Bank successfully issued EUR 600 million RMBS notes (DRMP II) in 2016. Compared to 2015 the total savings portfolio remained stable at EUR 5.9 billion. In the course of 2016 the Bank redeemed EUR 1.0 billion RMBS notes and EUR 500 million senior unsecured notes.

In its liquidity and capital management, Achmea Bank applies a liquidity survival period (LSP) of at least six months. That means that the Bank has to maintain a liquidity buffer that covers the total net cash outflow during a period of at least six months. The LSP at year-end 2016 was 10.4 months. In 2017 EUR 157 million unsecured notes (excluding commercial paper), CHF 200 million covered bonds and approximately EUR 800 million RMBS notes will mature. On a regular basis the Bank performs stress tests to assess the adequacy of its available liquidity buffers. For 2017 Achmea Bank expects a moderate growth of its mortgages volume and savings portfolio. In addition, the Bank aims to further diversify its wholesale funding mix in the course of 2017.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are liquidity and funding ratios which are monitored against the minimum internal limits. The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The aim of the NSFR is to ensure that long-term assets are financed with stable, longer term funding. Achmea Bank has set its internal minimum targets for both the LCR and NSFR at 105% for 2016. The Bank fully complied with all external and internal minimum requirements during 2016. At year-end 2016 the LCR was 572% (2015: 1027%) and the NSFR was 122% (2015: 117%).

The Leverage Ratio (LR) is a regulatory capital adequacy measure under CRD IV/CRR. The LR is calculated as an institution's capital divided by that institution's total non-risk weighted exposures, expressed as a percentage. Achmea Bank fully complied with the internal minimum requirement for 2016 of 3.5% and the (expected future) external minimum requirements; the LR at 31 December 2016 was 5.6% (2015: 4.8%).

# Executive Board Report

The Common Equity Tier 1 Capital Ratio increased to 19.1% as at December 2016 (16.7% at the end of 2015). The Bank's capital position further improved.

## FINANCIAL ANALYSIS

| IN MILLIONS OF EUROS | 2016 | 2015 | CHANGE |
|---|---|---|---|
| Interest Income | 489 | 539 | –9% |
| Interest expense | 380 | 446 | –15% |
| **Interest margin** | **109** | **93** | **17%** |
| | | | |
| Changes in fair value of financial instruments | 1 | –2 | 150% |
| **Interest margin and changes in fair value of financial instruments** | **110** | **91** | **21%** |
| | | | |
| Other income | 2 | 2 | 0% |
| Fees and commission income and expense | 2 | – | 100% |
| **Operating income** | **114** | **93** | **23%** |
| | | | |
| Impairment of financial instruments and other assets | 2 | 5 | –60% |
| Operating expenses | 95 | 82 | 16% |
| **Total expenses** | **97** | **87** | **11%** |
| | | | |
| **Operating profit before income taxes** | **17** | **6** | **183%** |
| Income tax expense | 4 | 1 | 300% |
| | | | |
| **Net profit** | **13** | **5** | **160%** |
| | | | |
| Operating profit before income taxes regular Achmea Bank portfolio | 19 | 7 | |
| Operating profit before income taxes Acier loan portfolio | –2 | –1 | |
| **Operating profit before income taxes Achmea Bank** | **17** | **6** | |

| RATIOS | 2016 | 2015 |
|---|---|---|
| Return on average equity | 1.6% | 0.6% |
| Efficiency ratio (excl. changes in fair value) | 86.9% | 88.3% |
| Common Equity Tier 1 Capital Ratio | 19.1% | 16.7% |
| Total Capital Ratio | 19.2% | 16.9% |
| Net Stable Funding Ratio | 122% | 117% |
| Liquidity Coverage Ratio | 572% | 1027% |

## PROFIT ANALYSIS

Achmea Bank N.V. reports a profit before tax for 2016 of EUR 17 million compared to a profit of EUR 6 million last year. The growth in profit was mainly the result of a higher interest margin (EUR 16 million) due to lower funding costs and higher compensation for early redemptions and renewals. This was compensated by higher operating expenses (EUR 13 million), due to the investments in the retirement services strategy of Achmea Group and by outsourcing the mortgage servicing process. Furthermore, fewer additions were made to the loan loss provision in 2016, which led to impairment costs dropping by EUR 3 million. The fair value result increased by EUR 3 million compared to 2015. The fees and commission income and expense increased by EUR 2 million, as a result of the fees for the origination of mortgages for Achmea Pensioen & Leven N.V.

In 2016 the focus for Achmea Bank N.V. was on optimizing its mortgage servicing process. Part of this optimization consists of outsourcing a substantial part of the mortgage servicing process to Quion. Although the optimization process and the preparation for the outsourcing led to an increase of operating expenses over 2016, it will result in lower cost levels in the coming years. Achmea Bank is also investing in the retirement services strategy of Achmea Group. The retirement services strategy strengthens the position of Achmea Bank within Achmea Group and will lead to future growth in the Bank's mortgage and savings portfolio. The investments of Achmea Bank in the

# Executive Board Report

implementation of the Achmea retirement services strategy of Achmea amounts to EUR 5 million. As part of the Achmea retirement services strategy the general pension fund (APF Centraal Beheer) was formed in 2016. The general pension fund will be offering full scope retirement service solutions which includes long term (retirement) savings and mortgage solutions. In time the balance sheet of Achmea Bank is expected to further grow as part of this retirement services strategy of Achmea.

New mortgage production dropped to EUR 663 million in 2016 (2015: EUR 861 million). EUR 255 million of this amount was generated for the balance sheet of Achmea Pensioen & Leven N.V. Prepayments amounted to EUR 1,099 million (2015: 947 million), which is in line with the current higher prepayment levels in the Dutch market. As a result the nominal value of the mortgage portfolio decreased to EUR 10.8 billion.

In 2016 Achmea Bank N.V. acquired the remaining part of the loan activities of Staalbankiers N.V., the private banking entity of Achmea B.V. The effective date of purchase was 1 December 2016 and the transfer price equalled the carrying value. The transfer will be effected in stages, which commenced on 15 December 2016, and which will be fully completed by 30 June 2017. The carrying amount of the acquired portfolio upon acquisition was EUR 245 million. This final tranche is in addition to the previous acquisition by Achmea Bank N.V. of a Staalbankiers loan portfolio amounting to approximately EUR 1.1 billion in July 2015. Besides the loans, Achmea Bank N.V. will acquire linked savings accounts totalling EUR 57 million. The purchase price is equal to the carrying amount. As part of this transaction Achmea B.V. provided a capital injection of EUR 33.5 million to Achmea Bank N.V.  Furthermore Achmea B.V. issued an additional capped guarantee to Achmea Bank N.V. to cover credit risk and legal claims related to this portfolio.

The Acier portfolio - the former loan portfolio of Staalbankiers - will be handled as a run off portfolio. The portfolio is managed by the former Staalbankiers credit department that was transferred to Achmea Bank simultaneously with the first transaction on 1 July 2015 and is now completely integrated in Achmea Bank. The run-off of the portfolio is proceeding according to plan.

In 2016 Achmea Bank further improved loan default management procedures. Achmea Bank managed to reduce the arrears by reducing lead times and by early warning of issues. With an uniform process and more contract modification possibilities we are able to minimize the risk of default. Furthermore, with the current market circumstances like lower interest rates and improved conditions on the housing market, we are able to manage default situations of our customers better. In 2017 we will implement a new system for credit management (Credit Navigator) to further improve our arrears management process and increase efficiency.

Common Equity Tier 1 Capital Ratio improved further to 19.1% as at year-end 2016 (16.7% at year-end 2015). The increase was mainly due to the application of credit risk mitigation for the mortgage saving deposits and an overall reduction of the loan portfolio, which led to a lower risk exposure amount. In addition to this, the above mentioned capital injection of EUR 33.5 million from Achmea B.V in connection with the acquisition of the loan activities of Staalbankiers positively effected the Capital Ratio.

## RATING

Fitch has revised the long-term outlook rating of Achmea Bank from A/negative to A/stable. Standard and Poor’s revised the rating of Achmea Bank per 21 February 2017 from A-/ Stable to A-/Negative.

## OUTLOOK

Achmea Bank N.V. will outsource its mortgage servicing process by the middle of 2017 and will continue to invest in it’s saving and risk management processes and systems. In addition, the remaining part of the acquired loan portfolio of Staalbankiers will be transferred to the balance sheet of Achmea Bank. This transfer includes loans up to a maximum of EUR 35 million and saving deposits related to the total former loan portfolio of Staalbankiers of approximately EUR 57 million.

Achmea Bank N.V. chooses not to make specific predictions regarding future financial performance.

Tilburg, 13 March 2017

The Executive Board,

Mr. P.J. Huurman    Chief Executive Officer (as of 1 July 2016)
Mr. V.J. Teekens    Director of Operations
Director of Finance & Risk (vacancy as of 1 march 2017)

# Implementation of and Compliance with the Banking code

The Social Charter, the Banking Code and the rules of conduct associated with the bankers' oath together form a package called 'Future-oriented Banking'. These building blocks visualise the way in which the sector wishes to achieve an ethical, customer-oriented and sustainable sector.

The Banking Code does not stand on its own but is part of the full set of national and international regulations, case law and self-regulation. When applying the principles, Achmea Bank will take this national and international context and the social environment into account.

Achmea Bank publishes its full report regarding the “Application of Banking Code”on www.achmeabank.com.

# Corporate Social Responsibility

**ACHMEA BANK AND A SUSTAINABLE SOCIETY**

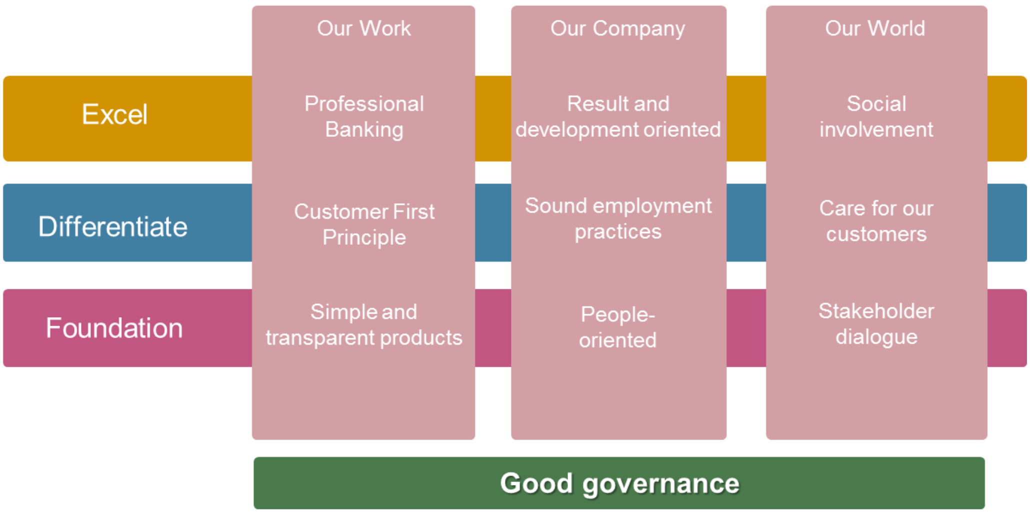
Our ambitions regarding corporate social responsibility (CSR) are in line with the ambitions of Achmea. Stemming from the Group's cooperative tradition, Achmea is committed to value creation with a social dimension. Achmea Bank wants to set an example in terms of CSR and the Achmea corporate values. That is why we keep a close eye on changes in our society, such as the ageing population, individualisation and the rapid changes in technology. Our focus is on creating a sustainable future for our customers, for society and for our business, which goes beyond merely offering financial services. Achmea Bank's savings and mortgage products must have added value for our customers and for society at large. We believe we have an obligation to benefit society.

**THE THREE PILLARS OF OUR CSR POLICY**

We view social responsibility as a key factor for realising our ambition of being a strong trusted bank. Achmea Bank strives to be transparent and accountable for its activities, products and services, as well as for its financial solidity. Our employees are trustworthy, knowledgeable and professional, and treat customers and other stakeholders with due care and consideration.

If we are to realise our ambitions, it is imperative that we continue to critically examine the way we do business. That is why we have outlined our ambitions and preferred methods of working in a social covenant. The Bank's CSR policy is based on three pillars, each with its own set of objectives that focus on areas in which we want to excel. The fundament of this framework is good governance. All our decisions are taken with careful consideration for the interests of all of our stakeholders.

**Professional, Result oriented and socially engaged**




**OUR WORK**

We consider our products and services themselves to demonstrate how we put CSR into practice. The products and services we develop and market are straightforward and customer friendly. Our products are designed to create (long-term) value for individual customers and to benefit society as a whole. In everything we do we put the customers' interests first; that defines us. We excel by professionalism. Our employees are trustworthy, knowledgeable and professional, and treat our customers and other stakeholders with consideration and care. The obligation of care is embedded in our culture. Our social responsibility and the legislation and regulations applicable to the Bank are taken into careful consideration in all decisions we make. We fully endorse the Dutch Banking code and annually report on its application.

**OUR COMPANY**

We are an organisation focused on development; we improve ourselves continuously. We respond to social trends, financial industry developments and customer needs. Achmea Bank is people minded. This is reflected in our attitude and response towards our customers, our employees and our environment. We want our employees to make a difference for our customers.

Sustainable employability and personal as well as professional development have our primary focus. We attract talented and ambitious employees and make every effort to their development and maintain their employability. Achmea provides its employees with a solid safety net and good alternative facilities in case of unemployment. By enabling our employees to work flexible hours and to work from other places, including home, we help them to balance their work and personal lives. We strive to contain absenteeism and invest in the vitality of our employees by offering them programmes in which there is room for exercise and relaxation.

# Corporate Social Responsibility

**OUR WORLD**
A bank plays a social role in society. As part of our commitment to society, we facilitate Achmea Bank's employees in offering their expertise and services as volunteers, for example by participation in projects such as the 'Bank voor de Klas' and 'Woonfonds Doet'. The goal for 'Bank voor de Klas' is to teach primary school students about money. 'Woonfonds Doet' is an initiative in which our employees help customers with financial problems for necessary home repairs and improvements. Every year we also encourage our employees to volunteer for a social cause.

Financial education has not yet been integrated into Dutch schooling. Banks therefore play an important role in this. Achmea Bank is committed to financial education and strives to increase the general level of knowledge about financial matters in society. This helps customers to make better financial decisions. We also use our knowledge of financial affairs to contribute to the financial well-being of our customers. Our professionals use their expertise to prevent customers from getting into financial difficulties, but if they do, we will do our best to find a solution. We have a dedicated team for that purpose.

Our CSR policy is based on open dialogue with customers, employees and other stakeholders. It is very important to us to ensure that we take their interests into careful consideration. The Bank's Customer Council provides advice about how we can improve our products and services. We also consult on a regular basis with the Employees' Council and hold an annual survey of employee engagement that helps us to ensure a stable work environment.

For more information about Corporate Social Responsibility, please visit Achmea's website (https://www.achmea.nl/en/sustainability/).

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

BEFORE APPROPRIATION OF RESULT

AS AT YEAR ENDED 31 DECEMBER

| IN THOUSANDS OF EUROS | Note | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with Central Banks | 7 | 658,325 | 731,360 |
| Derivative assets held for risk management | 8 | 255,510 | 300,126 |
| Loans and advances to banks | 9 | 1,117,344 | 1,247,814 |
| Loans and advances to public sector | 10 | 15,820 | 132,085 |
| Loans and advances to customers | 11 | 12,503,018 | 13,173,084 |
| Interest-bearing securities | 12 | 401,182 | 474,820 |
| Current tax assets | 21 | 2,182 | 6,566 |
| Prepayments and other receivables | 13 | 31,849 | 5,881 |
| **Total Assets** | | **14,985,230** | **16,071,736** |
| | | | |
| **Liabilities** | | | |
| Derivative liabilities held for risk management | 8 | 764,533 | 896,074 |
| Deposits from banks | 14 | 97,411 | 117,946 |
| Funds entrusted | 15 | 6,388,454 | 6,586,661 |
| Debt securities issued | 16 | 6,825,449 | 7,578,152 |
| Provisions | 17 | 1,065 | – |
| Current tax liabilities | 21 | 4,678 | 37,718 |
| Deferred tax liabilities | 20 | 25,401 | 25,643 |
| Accruals and other liabilities | 19 | 46,762 | 44,874 |
| Subordinated liabilities | 18 | 8,336 | 8,336 |
| **Total Liabilities** | | **14,162,089** | **15,295,404** |
| | | | |
| Share Capital | | 18,152 | 18,152 |
| Share premium | | 505,609 | 472,109 |
| Reserves | | 299,380 | 286,071 |
| **Total Equity** | **22** | **823,141** | **776,332** |
| | | | |
| **Total Equity and Liabilities** | | **14,985,230** | **16,071,736** |

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| FOR THE YEAR ENDED 31 DECEMBER | | | |
|---|---|---|---|
| IN THOUSANDS OF EUROS | | 2016 | 2015 |
| | Note | | |
| Interest income | 23 | 489,045 | 538,532 |
| Interest expenses | 23 | 379,381 | 445,646 |
| **Interest margin** | **23** | **109,664** | **92,886** |
| Changes in fair value of financial instruments | 23 | 601 | −2,310 |
| **Interest margin and changes in fair value of financial instruments** | | **110,265** | **90,576** |
| Other income | 24 | 2,357 | 2,594 |
| Fees and commission income and expense | 25 | 2,019 | 90 |
| **Operating income** | | **114,641** | **93,260** |
| Impairment of financial instruments and other assets | 11 | 2,090 | 5,281 |
| Operating expenses | 26 | 95,250 | 82,023 |
| **Operating profit before taxes** | | **17,301** | **5,956** |
| Income tax expense | 29 | 4,325 | 1,489 |
| **Net profit** | | **12,976** | **4,467** |
| Operating profit before taxes regular Achmea Bank portfolio | 5 | 18,809 | 7,194 |
| Operating profit before taxes Acier portfolio | 5 | −1,508 | −1,238 |
| **Operating profit before taxes** | **5** | **17,301** | **5,956** |
| **Other comprehensive income net of income tax (non-permanent part of Equity)** | | | |
| Net fair value adjustments on available-for-sale financial assets | 22 | 333 | −2,559 |
| **Other comprehensive income net of income tax (non-permanent part of Equity)** | | **333** | **−2,559** |
| **Total comprehensive income for the period** | | **13,309** | **1,908** |
| **Net profit:** | | | |
| Attributable to owners of the parent | | 12,976 | 4,467 |
| **Net profit for the period** | | **12,976** | **4,467** |
| **Total comprehensive income:** | | | |
| Attributable to owners of the parent | | 13,309 | 1,908 |
| **Total comprehensive income for the period** | | **13,309** | **1,908** |

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| FOR THE YEAR ENDED 31 DECEMBER 2016 | SHARE CAPITAL | SHARE PREMIUM | FAIR VALUE RESERVE | PROFIT FOR THE YEAR | OTHER RESERVES | TOTAL EQUITY |
|---|---|---|---|---|---|---|
| IN THOUSANDS OF EUROS | | | | | | |
| **Balance at 1 January 2016** | **18,152** | **472,109** | **1,066** | **4,467** | **280,538** | **776,332** |
| **Total comprehensive income for the period** | | | | | | |
| Profit or loss | – | – | – | 12,976 | – | 12,976 |
| **Other comprehensive income, net of income tax** | | | | | | |
| **Fair value reserve (available-for-sale financial assets):** | – | – | – | – | – | – |
| Change in fair value net of income tax (will be fully recycled through P&L) (note 12) | – | – | 333 | – | – | 333 |
| **Total comprehensive income for the period** | – | – | **333** | **12,976** | – | **13,309** |
| | | | | | | |
| **Transaction with owners, recognised directly in equity** | | | | | | |
| Appropriation of profit 2015 | – | – | – | −4,467 | 4,467 | – |
| Capital contribution (note 4) | – | 33,500 | – | – | – | 33,500 |
| **Total contributions by and distributions to owners** | – | **33,500** | – | **−4,467** | **4,467** | **33,500** |
| **Balance at 31 December 2016 (note 22)** | **18,152** | **505,609** | **1,399** | **12,976** | **285,005** | **823,141** |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| **Balance at 1 January 2015** | **18,152** | **301,609** | **3,625** | **24,048** | **256,490** | **603,924** |
| **Total comprehensive income for the period** | | | | | | |
| Profit or loss | – | – | – | 4,467 | – | 4,467 |
| **Other comprehensive income, net of income tax** | | | | | | |
| **Fair value reserve (available-for-sale financial assets):** | – | – | – | – | – | – |
| Change in fair value net of income tax (will be fully recycled through P&L) (note 12) | – | – | −2,559 | – | – | −2,559 |
| **Total comprehensive income for the period** | – | – | **−2,559** | **4,467** | – | **1,908** |
| **Transaction with owners, recognised directly in equity** | | | | | | |
| Appropriation of profit 2014 | – | – | – | −24,048 | 24,048 | – |
| Capital contribution (note 4) | – | 170,500 | – | – | – | 170,500 |
| | | | | | | |
| **Balance at 31 December 2015 (note 22)** | **18,152** | **472,109** | **1,066** | **4,467** | **280,538** | **776,332** |
| | | | | | | |

# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

| FOR THE YEAR ENDED 31 DECEMBER<br>IN THOUSANDS OF EUROS | | 2016 | 2015 |
|---|---|---|---|
| **Cash flow generated from operating activities** | **Note(s)** | | |
| **Net profit** | | **12,976** | **4,467** |
| **Adjustments for non-cash items in the result:** | | | |
| Impairment on financial instruments and other assets | 11/17 | 2,090 | 5,281 |
| Net interest and other income | | −112,021 | −95,480 |
| Changes in derivatives held for risk management | | −68,888 | −183,533 |
| Changes in fair value of financial instruments | 23 | −601 | 2,310 |
| Other non-cash items | | 92,513 | 229,273 |
| Income tax expense | 29 | 4,325 | 1,489 |
| | | **−69,606** | **−36,193** |
| **Changes in operating assets and liabilities:** | | | |
| Loans and advances to banks | 9 | 129,542 | 603 |
| Loans and advances to public sector | 10 | 116,023 | −68,268 |
| Loans and advances to customers | 11 | 585,933 | −904,557 |
| Prepayments and other receivables | 13 | −30,062 | 6,357 |
| Deposits from banks | 14 | −20,538 | −82,360 |
| Funds entrusted | 15 | −172,088 | 590,244 |
| Accruals and other liabilities | 19 | 5,536 | 8,050 |
| Changes in tax assets and liabilities | 20 | 111 | −233 |
| Trade investments | | – | 695 |
| | | | |
| Interest received | 23 | 472,266 | 521,655 |
| Interest paid | 23 | −390,402 | −426,415 |
| Income tax paid | 29 | −33,334 | −3,956 |
| | | **662,987** | **−358,185** |
| **Net cash flow from operating activities (1)** | | **593,381** | **−394,378** |
| **Cash flow generated from investing activities** | | | |
| Interest-bearing securities purchased | 12 | −196,001 | −335,880 |
| Interest-bearing securities sales | 12 | 269,993 | 492,824 |
| **Net cash flow generated from investing activities (2)** | | **73,992** | **156,944** |
| **Cash flow generated from financing activities** | | | |
| Repayments of Debt securities issued | 16 | −1,727,766 | −2,283,015 |
| Purchases of Debt securites issued | 16 | 952,945 | 2,804,058 |
| **Debt securities issued** | **16** | **−774,821** | **521,043** |
| Capital Addition | | 33,500 | 170,500 |
| Subordinated liabilities | | – | −6,250 |
| **Net cash flow generated from financing activities (3)** | | **−741,321** | **685,293** |
| **Net cash flow (1) + (2) + (3)** | | **−73,948** | **447,859** |
| | | | |
| Cash and cash equivalents as at 1 January | | 757,032 | 309,173 |
| Cash and cash equivalents as at 31 December | | 683,084 | 757,032 |
| **Movements in cash and cash equivalents** | | **−73,948** | **447,859** |
| **Reconciliation of movement in Cash and cash equivalents** | | | |
| Cash and balances with Central Banks | 7 | −73,035 | 516,146 |
| Loans and advances to banks on demand | 9 | −913 | −68,287 |
| | | **−73,948** | **447,859** |

# Notes To The Consolidated Financial Statements

## 1. GENERAL INFORMATION

Achmea Bank N.V. is located at Spoorlaan 298, Tilburg (the Netherlands) with its registered office in The Hague (the Netherlands). It is registered at the Chamber of Commerce under number 27154399. The number of employees was 347 FTEs on 31 December 2016 (2015: 392 FTEs). The core products of Achmea Bank N.V. ('the Bank') consist of savings products for private individuals and owner-occupied residential mortgage loans for properties in the Netherlands. The shares in the Bank are held by Achmea B.V. At year-end 2016 the main shareholders of Achmea B.V. (the ultimate parent company) were Vereniging Achmea (62%) and Coöperatieve Rabobank U.A. (28%).

The Bank's consolidated financial statements for 2016 consist of the financial statements of all group companies in which the Bank has a controlling interest. Reference is made to paragraph 2B Basis of consolidation for an overview of the group companies.

# Notes To The Consolidated Financial Statements

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied uniformly for all periods presented in these consolidated financial statements and by all group entities, unless otherwise stated.

The consolidated financial statements are presented in Euros, which is the parent company’s functional currency.

### A AUTHORIZATION FINANCIAL STATEMENTS

The Bank´s consolidated financial statements for the year ended 31 December 2016 were authorized for issue in accordance with a resolution of the Executive Board on 13 March 2017. At the same date, the Supervisory Board gave its advice to the General Meeting of Shareholders to adopt the financial statements. The Executive Board may decide to amend the financial statements as long as these have not been adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the financial statements, but may not amend these.

### B BASIS OF PRESENTATION

The Bank´s consolidated financial statements, including the 2015 comparative figures, have been prepared in accordance with the International Financial Reporting Standards - including International Accounting Standards (IAS) and Interpretations - as at 31 December 2016 and as adopted by the European Union (hereafter EU and EU-IFRS). Furthermore, the Bank’s Consolidated Financial Statements comply with the requirements of article 2:362, part 9 of the Dutch Civil Code.

The financial statements have been prepared on an amortised cost basis, except for available-for-sale financial assets and financial assets and liabilities (including derivative instruments) measured at fair value.

# Notes To The Consolidated Financial Statements

## INITIAL APPLICATION OF ACCOUNTING POLICIES

In 2016 the following amendments to Standards and Interpretations issued by the International Accounting Standard Board (IASB) were adopted:

IAS 1 PRESENTATION OF FINANCIAL STATEMENT; These amendments are designed by the IASB to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

ANNUAL IMPROVEMENTS TO IFRSS 2012–2014 CYCLE**;** Annual Improvements to IFRSs 2012–2014 Cycle is a collection of amendments to IFRSs in response to four issues addressed during the 2012–2014 cycle. These amendments are effective for reporting periods beginning on or after 1 January 2016, with early application permitted.

# Notes To The Consolidated Financial Statements

## CHANGES IN STANDARDS AND AMENDMENTS WITH FUTURE APPLICATION DATE

The following Standards and Interpretations were issued in 2016 or prior years but have a future application date and are not yet applied by Achmea Bank in preparing its Consolidated Financial Statements 2016. These are:

| Accounting standard | Description | Expected impact on Total equity / Net profit |
|---|---|---|
| **IFRS 9 FINANCIAL INSTRUMENTS** | IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. For most financial liabilities the existing amortised cost measurement will be maintained under IFRS 9. IFRS 9 states that an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income. The new model also results in a single impairment model being applied to all financial instruments. As part of IFRS 9, the IASB has introduced an expected-loss impairment model that will require entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses in case of a significant credit deterioration. IFRS 9 introduces a model for hedge accounting that aligns the accounting treatment with risk management activities. The standard is effective for reporting periods beginning on or after 1 January 2018, with early application permitted. This standard has been endorsed by the EU on November 22$^{nd}$ 2016. | Achmea Bank started a project to assess the full impact of this standard with respect to classification, measurement and derecognition, hedge-accounting, impairments and disclosures. The impairment model will have to change from incurred credit losses towards expected credit losses. While Achmea Bank has not yet undertaken a detailed assessment of how the provisions will be affected by the new model, this may result in an earlier recognition of credit losses. |
| **IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS** | The standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide accounting principles for transactions that were not previously addressed comprehensively (for example service revenue and contract modifications) and provide principles for multiple-element arrangements. IFRS 15 Revenue from Contracts with Customers is effective for reporting periods beginning on or after 1 January 2017, with early application permitted. In 2015, the IASB decided to defer the effective date from 1 January 2017 to 1 January 2018. In 2016 the IASB issued amendments to clarify a number of requirements in IFRS 15 with regard to the application of the standard. The IASB also issued amendments to ease the first application of the standard. This standard has been endorsed by the EU on September 22$^{nd}$ 2016. | We are evaluating the impact of this standard. As interest income is not in scope for IFRS 15, we expect that the standard will have no material impact on Total equity and Net result of Achmea Bank. |

# Notes To The Consolidated Financial Statements

| | | |
|---|---|---|
| **AMENDMENTS TO IAS 7: DISCLOSURE INITIATIVE** | The amendments are intended to clarify the disclosure requirements for changes in liabilities arising from financing activities. The amendments are part of the Disclosure Initiative of the IASB, made up of a number of projects aimed at improving the effectiveness of disclosures in financial reports. The amendments are effective for reporting periods beginning on or after 1 January 2017. As at 31 December 2016, this standard had not been endorsed by the EU. | The amendments will have no impact on Total equity and Net result of Achmea Bank. |
| **AMENDEMENTS TO IAS 12: INCOME TAXES: RECOGNITION OF DEFERRED TAX ASSETS FOR UNREALISED LOSSES** | The amendments clarify the requirements for recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for reporting periods beginning on or after 1 January 2017. As at 31 December 2016, this standard had not been endorsed by the EU. | We expect that the amendments will have no impact on Total equity and Net result of Achmea Bank. |
| **ANNUAL IMPROVEMENTS TO IFRS STANDARDS 2014-2016 CYCLE** | Annual Improvements to IFRSs 2014–2016 Cycle is a collection of amendments to IFRSs in response to three issues addressed during the 2014–2016 cycle. These amendments are effective for reporting periods beginning on or after 1 January 2017, with early application permitted. As at 31 December 2016, this standard had not been endorsed by the EU. | These amendments will have no impact on Net profit and Total equity of Achmea Bank. |

The following standards were issued in 2016 or prior years and are not applied by Achmea Bank as these standards are not relevant for Achmea Bank in preparing its Consolidated Financial Statements 2016:

- IAS 38 Intangible assets (amendments)
- IAS 41 Agriculture (amendments)
- IAS 27 Separate financial statements (amendments)
- IFRS 2: Classification and Measurement of Share-based Payment Transactions (amendments)
- IFRIC Interpretation 22 Foreign currency transactions and advance consideration

They have no impact on Total equity and Net result of Achmea Bank and are therefore not discussed in these financial statements.

## AMENDMENTS RELATED TO PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

There are no prior period corrections or changes in presentation.

# Notes To The Consolidated Financial Statements

## BASIS OF CONSOLIDATION

Subsidiaries are all entities over which the Bank has control (based on the requirements of IFRS 10). The Bank controls an entity when the Bank is exposed to, or has rights to the, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The consolidated financial statements of the Bank include the financials figures of the following companies:

- DMPL VI B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans VI Holding *)***)
- DMPL VIII B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans VIII Holding *)***)
- DMPL IX B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans IX Holding**)***)
- DMPL X B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans X Holding)
- DMPL XI B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans XI Holding)
- DMPL XII B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans XII Holding)
- SGML II B.V. (shares are held by Stichting Securitised Guaranteed Mortgage Loans II Holding)
- DRMPI B.V. (shares are held by Stichting Holding Dutch Residential Mortgage Portfolio I)
- DRMPII B.V. (shares are held by Stichting Holding Dutch Residential Mortgage Portfolio II)
- Achmea Covered Bond Company B.V.
- Stichting Trustee Achmea Hypotheekbank
- Stichting Incasso Achmea Hypotheken

* Called in 2015
** Called in 2016
***Liquidated 31 December 2016

All consolidated companies have their registered office in Amsterdam except for Stichting Trustee Achmea Hypotheekbank which has its registered office in The Hague.

These entities (with the exception of Stichting Incasso Achmea Hypotheken, Stichting Trustee Achmea Hypotheekbank and Achmea Covered Bond Company B.V.) are companies set up by the Bank for securitisation purposes of residential mortgage loans. There are no representatives of the Bank in the boards of these entities.

In addition, the Bank has a covered bond programme for managing and administering the portfolios of Achmea Covered Bond Company B.V. The shares of Achmea Covered Bond Company B.V. are held by Stichting Holding Achmea Covered Bond Company.

The Bank has a Trust agreement with Stichting Trustee Achmea Hypotheekbank, under this Trust agreement the Bank periodically pledges mortgage receivables to Stichting Trustee Achmea Hypotheekbank as collateral for liabilities of and funds entrusted to the Bank.

The Stichting Incasso Achmea Hypotheken has been set up to collect and distributes payments on the mortgage receivables to the Bank and related group companies mentioned above.

The above-mentioned companies are consolidated based on an evaluation of the substance of their relationship with the Bank and the entity's risks and rewards. If one of the following circumstances is applicable, the Bank controls and consequently consolidates an entity:

- The entity conducts its activities to meet Achmea Bank's specific funding needs;
- The Bank has decision-making power to obtain the majority of the benefits of the entity's activities;
- The Bank is able to obtain the majority of the benefits of the entity's activities;
- By having a right to the majority of the entity's benefits, the Bank is exposed to the entity's credit risks on mortgages;
- There is a cash advance facility or liquidity fund applicable for the Special Purpose Vehicles ('SPV') to meet their liquidity needs;
- The entity has the majority of residual interest in the SPV.

All transactions with group companies are at arm's length.

When the Bank loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and other components of equity. Any resulting gain or loss is recognized under profit or loss. Any interest retained in the former subsidiary is measured at fair value once control is lost.

# Notes To The Consolidated Financial Statements

## ELIMINATION OF INTERGROUP TRANSACTIONS AND ACCOUNTS

Intergroup accounts and any unrealised gains and losses on transactions within the Bank or income and expenses from such transactions are eliminated only to the extent that there is no evidence of impairment from the perspective of the consolidated financial statements.

## C SEGMENT INFORMATION

In the internal reports used by the Executive Board to allocate resources and monitor performance targets to the operating segment, Achmea Bank is identified as a single operating segment. Because the Acier loan portfolio differs in characteristics from the typical Achmea Bank mortgages, this portfolio is qualified as a non-core portfolio. A separate income statement is disclosed with a breakdown of the results for the regular Achmea Bank portfolio and the Acier loan portfolio. Furthermore, the risk management paragraph and the notes to the Consolidated Financial Statements include separate information about the credit risk, mortgages and provisions for impairment of this portfolio.

## D CONSOLIDATED STATEMENT OF CASH FLOWS

The Consolidated Statement of Cash Flows has been set up according to the indirect method with a breakdown into cash flows from operating, investing and financing activities. Cash and cash equivalents comprise cash, bank balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of Achmea Bank's cash management processes are recognised as a component of Cash and cash equivalents. In Total cash flow from operating activities, Profit before tax is adjusted for those items in the Income Statement and changes in operating assets and liabilities, which do not result in actual cash flows during the year.

## E RECOGNITION AND DERECOGNITION

An asset is recognised on the consolidated statement of financial position when it is probable that future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably. A liability is recognised on the consolidated statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably.

Financial assets (or parts of a financial asset) are derecognised when the contractual right to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. The Bank derecognises the financial asset if it no longer has control over the asset. In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which the Bank is exposed to changes in the value of the asset. Any cumulative unrealized gain or loss previously recognised in total equity is transferred from total equity to the statement of comprehensive income.

A financial liability (or part of financial liabilities) is derecognised from the balance sheet when, and only when it is extinguished (i.e. when the obligation specified in the contract is discharged or cancelled or expired).

On derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the statement of comprehensive income as a realised gain or loss.

## F USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements in accordance with IFRS requires judgements by Management. Management makes estimates and assumptions affecting the application of accounting policies and the reported amounts of assets and liabilities and of income and expenses. These estimates and assumptions are based on historical data and various other factors that are considered reasonable in the circumstances. The results of this process form the basis for judgements regarding the carrying amounts of assets and liabilities where the carrying amount cannot be derived from other sources. The actual figures may differ from these estimates.

The estimates and underlying assumptions are continually evaluated. The effects of the revisions of estimates are recognised in the year in which the revision takes place.

# Notes To The Consolidated Financial Statements

Any assumptions made by Management in the application of IFRS which have a significant impact on the financial results of current or future years are disclosed in the relevant notes and in paragraph 6 Critical estimates and judgements used in applying the accounting policies.

## G OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are netted in the consolidated statement of financial position if Achmea Bank:

- currently has a legally enforceable right to set off the asset and the liability; and
- intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

## H FOREIGN CURRENCY

Monetary assets and liabilities in foreign currencies are translated into Euros at the rate of exchange prevailing on the balance sheet date. The realised and unrealised translation gains or losses are recognised in the consolidated statement of comprehensive income. Income and expenses as well as non-monetary assets and liabilities arising from transactions in foreign currencies are converted at the exchange rate on the transaction date.

## I AMORTISED COST AND FAIR VALUE MEASUREMENT

### Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument (level 1). A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, the Bank calculates fair values using valuation techniques (level 2 and level 3). Valuation techniques include using recent at arm’s length transactions between knowledgeable, willing parties (if available), references to the current value of other instruments that are substantially the same and discounted cash flow analyses. The chosen valuation technique makes maximum use of observable market inputs (level 2) and unobservable market inputs (level 3), relies as little as possible on estimates specifically related to Achmea Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and validates them by using prices from observable current market transactions in the same instrument.

## J FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank divides its financial assets into the following categories: ‘Loans and receivables’, ‘Financial assets at fair value through profit or loss’ and ‘Available-for-sale financial assets’.

The Financial assets at fair value through profit or loss includes the Derivatives held for risk management and the Available-for-sale financial assets includes the Interest-bearing securities.

When the Bank becomes a party to the contractual provision of a financial instrument, the Bank initially recognises the instrument at the fair value including transaction costs that are directly attributable to its acquisition.

The Bank assesses at the end of each reporting period whether there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset or group of financial assets that can be reliably estimated.

# Notes To The Consolidated Financial Statements

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

## (A) LOANS AND RECEIVABLES (LOANS AND ADVANCES TO BANKS, PUBLIC SECTOR AND CUSTOMERS)

Loans and receivables are financial instruments with fixed or determinable payments and which are not listed on an active market. These receivables arise when the Bank lends funds or provides services directly to a debtor without the intention to trade the receivables.

Consumer loans are included in the ‘Loans and receivables’ and are predominantly mortgages. The value of the mortgage portfolio is initially recognized at fair value and subsequently measured at amortised cost using the effective interest method, except for a small mortgage portfolio, which is carried at fair value (note 11). The ‘Loans and advances’ also include loans to real estate management companies and loans which are secured by commercial real estate.

Loans and advances to banks and to public sector are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method.

## (B) FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (DERIVATIVES HELD FOR RISK MANAGEMENT, TRADE INVESTMENTS)

This category comprises two subcategories, i.e. ‘financial assets held for trading’ and financial assets designated by Management as ‘at fair value through profit or loss’ on initial recognition. A financial asset is classified in the first category if it is acquired primarily for the purpose of being traded in the short term and it is classified in the second category if the asset is designated as such by Management on initial recognition. Derivative financial instruments are classified as held for trading unless they are recognised in a hedge relationship. Derivatives with a negative fair value are classified as financial liabilities and are presented separately on the consolidated statement of financial position. Gains and losses on the financial assets at fair value through profit or loss are recognised in the statement of comprehensive income in the period in which these changes occur.

Financial assets at fair value through profit and loss are recognised on the trade date (the date on which the Bank commits to buy or sell the asset).

After their initial recognition, financial assets at fair value through profit and loss are carried at fair value.

## (C) AVAILABLE-FOR-SALE FINANCIAL ASSETS (INTEREST BEARING SECURITIES)

Financial assets classified as ‘Available-for-sale’ are investments that have been acquired in order to be held until maturity but may be sold to meet liquidity requirements or because of fluctuations in the interest rate, exchange rates or share prices.

Purchases and sales of financial assets are recognised on the transaction date (the date on which the Bank commits to buy or sell the asset).

After their initial recognition, available-for-sale financial assets are carried at fair value. Gains and losses on the ‘Available-for-sale assets’ are recognised directly in other comprehensive income (in the line item ‘fair value reserve’). When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss. The interest income, calculated using the effective interest method, is recognised directly in the statement of comprehensive income. Dividends on equity instruments that are available for sale are recognised in the statement of comprehensive income from the moment at which the entity acquires the right to receive payment.  If there is objective evidence of impairment the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

## FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value net of transaction costs. Subsequently financial liabilities are valued at amortised cost using the effective interest method.  Any differences between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. The Bank initially recognises Debt

# Notes To The Consolidated Financial Statements

securities issued and Subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument. The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or when they expire. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid is recognized in profit or loss.

## K IMPAIRMENT OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

The Bank distinguishes between specific impairment losses and impairments relating to incurred but not reported losses (IBNR).

### SPECIFIC IMPAIRMENT

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset of group of financial assets that can be reliably estimated.

A loss event is defined as an arrear exceeding 3 months or an indication of fraud or any other contract violation.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. For the regular Achmea Bank portfolio expected future cash flows are estimated based on an estimated recovery ratio (based on historical loss experience) and collateral values. For the Acier loan portfolio this is mainly based on the respective collateral values.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in profit or loss.

### INCURRED BUT NOT REPORTED (IBNR)

IFRS also requires any losses resulting from events that have occurred before the balance sheet date, but which have not yet manifested themselves, to be taken into account. These are known as IBNR losses.

The IBNR impairment provision is calculated by estimating the probability of default (PD), the loss given default (LGD), exposure at default (EAD) and the loss incubation period (LIP). Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the IBNR provision. For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, for this reason the IBNR is determined separately for the regular Achmea Bank portfolio and the Acier loan portfolio. The PD, LGD and LIP are based on historical experience and are validated, and revised where necessary, through regular back-testing.

### TREATMENT OF UNCOLLECTIBLE LOANS AND ADVANCES IN THE ACCOUNTS

If all or part of a loan or interest payment proves to be uncollectible, the amount identified as uncollectable is written off from the corresponding provision for impairment losses. Amounts that are subsequently collected are recognised as income.

## L DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are financial instruments in the form of contracts to exchange future cash flows, the value depends on one or more underlying assets, reference prices or indices, that require no or little initial investment. Examples of derivatives are forward exchange contracts, options, interest rate swaps, interest rate cap, futures and forward rate agreements. The Bank executes transactions in derivatives to hedge its own interest rate and currency risks. The financial instruments are classified at fair value through profit or loss.

### INITIAL RECOGNITION

Initial recognition of derivatives is at fair value on the date on which a derivative contract is signed. The fair values are derived from market prices quoted on active markets, including recent market transactions or, where applicable, determined on the basis of valuation methods,

# Notes To The Consolidated Financial Statements

including present value models. Derivatives are recognised as assets if their fair value is positive and as liabilities if their fair value is negative.

On initial recognition of a derivative, the transaction price is the best indicator of fair value unless the fair value of the instrument is supported by other information of observable current market transactions in the same instrument or is based on a valuation method which makes solely use of observable markets.

## HEDGE ACCOUNTING

The Bank has designated derivatives as fair value hedges on the interest rate risk inherent in its mortgage portfolio (macro hedge) as well as on the interest rate risk and currency risk related to debt securities issued (micro hedge). For the application of fair value hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items or positions, as well as the risk management objective and strategy at the inception of the transaction.

The Bank formally records whether the derivatives used in the hedging transactions are effective in offsetting changes in the fair value of hedged items, both at the start and for the duration of the hedging relationship. A hedging relationship is effective when the effectiveness lies prospectively between 95% and 105% and retrospectively between 80% and 125%. Effectiveness is measured by dividing the change in fair value of the hedging instruments by the change in fair value of the hedged item (based on the risk being hedged). To ascertain the effectiveness, the Bank performs both prospective and retrospective testing.

**Macro hedging**
The Bank periodically assesses the fair value change of the macro hedge in the hedged part of the portfolio of mortgage loans attributable to the hedged risk, on the basis of the expected interest reset date. When the Bank assesses the hedge being effective, it recognises the fair value change in the hedged part of the portfolio of mortgage loans. It is reported as a gain or loss in the statement of comprehensive income and in the consolidated statement of financial position item Loans and advances to customers.

In accordance with its hedging policy, the Bank terminates the hedging relationships and then defines the new hedging relationships for hedge accounting purposes on a monthly basis. For the terminated hedging relationships, the Bank starts with the amortisation to the statement of comprehensive income of the applicable part of the Loans and advances to customers. This asset is amortised using the effective interest method over the remaining term to maturity of the relating hedged items.

**Micro hedging**
The Bank periodically assesses the fair value change of the micro hedge in the hedged part of the Debt securities issued attributable to the hedged risk, on the basis of the expected interest reset date. When the Bank assesses the hedge being effective, it recognises the fair value change in the hedged part in the consolidated statement of financial position of Debt securities issued and the gain or loss in the statement of comprehensive income.

The Bank measures the change in fair value of the derivatives and recognises it as a gain or loss in the statement of comprehensive income. The fair value of the derivatives is recognised in the consolidated statement of financial position as an asset or a liability.
If there is ineffectiveness, this is expressed in the statement of comprehensive income as the difference between the change in fair value of the hedged position and the change in fair value of the hedging instrument.

## M CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances as well as call deposits with the Dutch Central Bank. Current account overdrafts which are repayable on demand and which form an integral part of Achmea Bank's cash management are part of the Cash and cash equivalents in the statement of cash flows.

## N INTEREST-BEARING DEBT SECURITIES

Interest-bearing debt securities are partly recognised under Deposits from banks, Funds entrusted and Debt securities issued and are initially measured at fair value less attributable transaction costs. After initial recognition, Interest-bearing debt securities are measured at amortised cost, the difference between cost and redemption value being recognised in the statement of comprehensive income using the effective interest method over the term of the loans.

## O EMPLOYEE BENEFITS

# Notes To The Consolidated Financial Statements

All staff, with inclusion of the Executive Board, is employed by Achmea Interne Diensten N.V., a subsidiary of Achmea B.V. Achmea Interne Diensten N.V. has placed the pension commitments for employees of Achmea Bank N.V. with Stichting Pensioenfonds Achmea (SPA). The pension scheme for the employees of Achmea B.V. is a so-called Collective Defined Contribution (CDC) scheme. The financial and actuarial risks (including risk of longevity) are in essence transferred to the employees, implying among other things that the future increase on vested rights for current employees has become conditional on the funded status within the plan. The related CDC contributions are allocated by Achmea Interne Diensten N.V. to Achmea Bank N.V. on the basis of pensionable salary of current employees. IAS 19 Employee Benefits is applicable to Achmea Bank N.V. based on the situation that the defined benefit plans share risks between entities under common control. For the disclosures on the IAS 19 Employee Benefits (based on IAS 19.150) reference is made to the financial statements of Achmea B.V. (www.achmea.com).

## P TAX

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period and is recognised in the statement of comprehensive income.

Deferred tax is recognised to allow for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax assets and/or liabilities are based on the expected manner in which the carrying amounts of the assets and liabilities will be realised or settled in the future, using rates that are fixed on the balance sheet date. A deferred tax asset is only recognised when it is probable that taxable profits will be available in the future which can be used for the realisation of the asset. The amount of the deferred tax assets will be reduced when it is no longer probable that the related tax benefit will be realised. The most important temporary differences at Achmea Bank N.V. between the reported carrying amounts and the tax bases of the items concerned relate to the measurement of derivative financial instruments, Loans and advances to customers and Debt securities issued at fair value and at amortised cost.

There is a legally enforceable right to settle deferred tax positions and there is an intention to settle on a net basis. This is not applicable for current tax positions.

## Q PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables are initially measured at fair value. After initial recognition Prepayments and other receivables are measured at amortised cost using the effective interest method.

## R PROVISIONS

Provisions are recognised when Achmea Bank has a present legal or constructive obligation as a result of past events. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

## S INTEREST MARGIN AND CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

For all instruments measured at amortised cost, interest income and interest expenses are recognised in the statement of comprehensive income using the effective interest method.

The effective-interest method is a method for the calculation of the amortised cost of a financial asset or a financial liability and for the allocation of interest income and expenses to the relevant period. The calculation of the effective interest rate is based on an estimation of all contractual cash flows of the financial instrument, excluding unexpected credit losses.

The calculation of amortised cost includes all fees paid or received and other terms and conditions which are an integral part of the effective interest rate.

The fair value change of the hedged items in the fair value hedge is recognised in changes in fair value of financial instruments (see also note J Derivatives and hedge accounting). This category includes the revaluation effects of the fair value of derivatives.

## T FEES AND COMMISSION EXPENSES

Fees and Commission includes commission paid and received related to mortgages as well as saving products.

# Notes To The Consolidated Financial Statements

## 3. CAPITAL AND FINANCIAL RISK MANAGEMENT

### A INTRODUCTION

This section provides insight into the Bank's capital position, financial risks and the way Achmea Bank manages these risks.

### B RISK APPETITE

Risk appetite is defined as the level of financial and non-financial risk the Bank is willing to take, given the Bank's business objectives. The risk appetite is translated into the maximum decline in profit, liquidity and capital the Bank will accept under extreme conditions. With respect to capital and liquidity, the Bank aims to:

- achieve a responsible level of return on equity that guarantees access to the capital markets;
- maintain sufficient levels of capital and liquidity to meet internal and external requirements;
- be able to continue its business even in severe stress scenarios;
- avoid irresponsible concentration risks on its credit portfolio;
- maintain a sound balance sheet with a divers funding mix and an acceptable level of asset encumbrance; and
- have a conservative investment policy.

A further explanation of these items is given in the following paragraphs, including the limits per individual risk.
The risk appetite is a general policy which is reviewed at least annually. The Balance Sheet & Financial Risk Management department is responsible for the risk appetite statement. The statement is approved by the Asset and Liability Committee (ALCo), the Finance and Risk Committee (F&RC), the Executive Board and the Supervisory Board.

### C RISK GOVERNANCE

The Bank aims to achieve an optimal balance between risk and return. Adequate risk management is key in order to support and monitor the Bank's core activities.

The Executive Board is responsible for defining and executing the Bank's strategy. An important element of the Bank's strategy is risk management for liquidity risk, counterparty risk, credit risk, interest rate risk, currency risk, operational risk and capital management.

The Executive Board is responsible for setting up effective processes that enable the Bank to hold sufficient capital with respect to its objectives and the regulatory capital adequacy requirements. Within this scope, the Executive Board delegated specific tasks to different committees (F&RC, Credit Risk Committee and ALCo).

The Credit Risk Committee and the ALCo are sub-committees of the Finance & Risk Committee, which is the ultimate decision-making body for new policies and amendments to policies regarding financial risks. The Executive Board is also part of this committee.

The objective of the Bank's risk framework is to identify and analyse risks at an early stage by setting and monitoring objective limits. Adequate internal control procedures and (forward-looking) reporting systems are key elements in the Bank's risk management.

The basis of the risk framework is the three-lines-of-defence model, in which day-to-day responsibility for risk control is assigned to the commercial and/or operational departments (first line). Operational Risk Management, Compliance, and Balance Sheet & Financial Risk Management are the second line and are responsible for the relevant risk policies and for the monitoring and control of the Bank's risks. Internal Audit is the third line and performs objective audits on the risk framework.

The ALCo focuses on the management of interest rate risk, market risk, professional counterparty risk (retail counterparty risk is the focus of the Credit Risk Committee), liquidity risk, funding risk and capital management. The ALCo bases its decisions partly on standard reports in which actual as well as forecasted figures with several (stress) scenarios are represented. In addition the ALCo supervises compliance with the relevant regulatory guidelines, especially with regard to the capital, funding, liquidity and market risk. The ALCo is chaired by the Director of Finance and Risk of Achmea Bank. Other members of the ALCo are representatives of Balance Sheet & Financial Risk Management, Control, Corporate Finance (Achmea B.V.) and Treasury (Achmea B.V.).

# Notes To The Consolidated Financial Statements

## D FUNDING AND PLEDGED MORTGAGE RECEIVABLES

The Bank has a diversified funding mix and uses retail financing, unsecured and secured wholesale financing. In addition the Bank maintains different maturity profiles in its funding instruments to mitigate potential concentration of liquidity risk, i.e. (re) financing risk, in the future.

The following table shows the Bank's funding mix, excluding derivatives, based on notional amounts.

FUNDING MIX

| | 2016 | 2015 |
|---|---|---|
| IN MILLIONS OF EUROS | | |
| Funds entrusted (retail) | 5,922 | 5,878 |
| Unsecured wholesale funds | 3,693 | 4,370 |
| Secured wholesale funds | 3,452 | 3,704 |
| Deposits from banks (excluding Central Bank) | 68 | 118 |
| Other funding | 76 | 100 |
| **Total funding** | **13,211** | **14,170** |

### Funds entrusted (retail)

Achmea Bank generates consumer savings under the Centraal Beheer Achmea label. The total savings portfolio consists of 40% available on demand accounts and 60% deposits.

As at 31 December 2016, EUR 5.9 billion in savings had been deposited with the Bank and used as funding (2015: EUR 5.9 billion).

### Secured wholesale funds

The Bank partly finances itself via secured funding. For this type of funding pledges are given on mortgage receivables.

The pledges are as follows:

ANALYSIS OF PLEDGES:

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Securitisations | 3,931,382 | 4,236,394 |
| Asset switch | 1,062,508 | 1,093,692 |
| Trustee | 229,755 | 258,485 |
| Covered bond | 228,223 | 273,686 |
| **Total pledged mortgage receivables** | **5,451,868** | **5,862,257** |

Reference is made to notes 11 and 16 for more details on pledged assets and related liabilities.

**Securitisations**
The Bank uses securitisation as one of its funding sources. In 2016 the Bank redeemed the notes of DMPL IX (EUR 0.5 billion) at its first optional redemption date. In November 2016 the Bank successfully issued DRMPII, for an amount of EUR 0.6 billion. As of 31 December 2016 the Bank has 5 outstanding securitisation transactions, with a total outstanding amount of EUR 3.1 billion (2015: EUR 3.3 billion) (excluding the notes which are held by the Bank on own book for an amount of EUR 0.8 billion (2015: EUR 0.8 billion). EUR 1.3 billion of the Residential Mortgage-Backed Securities (RMBS) notes has been placed within Achmea Group (2015: EUR 1.5 billion).

In all these securitisation transactions the Bank assigns a portfolio of mortgage receivables to a special-purpose vehicle (SPV) which issues notes. The SPV uses the proceeds of the notes to finance the assigned mortgage receivables and uses the interest from the mortgage receivables to pay the interest on the notes. The director of these companies is Intertrust Management B.V.

**Asset switch**
Achmea Bank has a facility at its disposal in the form of an asset switch for a maximum amount of EUR 1 billion. The Bank exchanged legally (not economically) mortgages for government bonds of AP&L, Under the asset switch Achmea Bank receives government bonds in legal ownership from AP&L and delivers mortgage receivables in legal ownership to AP&L in return. The government bonds are recognized as

# Notes To The Consolidated Financial Statements

part of Achmea Bank's liquidity buffer. Important advantages of the asset switch are the enhanced flexibility in the timing of attracting new funding and the relatively low charge compared to alternative forms of (on-balance) liquidity.

**Trustee**

The Bank has entered into a Trust Agreement under which it periodically pledges mortgage receivables to Stichting Trustee Achmea Hypotheekbank as collateral for some of its banking liabilities, such as private placements, derivatives and the Secured Medium Term Note (the 'Secured EMTN Programme'). In the event of default by the Bank, investors can recover their investments from the pledged mortgage receivables.

The Secured EMTN Programme is used to fund a limited portion of the mortgage portfolio. As at 31 December 2016 a total of EUR 61 million was outstanding (2015: EUR 61 million). Two of the issued notes (EUR 20 million) are listed on Société de la Bourse de Luxembourg.

**Covered bond programme**

Under the covered bond programme the Bank has issued eight covered bond notes. Seven of these transactions were redeemed before 31 December 2016. The Bank acts as both the originator and issuer under the programme and consequently has the primary obligation to pay interest and principal payable on the covered bond notes issued under the programme.

The Achmea Covered Bond Company ('ACBC'), a bankruptcy-remote special purpose vehicle, provides the covered bond investors with a guarantee for full payment of interest and principal on the outstanding bonds under the programme by pledging the mortgage receivables of the Bank to the ACBC and through a parallel debt agreement with the Security Trustee.

The outstanding amount of these pledged mortgage receivables will at all times be at least 33% higher than the outstanding amount of the bonds issued under the programme.

### Unsecured wholesale funds

**Unsecured MTN Programme**

In October 2012 the Bank set up a EUR 10 billion Unsecured Medium Term Note programme. The total outstanding amount under the Unsecured EMTN programme was EUR 3.2 billion as at year-end 2016 (2015: EUR 3.7 billion), of which EUR 0.8 billion was in private placements (2015: EUR 0.8 billion).

**French commercial paper programme**

In 2013 the Bank set up a French commercial paper programme of EUR 1.5 billion. With this programme the Bank is able to access the international money markets in order to further diversify its funding mix. In 2016 the ongoing programme resulted in a total outstanding amount of EUR 208 million as at year-end 2016 (2015: EUR 262 million).

**Other funding**

Achmea Bank has a loan of CHF 200 million, issued by Achmea B.V., related to the Acier loan portfolio.

## E CREDIT RISK

Credit risk is defined as the risk that a counterparty cannot (fully) meet its obligations to Achmea Bank and consists of retail credit risk and the credit risk related to exposures to professional counterparties.

## RETAIL CREDIT RISK

Achmea Bank's policy on credit risk revolves primarily around counterparty risks associated with mortgage loans. Appropriate underwriting criteria for new clients and active credit risk management for existing clients safeguard the quality of the mortgage loan portfolio.

Stringent procedures are in place to monitor payment arrears. Borrowers that are in arrears for more than three months are transferred to Achmea Bank's Default Management Department. This department is responsible for account management and debt collection.

### Forbearance

Forbearance measures may be applied in situations in which the borrower is considered unable to meet the terms and conditions of the contract due to financial difficulties. Depending on the nature of those difficulties, Achmea Bank may decide to modify the terms and

# Notes To The Consolidated Financial Statements

conditions of the contract to maximise collection opportunities and minimise the risk of default. As from mid-2015 the Bank has been applying the following modifications:

- temporary payment holidays;
- temporary lowering of interest rate;
- interest or cost forgiveness;
- restructuring and/or extension of the loan; and/or
- partial debt write-off.

As at 31 December 2016 the known forborne exposure amounted to EUR 81 million (2015: EUR 13 million), which is less than 1% of the total portfolio.

### Credit quality by financial asset class

The following table shows the credit quality of the mortgage loans based on Loan to Market Values for the Achmea Bank portfolio and Acier loan portfolio. The Loan to Market Value is the internally used classification of mortgages for the evaluation of credit quality.

| AS AT 31 DECEMBER | 2016 | 2015 |
|---|---|---|
| in million of euros | | |
| **Regular Achmea Bank portfolio** | | |
| NHG | 2,731 | 2,943 |
| < 75% | 3,690 | 3,994 |
| < 90% | 1,284 | 1,358 |
| < 110% | 2,326 | 2,465 |
| < 125 % | 666 | 693 |
| >= 125% | 59 | 70 |
| | **10,756** | **11,523** |
| | | |
| **Acier loan portfolio (Residential part)** | | |
| < 75% | 335 | 173 |
| < 90% | 79 | 72 |
| < 110% | 161 | 170 |
| < 125 % | 65 | 85 |
| >= 125% | 293 | 302 |
| | **933** | **802** |

The tables above are based on notional values of the mortgages. The carrying amount of loans and advances to customers is disclosed in note 11.

Of the total amount of loans and advances to customers, an amount of EUR 117 million (2015: EUR 197 million) is past due but not impaired, which is less than 1% of the total portfolio.

### AGING ANALYSIS OF PAST DUE BUT NOT IMPAIRED LOANS

| AS AT 31 DECEMBER 2016<br>IN THOUSANDS OF EUROS | LESS THAN 1 MONTH | 1 < 2 MONTHS | 2 < 3 MONTHS | > 3 MONTHS | TOTAL |
|---|---|---|---|---|---|
| Regular Achmea Bank portfolio | 49,860 | 15,481 | 476 | 1,801 | 67,618 |
| Acier loan portfolio | 9,866 | 12,295 | 15,632 | 11,856 | 49,649 |
| **Loans and advances to customers** | **59,725** | **27,776** | **16,108** | **13,657** | **117,267** |

# Notes To The Consolidated Financial Statements

## AGING ANALYSIS OF PAST DUE BUT NOT IMPAIRED LOANS

| AS AT 31 DECEMBER 2015<br>IN THOUSANDS OF EUROS | LESS THAN 1 MONTH | 1 < 2 MONTHS | 2 < 3 MONTHS | > 3 MONTHS | TOTAL |
|---|---|---|---|---|---|
| Regular Achmea Bank portfolio | 15,867 | 125,608 | 11,336 | 5,394 | 158,205 |
| Acier loan portfolio | 7,069 | 11,780 | 6,276 | 13,569 | 38,694 |
| **Loans and advances to customers** | **22,936** | **137,388** | **17,611** | **18,962** | **196,899** |

## COUNTERPARTY CREDIT RISK

The counterparty risk on exposures to governments and financial institutions is primarily associated with investment activities and cash management. When determining country limits and limits for financial institutions, Achmea Bank applies a risk mitigation policy that complies with the relevant Achmea group policy. To manage counterparty risk, the Bank imposes individual counterparty limits on both exposure and maturity. These limits are approved by the ALCo. Positions are monitored by the Treasury department (1st line) and Balance Sheet Management & Financial Risk (2nd line). The credit risk exposure to professional counterparties is managed and monitored by the ALCo.

The Bank uses Credit Support Annexes (CSA) to reduce counterparty risk exposure on derivatives by means of (cash) collateral. No impairments on counterparty positions occurred in 2016. As at 31 December there are no concentrations of credit risk above the internally applied target for the concentration of credit risks.

As at year-end of 2016 the net exposure amounted to EUR 58 million (2015: EUR 75 million) and consisted of the total fair value of the derivatives versus the collateral position. This net exposure is mainly related to exposures to counterparties for which the bank has no CSA in place. The net counterparty-risk-related value adjustment was EUR 0.3 million at year-end (2015: EUR 46 thousand). This value adjustment includes both a Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA).

The credit risk on the other financial assets of the Bank (investments and derivatives) are managed by the external credit ratings of the counterparties (Middle rating: Standard & Poor's, Moody's and Fitch):

CREDIT RISK ON OTHER FINANCIAL ASSETS

| As at 31 December 2016<br>IN THOUSANDS OF EUROS<br>FINANCIAL ASSETS CATEGORISED PER MIDDLE RATING | ▯ A | ▯ A | NOT RATED | TOTAL |
|---|---|---|---|---|
| Cash and balances with Central Banks | 658,325 | – | – | 658,325 |
| Derivative assets held for risk management | 30,459 | 225,051 | – | 255,510 |
| Loans and advances to banks | 276,178 | 830,404 | 10,762 | 1,117,344 |
| Loans and advances to public sector | – | – | 15,820 | 15,820 |
| Interest-bearing securities | 401,182 | – | – | 401,182 |
| | **1,366,144** | **1,055,455** | **26,582** | **2,448,181** |

| AS AT 31 DECEMBER 2015<br>IN THOUSANDS OF EUROS<br>FINANCIAL ASSETS CATEGORISED PER MIDDLE RATING | ▯ A | ▯ A | NOT RATED | TOTAL |
|---|---|---|---|---|
| Cash and balances with Central Banks | 731,360 | – | – | 731,360 |
| Derivative assets held for risk management | 39,205 | 260,921 | – | 300,126 |
| Loans and advances to banks | 265,619 | 976,963 | 5,232 | 1,247,814 |
| Loans and advances to public sector | – | – | 132,085 | 132,085 |
| Interest-bearing securities | 399,776 | 75,044 | – | 474,820 |
| | **1,435,960** | **1,312,928** | **137,317** | **2,886,205** |

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The lowest rating at year-end 2016 was BB (EUR 129 million) (year-end 2015: rating BBB, EUR 20.2 million). Most of the collateral positions are included in the category loans and advances to banks. At year-end 2016 the collateral positions (credit rating is A, BBB and BB) account for EUR 67 million (2015: EUR 118 million) reported as a liability, which is recognised under deposits from banks.

## F MARKET RISK

One of Bank's objectives is to generate a positive interest margin on its banking operations. The Bank's market risk mainly consists of interest rate risk arising from its banking operations. The Bank has a strict policy on mitigating foreign currency risk and uses financial instruments to hedge interest rate risk and foreign currency risk.

The Balance Sheet Management & Financial Risk department is responsible for monitoring and managing the Bank's market risk. Transactions on the financial markets are executed by Achmea B.V.'s central Treasury department and Corporate Finance department. The Bank's risk exposure is discussed during ALCo meetings and appropriate action is taken if necessary.

The Bank does not engage in proprietary trading on financial markets.

### Interest rate risk

Interest rate risk is the present or future risk of a decline in total equity and interest income due to changes in market interest rates. The Bank hedges the interest rate risk arising from its mortgage lending and funding operations mainly by means of interest rate derivatives (swaps), but also with investments (for example government bonds) and (long-term) funding instruments like retail savings.

Interest rate risk is managed from both an income and value perspective:

- Effects of a change in interest rate on the economic value of the total equity; and
- Effects of a change in interest rate on the income statement (and therefore in the net result).

### Effects of a change in the interest rate on total equity

The impact on total equity is based on the market value of all financial instruments. It is not directly visible in the income statement or in the consolidated statement of the financial position as most instruments are recognised at amortised cost.

The Bank uses various methodologies to monitor the impact on total equity:

- Duration of equity: measures the sensitivity of the market value of equity due to a parallel shift (shock) of the interest rates of one basis point;
- Sensitivity analysis: measures the effect on the market value of total equity of an event that is exceptional, but relevant to the Bank. It comprises a sudden, parallel shift of the interest rate curve (swap curve) by 200 basis points (up and down). The impact of a non-parallel shift can be higher than that of a parallel shift. The sensitivity analysis recalculates the market value of the entire portfolio under the above mentioned scenarios;
- Income at Risk: measures the impact on the interest income by a fluctuation of the interest rates.

These sensitivity analyses are also used in management reports and discussed in ALCo. The outcome of the sensitivity analysis are within the internally applied limits.

DURATION

| IN YEARS | 2016 | 2015 |
|---|---|---|
| Equity Duration | 3.48 | 4.53 |

The table above shows that the duration of total equity of Achmea Bank decreased from 4.53 years as at 31 December 2015 to 3.48 years as at 31 December 2016.

SENSITIVITY ANALYSIS

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Change in the interest rate of 100 basis points negative | −15,699 | 14,074 |
| Change in the interest rate of 200 basis points positive | −58,517 | −88,498 |

# Notes To The Consolidated Financial Statements

The effect of a 200 basis point upward shift of the yield curve on total equity value is EUR -59 million at 31 December 2016, compared to EUR -88 million at 31 December 2015. This is mainly due to a decrease of the duration combined with an increased economic market value of equity. The negative impact on market value of equity in the 100 basis point downward scenario is mainly caused by the assumption that the prepayments will rise in this scenario. Combined with extremely low interest rates this has a negative impact on the market value of equity that out shadows the positive impact of the decrease in interest rates.

### Effects of a change in the interest rate on income statement

Income at Risk measures the sensitivity of the net interest income when the underlying interest rates are raised by 1 basis point, with a time horizon of one year.

INTEREST RATE RISK EXPOSURE

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Income at Risk | 86 | 199 |

The decrease in the Income at Risk is due to the further improvement of the management of the interest rate gaps, which led to a reduction in the first month interest rate gap.

### Foreign currency

With respect to foreign currencies, the Bank´s policy is to fully hedge its exposure to foreign currency risk. The Bank´s exposure as 31 December 2016 is limited to a Covered Bond funding transaction in CHF and the CHF mortgage portfolio as part of the Acier loan portfolio.

Covered Bond

This funding is converted into Euros and the exposure is hedged with a cross-currency swap (where micro hedge accounting is applied). The following table gives an overview of the cash flows from this foreign currency funding and the non-Euro part of the cash flow of the related cross-currency swap.

CHF mortgage portfolio

Part of the Acier loan portfolio that has been transferred to the Bank is denominated in CHF (CHF mortgages EUR 487 million at year-end 2016). This CHF position is partly hedged by a 200 million CHF loan. The remaining CHF exposure is almost fully hedged on a monthly basis via foreign exchange derivatives (forward contracts).

FOREIGN CURRENCY EXPOSURE

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **In thousands of euros** | **Total exposure** | **hedging instruments** | **Net exposure** | **Total exposure** | **hedging instruments** | **Net exposure** |
| Assets | | | | | | |
| Swiss Franc | 487,391 | −485,275 | 2,116 | 370,428 | −367,640 | 2,788 |
| | **487,391** | **−485,275** | **2,116** | **370,428** | **−367,640** | **2,788** |
| Liabilities | | | | | | |
| Swiss Franc | −186,237 | 186,237 | – | −184,587 | 184,587 | – |
| | **−186,237** | **186,237** | **–** | **−184,587** | **184,587** | **–** |
| **Net** | | | | | | |
| Swiss Franc | 301,154 | −299,038 | 2,116 | 185,841 | −183,053 | 2,788 |
| | **301,154** | **−299,038** | **2,116** | **185,841** | **−183,053** | **2,788** |

The remaining exposure on Swiss Franc relates to the CHF mortgages and lies within the limits of the Bank’s objective to minimize foreign currency exposure.

The following exchange rates have been used:

| | CLOSING RATE | | AVERAGE RATE | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Swiss Franc | 1.0739 | 1.0835 | 1.0787 | 1.1430 |

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## G LIQUIDITY RISK

This includes both the risk that Achmea Bank is not able to attract funding with appropriate maturities or at appropriate interest rates and the risk that Achmea Bank fails to liquidate assets at a reasonable price or within a reasonable period of time. Control of the maturity mismatch of assets and liabilities is a fundamental element of Achmea Bank's liquidity risk management.

Liquidity risk consists of two basic types of risk:

- Market liquidity risk: The risk that, because of a crisis in the financial markets, the Bank cannot liquidate its assets in a short period of time and at acceptable costs.
- Funding liquidity risk: The possibility that, over a specific horizon, the Bank will become unable to settle obligations when due. A typical example of this type of risk is a 'bank run'.

The day-to-day cash management is the responsibility of Achmea B.V.'s central Treasury department, which monitors the daily minimum cash position of EUR 75 million. Liquidity risk monitoring and reporting, which includes actual and forecasted figures, is the responsibility of the Balance Sheet Management & Financial Risk department (2nd line of defence). Furthermore, the ALCo monitors Achmea Bank's liquidity risks on a monthly basis. Achmea Bank applies a minimum liquidity position that ensures the bank's survival for at least six months in case of combined market liquidity and funding liquidity stress conditions. The actual 'survival period' at year-end was 10.4 months (2015: 9.4 months).

### Liquidity buffer

As part of adequate liquidity management it is necessary for banks to have a sufficient liquidity buffer to sustain unforeseen liquidity stress situations. The Bank recognises at least the following liquidity stress situations, for which it holds a liquidity buffer:

- A strong withdrawal or bank run on retail savings (on demand);
- Volatility of cash collateral call on (interest rate) derivatives; and
- Postponed roll refinancing of (unsecured wholesale) funding transactions.

In 2015 the Bank entered into an Asset Switch agreement with the Achmea B.V. division Achmea Pensioen & Leven (AP&L) in order to improve its liquidity position. The Bank legally (i.e. not commercially/economically) exchanged mortgages for government bonds held by AP&L at a market value ratio of 110:100. Due to the higher liquidity treatment of government bonds, this enhances the liquidity position of the Bank and provides more flexibility in the timing of new funding transactions in connection with managing the liquidity and the survival period of the Bank. At year-end 2016 EUR 1.063 million of mortgages at nominal value were exchanged for EUR 951 million in government bonds.

The Bank's liquidity buffer mainly consists of on-demand Central Bank deposits and an unencumbered portfolio of high-quality liquid assets, including the government bonds under the Asset Switch. At year-end the Bank had a portfolio of liquid assets amounting to EUR 749 million (interest bearing securities and SGML II) that can easily be sold or posted as collateral and approximately EUR 615 million cash on demand at Central Bank. In addition, the Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V. This facility will mature in 2019 but the Bank has the right to extend the facility in 2019 for a maximum period of two years.

Furthermore, the Bank has a commitment from an associate company within the Achmea group that enables the Bank to transfer EUR 1.5 billion of mortgage loans in exchange for cash in case of a liquidity emergency.

### Liquidity Contingency Plan

The Bank has a Liquidity Contingency Plan (LCP) available in case of a liquidity stress event. The LCP is part of the Achmea Bank's Recovery Plan. The Recovery Plan provides solutions to ensure the survival of the Bank for at least six months of severe liquidity stress. The recovery plan contains possible measures to add liquidity in times of need and is reviewed on (at least) an annual basis.

The following table presents the undiscounted contractual cashflows of the financial liabilities of the Bank.

# Notes To The Consolidated Financial Statements

UNDISCOUNTED CONTRACTUAL CASH FLOWS OF THE LIABILITIES

| AS AT 31 DECEMBER 2016 | ← 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | → 5 YEARS | TOTAL | TOTAL CARRYING AMOUNT |
|---|---|---|---|---|---|---|
| IN THOUSANDS OF EUROS | | | | | | |
| Deposits from banks | 25,946 | 7,828 | 42,374 | 21,267 | 97,415 | 97,411 |
| Funds entrusted | 2,913,271 | 442,146 | 1,848,545 | 2,136,252 | 7,340,214 | 6,388,454 |
| Debt securities issued | 189,672 | 1,278,975 | 4,066,806 | 1,581,907 | 7,117,360 | 6,825,449 |
| Subordinated liabilities | 838 | – | 8,202 | 1,327 | 10,367 | 8,336 |
| Derivative liabilities held for risk management | 2,582 | 32,592 | 272,591 | 460,840 | 768,605 | 764,533 |
| **Total cashflows** | **3,132,309** | **1,761,541** | **6,238,518** | **4,201,593** | **15,333,961** | **14,084,183** |

| AS AT 31 DECEMBER 2015 | ← 3 MONTHS | BETWEEN 3 MONTHS AND 1 YEAR | BETWEEN 1 AND 5 YEARS | → 5 YEARS | TOTAL | TOTAL CARRYING AMOUNT |
|---|---|---|---|---|---|---|
| IN THOUSANDS OF EUROS | | | | | | |
| Deposits from banks | 782 | 2,358 | 114,806 | – | 117,946 | 117,946 |
| Funds entrusted | 2,908,390 | 847,954 | 1,836,484 | 1,726,949 | 7,319,777 | 6,586,661 |
| Debt securities issued | 712,115 | 927,684 | 4,483,997 | 1,866,491 | 7,990,287 | 7,578,152 |
| Subordinated liabilities | 839 | – | 8,581 | 1,392 | 10,812 | 8,336 |
| Derivative liabilities held for risk management | 11,093 | 37,230 | 388,706 | 471,149 | 908,178 | 896,074 |
| **Total cashflows** | **3,633,219** | **1,815,226** | **6,832,574** | **4,065,981** | **16,347,000** | **15,187,169** |

## H CAPITAL MANAGEMENT

The Bank must hold sufficient buffer capital to cover the risks arising from its operations. Pillar I of the Basel framework offers guidelines for calculating the minimum amount of capital that needs to be held, according to the regulators, in relation to credit risk, market risk and operational risk. Under the rules, the capital adequacy requirements relating to these risks can be calculated in a number of ways with varying degrees of sophistication. The Bank uses the standardized approach to calculate the risk weightings of its assets.

The Bank’s policy is to maintain a strong capital base to maintain investor, creditor and market confidence in order to sustain the future development of the business.

Under the Dutch Financial Supervision Act (Wft), banks are required to maintain minimum capital ratios. The Bank fully complied with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 19.1% and a Total Capital Ratio of 19.2% at 31 December 2016, which is above the internally applied target for the minimum capital ratio level.

## QUALIFYING CAPITAL AND CAPITAL RATIO

### Risk weighted assets

The Bank reports the risk weighted exposure amounts in line with the CRD IV guidelines. In 2016 the total risk exposure amount decreased by EUR 359 million from EUR 4,594 million to EUR 4,237 million, mainly due to the application of credit risk mitigation for the mortgage deposits and the overall reduction of the mortgage portfolio.

### Common Equity Tier 1 Capital

In 2016 the Tier 1 capital increased by EUR 39 million from EUR 769 million to EUR 808 million, mainly as a result of the capital contribution of EUR 33.5 million related to the acquisition of the remaining part of the Acier loan portfolio and the positive result of 2015. As the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its core tier 1 capital. The deductions in the table below mainly relate to the revaluation reserve and prudent valuation.

### Tier 2 capital

As at 31 December 2016 an amount of EUR 5 million (2015: EUR 7 million) is qualified as Lower Tier 2 and consist of subordinated loans.

# Notes To The Consolidated Financial Statements

## QUALIFYING CAPITAL AND CAPITAL RATIO

IN MILLIONS OF EUROS

| | 2016 | 2015 |
|---|---|---|
| Share capital | 18 | 18 |
| Share premium reserve | 506 | 472 |
| Reserves | 286 | 287 |
| Deductions | −2 | −8 |
| | | |
| **Common Equity Tier 1 Capital** | **808** | **769** |
| | | |
| Lower Tier 2 | 5 | 7 |
| **Total own funds** | **813** | **776** |
| | | |
| **Total risk exposure amount** | **4,237** | **4,594** |
| | | |
| **Common Equity Tier 1 Capital Ratio** | **19.1%** | **16.7%** |
| **Total Capital Ratio** | **19.2%** | **16.9%** |
| | | |
| **Total Capital Ratio excl. Acier loan portfolio** | **16.8%** | **15.3%** |

### Internal capital adequacy requirements

The Bank has implemented internal processes to align with the required capital for the risks the Bank faces. These processes are included in the Internal Capital & Liquidity Adequacy Assessment Process (ICLAAP) manual. Among other things, the manual describes the governance structure, procedures, assumptions and methods used to determine the required capital. The Internal Capital Adequacy Assessment Process (ICAAP) serves to assess and maintain both the current and future capital adequacy of the Bank.

### Capital contingency

The purpose of capital contingency is to ensure that appropriate measures are taken in case of a (imminent) solvency deficit. The Bank monitors its solvency position on a monthly basis. However, the Bank recognizes that unexpected internal or external events may adversely affect the capital position for a shorter or longer period and that this may jeopardize the continuity of the Bank. It is essential to be able to obtain sufficient capital at all times, not only in a going-concern situation but also in stress situations. The Bank has a recovery plan as well as an Internal Capital & Liquidity Adequacy Assessment Process (ICLAAP), which describe the appropriate measures that are in place in order to bring the solvency of the Bank back to the desired level in stress situations. The ICLAAP and the recovery plan are reviewed at least once a year.

## I OPERATIONAL RISK

Operational risks are potential losses as a result of inadequate or defective internal processes and systems, inadequate or incorrect human actions, or external events and fraud.

The Bank has a framework for identifying, evaluating, monitoring and managing operational risks and risks surrounding information security and business continuity.

This framework comprises the following processes:

- Risk identification and classification through risk self-assessments, audits and top-down risk analysis of the reliability of the financial statements;
- Risk measurement through key risk indicators, a central incidents database and incident reporting and analysis; and
- Risk mitigation, acceptance and monitoring through follow-up of outstanding actions and audit findings.

# Notes To The Consolidated Financial Statements

The responsibility to manage operational risks is primarily assigned to the operating and commercial departments (first line of defence).

The risk management cycle is monitored continuously by means of a broad-based internal control framework. At least every three months the risk management cycle is discussed in detail by the Finance & Risk Committee. Risk management governance, processes, techniques and methods are outlined in the operational risk policy, which is reviewed every year. In addition, the result of the evaluation of the quarterly risk management cycle is reflected in the Bank's yearly internal control statement (ICS). The internal control framework supports the risk management process by determining the effectiveness of the controls in its key risk areas. The Bank applies the basic indicator approach for calculating its operational risk capital charge under Pillar I of the Basel framework.

## J FAIR VALUE FINANCIAL ASSETS AND LIABILITIES

Fair value is the value at which an asset or liability can be sold or traded by parties who are aware of the market value of the asset or liability in question, who are willing to enter into the transaction and who operate independently of each other.

The table below shows the fair value and carrying amount of the financial assets and liabilities at amortised costs.

### FAIR VALUE FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COSTS

| IN THOUSANDS OF EUROS | CARRYING AMOUNT 2016 | FAIR VALUE 2016 | CARRYING AMOUNT 2015 | FAIR VALUE 2015 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Loans and advances to banks and public sector | 1,133,164 | 1,133,248 | 1,379,899 | 1,380,221 |
| Loans and advances to customers | 12,242,463 | 12,512,422 | 12,884,129 | 13,029,753 |
| | | | | |
| **Financial liabilities** | | | | |
| Deposits from banks | 97,411 | 97,434 | 117,946 | 117,946 |
| Funds entrusted | 6,388,454 | 6,507,622 | 6,586,661 | 6,722,215 |
| Debt securities issued | 6,825,449 | 6,947,899 | 7,578,152 | 7,694,216 |
| Subordinated liabilities | 8,336 | 9,967 | 8,336 | 9,092 |

If a financial instrument is traded in an active and liquid market, the quoted price or value is the best indicator for the fair value.

The most appropriate market price for an asset held or a liability to be issued will often be the current bid price and, for an asset to be acquired or liability held, the current offer or asking price. If the Bank holds assets and liabilities with opposite market risks, mid rates are used as a basis for determining the fair value.

If no market price is available on an active market, the fair value is calculated on the basis of the discounted value or another valuation method based on the market conditions on the reporting date. Generally accepted methods in the financial market are the present value model and option valuation models. An accepted valuation method includes all factors that market participants deem to be important for pricing. This method should also be consistent with the accepted economic models for the valuation of financial instruments.

Principles for determining fair value:

- The market price is the best basis for valuation (if available). The use of internal estimates and assessments is kept to a minimum;
- The estimation method (valuation method) is only adjusted if 1) this results in an improvement in the valuation or 2) the valuation is essential or 3) there is insufficient information available.

## NOTES TO ESTIMATION OF THE FAIR VALUES

**Loans and advances to banks or public sector (Level 2)**

The fair value of Loans and advances to banks or to the public sector is based on the present value of expected future cash inflows, using current market interest rates.

# Notes To The Consolidated Financial Statements

### Loans and advances to customers (Level 3)

The fair value of Loans and advances to customers is based on the present value of expected future cash inflows, using current market interest rates. The interest rate is based on the money market and capital market, both of which are in the public domain. If possible, the Bank makes use of variables that are observable in these markets. The effects of the credit crisis (in particular liquidity and default risks) have been evaluated in measuring the fair value of Loans and advances to customers. The Bank's lending involves mortgage loans to the Dutch market only. In calculating the fair value of the Acier loan portfolio, the Bank applies an additional spread for higher credit risk.

### Deposits from banks, funds entrusted and debt securities issued (Level 2)

The fair value of Deposits from banks, Funds entrusted and Debt securities issued is based on the discounted present value of the expected future cash outflows, using current market interest rates.

In measuring the fair value of these items, a mark-up is applied to the effective rate of interest, including a spread which is based on the spread of the pricing of mortgages within the Bank. This mark-up has been determined specifically for each risk profile and each interest-rate band on the basis of quotes used by the market participants.

### Subordinated liabilities (level 2)

The fair value of the Subordinated liabilities is based on the discounted present value of the expected future cash outflows, using current interest rates for subordinated loans with a similar risk profile and a similar remaining term to maturity.

The table below gives a breakdown of financial instruments that are measured after initial recognition at fair value, grouped into three levels (fair value hierarchy) and based on the significance of the inputs used in determining fair value.

## K FAIR VALUE HIERARCHY

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

| AS AT 31 DECEMBER 2016<br>IN THOUSANDS OF EUROS | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets held for risk management | | | | |
| Interest rate swaps | – | 83,159 | – | 83,159 |
| Cross Currency swaps | – | 72,959 | – | 72,959 |
| Foreign exchange derivatives | – | 11 | – | 11 |
| Back-to-back swaps and interest caps | – | 99,381 | – | 99,381 |
| | – | **255,510** | – | **255,510** |
| Financial assets designated at fair value through profit or loss | | | | |
| Loans and advances to customers | – | – | 260,555 | 260,555 |
| | – | – | **260,555** | **260,555** |
| Financial assets held for sale | | | | |
| Interest-bearing securities | 401,182 | – | – | 401,182 |
| | **401,182** | **255,510** | **260,555** | **917,247** |
| | | | | |
| **Financial liabilities** | | | | |
| Derivative liabilities held for risk management | | | | |
| Interest rate swaps | – | 663,529 | – | 663,529 |
| Cross Currency swaps | – | – | – | – |
| Foreign exchange derivatives | – | 1,623 | – | 1,623 |
| Back-to-back swaps and interest caps | – | 99,381 | – | 99,381 |
| | – | **764,533** | – | **764,533** |

# Notes To The Consolidated Financial Statements

| AS AT 31 DECEMBER 2015<br>IN THOUSANDS OF EUROS | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets held for risk management | | | | |
| Interest rate swaps | – | 80,975 | – | 80,975 |
| Cross Currency swaps | – | 78,979 | – | 78,979 |
| Foreign exchange derivatives | – | 58 | – | 58 |
| Back-to-back swaps and interest caps | – | 140,114 | – | 140,114 |
| | **–** | **300,126** | **–** | **300,126** |
| Financial assets designated at fair value through profit or loss | | | | |
| Loans and advances to customers | – | – | 288,955 | 288,955 |
| | **–** | **–** | **288,955** | **288,955** |
| Financial assets held for sale | | | | |
| Interest-bearing securities | 474,820 | – | – | 474,820 |
| | **474,820** | **300,126** | **288,955** | **1,063,901** |
| | | | | |
| Financial liabilities | | | | |
| Derivative liabilities held for risk management | | | | |
| Interest rate swaps | – | 755,960 | – | 755,960 |
| Cross Currency swaps | – | – | – | – |
| Foreign exchange derivatives | – | – | – | – |
| Back-to-back swaps and interest caps | – | 140,114 | – | 140,114 |
| | **–** | **896,074** | **–** | **896,074** |

- Level 1:

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2:

Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3:

Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation. The total amount of gains and losses accounted for financial instruments with a level 3 fair value amounted to a loss of EUR 0.1 million (2015: loss of EUR 1 million), which was included in the statement of comprehensive income. The movement schedule for the financial instruments with a level 3 fair value is included in note 11 Loans and advances to customers.

### Changes in the fair value hierarchy in 2016

During 2016 no changes were made in classification of fair value hierarchy.

## NOTES TO THE FAIR VALUE HIERARCHY

### Interest-bearing securities (level 1)

All interest-bearing securities are valued using quoted prices in active markets.

# Notes To The Consolidated Financial Statements

### Valuation techniques used and valuation process for level 2 and 3 instruments

Depending on the specific assets, the Bank has set valuation policies and procedures for determining fair value. The paragraphs below explain the valuation processes and methods used for each type of financial instrument, as well giving as the relevant inputs.

### Interest rate derivatives and cross-currency derivatives (level 2)

Fair values of interest rate derivatives and cross-currency rate derivatives represent amounts estimated to be received from or paid to a third party in the settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows. The pricing models are based on current market data. The market data for cross currency interest rate derivatives consist mainly of the swap curve of the related interest period and currency and the spot exchange rate. The market data for interest rate derivatives consist of the overnight index swap curve.

### Foreign exchange derivatives (level 2)

Fair values of foreign exchange derivatives represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows. The pricing models are based on current market data. The market data for foreign exchange derivatives consist mainly of the currency and the spot exchange rate. The effect of the interest component in the valuation of the related interest period is limited due to the short term of these derivatives.

### Back-to-back swaps and interest cap (level 2)

The fair value of the back-to-back swaps represents amounts estimated to be received from or paid to a third party in settlement of these instruments. These swaps are valued using pricing models based on the net present value of estimated future cash flows. The pricing models are based on current market data, which include e.g. the swap curve of the related interest period including contract fees and margin. For DRMPI and DRMPII the Bank entered into a back-to-back interest cap.

### Loans and advances to customers (level 3)

A part of the total Loans and advances to customers is measured at fair value. These loans are valued using pricing models based on the net present value of estimated future cash flows. The pricing models are based on current market data, such as the euro swap curve. In addition to the euro swap curve, there are unobservable market inputs. The unobservable market inputs may include spreads which are embedded in the discount curve. The total spread is based on the pricing of comparable mortgages within the market, and varies from 116 to 260 basis points (2015: 121 to 328 basis points).

The impact of a 10 basis point spread increase on the fair value of financial assets results in EUR 0.9 million extra expenses in the income statement (2015: EUR 0.8 million expense).

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

# Notes To The Consolidated Financial Statements

## 4. BUSINESS COMBINATIONS

In 2016 Achmea Bank acquired the remaining loan portfolio of Staalbankiers N.V., Achmea B.V.'s private banking entity. The transfer will be effected in stages, which commenced on 15 December 2016, and will be completed by 30 June 2017. Achmea Bank has received the necessary Declaration of No Objection from the Dutch Central Bank on 5 December 2016.

The carrying amount of the loan portfolio is EUR 245 million and follows Achmea Bank N.V.'s previous acquisition of a Staalbankiers loan portfolio of approximately EUR 1.1 billion in July 2015. In addition to the loans, Achmea Bank N.V. will be acquiring linked savings accounts totalling EUR 57 million. The purchase price is equal to the carrying amount.

The characteristics of the loan portfolio which is acquired in 2016 are different from Achmea Bank's standard mortgage portfolio. The portfolio consists mainly of residential mortgages backed by security in the Netherlands. Most of the volume of lending has a variable interest rate and part of it is denominated in Swiss francs.

In December 2016 part of the acquired loan portfolio (EUR 210 million) was transferred to Achmea Bank. In the first half of 2017, the remaining part of this portfolio (EUR 35 million) and the linked savings accounts of approximately of EUR 57 million will be transferred to Achmea Bank.

Most of the administration and servicing of this loan portfolio is outsourced to Stater, an external mortgage service provider.
Achmea B.V. provided a capital injection of EUR 33.5 million to Achmea Bank. This capital includes an initial contribution for the expected losses on this portfolio. Furthermore Achmea B.V. issued an additional capped guarantee to Achmea Bank N.V. to cover credit risk and legal claims related to this portfolio. The transfer is expected to have a slightly positive effect on Achmea Bank's solvency ratio.

The transaction has been treated for accounting purposes as a transaction of a business combination under common control, using carry over accounting. The impact of this business combination on the balance sheet at transaction date is presented in the table below. The impact on Cash and balances with Central Banks consists of a bank account related to this portfolio.

IMPACT OF THE ACQUISITION OF THE LOAN PORTFOLIO OF STAALBANKIERS N.V. ON THE BALANCE SHEET PER TRANSACTION DATE:

| IN THOUSANDS OF EUROS | |
|---|---|
| **Loans and advances to customers** | |
| Loans and advances to customers at amortised cost | 210,816 |
| Less: Provisions for impairment | 1,272 |
| | |
| **Cash and balances with Central Banks** | |
| Cash and balances with Central Banks | 27,200 |
| | |
| **Total Equity** | |
| Share premium | 33,500 |

## 5. RESULT ACIER LOAN PORTFOLIO

The Acier loan portfolio differs in characteristics (as mentioned in the previous paragraph) from the regular Achmea Bank mortgage portfolio. In the table below the results for the regular Achmea Bank portfolio and the Acier loan portfolio are reported separately. Furthermore, the risk management paragraph and the notes to the Consolidated Financial Statements include separate information about the credit risk, mortgages and provisions for impairment for both portfolios.

FOR THE YEAR ENDED 31 DECEMBER 2016

| IN THOUSANDS OF EUROS | REGULAR ACHMEA BANK PORTFOLIO | ACIER LOAN PORTFOLIO | TOTAL ACHMEA BANK |
|---|---|---|---|
| Interest margin | 107,381 | 2,283 | 109,664 |
| Changes in fair value of financial instruments | 189 | 412 | 601 |
| **Interest margin and changes in fair value of financial instruments** | **107,570** | **2,695** | **110,265** |
| Other income | 2,357 | – | 2,357 |
| Fees and commission income and expense | 2,019 | – | 2,019 |
| **Operating income** | **111,946** | **2,695** | **114,641** |
| Impairment on financial instruments and other assets | 1,559 | 531 | 2,090 |
| Operating expenses | 91,578 | 3,672 | 95,250 |
| **Operating profit before taxes** | **18,809** | **−1,508** | **17,301** |

FOR THE YEAR ENDED 31 DECEMBER 2015

| IN THOUSANDS OF EUROS | REGULAR ACHMEA BANK PORTFOLIO | ACIER LOAN PORTFOLIO | TOTAL ACHMEA BANK |
|---|---|---|---|
| Interest margin | 92,490 | 396 | 92,886 |
| Changes in fair value of financial instruments | −3,395 | 1,085 | −2,310 |
| **Interest margin and changes in fair value of financial instruments** | **89,095** | **1,481** | **90,576** |
| Other income | 2,594 | – | 2,594 |
| Fees and commission income and expense | 90 | – | 90 |
| **Operating income** | **91,779** | **1,481** | **93,260** |
| Impairment on financial instruments and other assets | 4,861 | 420 | 5,281 |
| Operating expenses | 79,724 | 2,299 | 82,023 |
| **Operating profit before taxes** | **7,194** | **−1,238** | **5,956** |

# Notes To The Consolidated Financial Statements

## 6. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING THE ACCOUNTING POLICIES

The Bank makes estimates and assumptions which affect the value of assets and liabilities reported during the current financial year. The estimates and assumptions are continuously assessed and are based on historical data and future events that are considered reasonable in the circumstances.

### IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

The Bank periodically evaluates whether the mortgage loans are impaired. In deciding whether an impairment loss should be recognised in the statement of comprehensive income, the Bank evaluates whether there are any observable indications of a decrease in the estimated future cash inflows of a loan portfolio, before determining the decrease for an individual loan in that portfolio.
The method and assumptions used to estimate both the amount and the timing of future cash flows are reviewed periodically in order to minimize differences between estimates of losses and actual losses.

**Regular Achmea Bank portfolio**
An increase of 100 basis points of the value of the underlying impaired asset results in a reduction in the addition to impairment losses on receivables of EUR 0.1 million (2015: EUR 0.3 million). Another significant element in the impairment of loans and advances to customers is the Loss Incubation Period (LIP). In December 2016 this period was 9 months (2015: 9 months). An increase of one month in the LIP results in an increase in the addition to impairment losses on receivables of EUR 0.5 million (2015: 0.6 million).

**Acier loan portfolio**
An increase of 100 basis points of the value of the underlying impaired asset results in a reduction in the addition to impairment losses on receivables of EUR 1.1 million (2015: EUR 0.9 million). Another significant element in the impairment of loans and advances to customers is the Loss Incubation Period (LIP). In December 2016 this period was 6 months. An increase of one month in the LIP results in an increase in the addition to impairment losses on receivables of EUR 0.4 million.

Both calculations are based on actual cash flows.

### LOANS AND ADVANCES TO CUSTOMERS AT FAIR VALUE

In the absence of an (active) market, the fair value of non-quoted financial assets is estimated by using present value or other valuation techniques. For example part of the total Loans and advances to customers is measured at fair value. These loans are valued using pricing models based on the net present value of estimated future cash flows. The pricing models are based on current market data, such as the euro swap curve. In addition to the euro swap curve there are unobservable market inputs. The unobservable market inputs may include spreads which are embedded in the discount curve. As from 2015 the total spread is based on the pricing of comparable mortgages within the market. An additional adjustment was made to the credit spread for the Acier loan portfolio, based on the credit risk profile of this portfolio. Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values. The use of different valuation techniques and assumptions could have an effect on fair value. The main driver in the valuation of the loans and advances to customers at fair value is the spread. A sensitivity analysis for the impact of the spread is included in paragraph J Fair value financial assets and liabilities of chapter 3 Capital and Financial risk management.

### RECOGNITION OF DEFERRED TAX ASSETS

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forwards of unused tax losses and carry forwards of unused tax credits when, in the judgement of management, it is likely that the Bank will receive the tax benefits. A change in judgement could have a substantial effect on value of the deferred tax asset. As there is no absolute assurance that these assets will ultimately be realised, management reviews the Bank´s deferred tax positions periodically to determine if it is likely that the assets will be realised.

### FAIR VALUE DERIVATIVES

The fair value of the derivatives held for risk management may fluctuate significantly from time to time due to fluctuations in market rates and is calculated by using a valuation model. Although the valuation model makes maximum use of observable market inputs and limits the use of estimates made by the company, determining fair value of these type of instruments is considered to be complex and subject to management estimates in choosing the appropriate observable market inputs and deriving indirect price indices for unobservable elements.

# Notes To The Consolidated Financial Statements

## 7. CASH AND BALANCES WITH CENTRAL BANKS

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Cash and balances with Central Banks | 658,325 | 731,360 |

This item includes all cash and deposits held at DNB. At the end of 2016 the minimum cash reserve to be maintained at DNB, which is not at the Bank's free disposal amounted to EUR 43.1 million (2015: EUR 48.3 million).

## 8. DERIVATIVES HELD FOR RISK MANAGEMENT

Derivatives are assets or liabilities which are measured at fair value. The fair value of derivatives held may fluctuate significantly from time to time due to fluctuations in market rates and currencies. The Bank uses the following derivative financial instruments for hedging purposes.

INTEREST RATE SWAPS AND CROSS CURRENCY SWAPS

Swaps are a form of a 'over-the-counter' (OTC) derivatives which result in an economic exchange of cash flow items, such as currencies or interest rates. Achmea Bank N.V.'s credit risk corresponds to the swap contract replacement costs in the event of a counterparty default. This risk is continuously monitored, taking into account the current fair value, the notional amount and the liquidity in the market. To control its credit risk, the Bank only executes contracts with reputable counterparties and sets individual limits per counterparty. The Bank uses CSA's (Credit Support Annex) to reduce the exposure to counterparty risk on derivatives.

FOREIGN EXCHANGE DERIVATIVES

Foreign exchange derivatives are used to hedge the foreign exchange positions of the CHF mortgages of the Acier loan portfolio. The currency position is monitored on a monthly base and every month this position is hedged with derivatives with a maturity of one month.

BACK-TO-BACK SWAPS AND INTEREST CAPS

Back-to-back swaps are used in securitisation transactions and are swap agreements between the Bank and a swap counterparty to hedge the interest rate exposure arising between the floating rate liabilities and the fixed rate mortgages.
By means of this swap agreement, the Bank pays the swap counterparty the interest expenses on the notes and the swap counterparty pays the Bank the interest received on the mortgage receivables less third party expenses and less a fixed excess spread.
An interest rate cap has been used in the securitisation transactions DRMPI and DRMPII. This is an agreement between the Bank and an interest rate cap provider to hedge the interest rate exposure arising between the floating rate liabilities and the fixed rate mortgages. The interest rate cap agreements for DRMPI and DRMPII require the interest rate cap provider, against payment of the initial interest rate cap payment, to make payments to the extent the 3 months Euribor interest rate for any given interest period that exceeds the agreed upon cap strike rate of 3.5%.

DERIVATIVES

| AS AT 31 DECEMBER 2016 | | | | | |
|---|---|---|---|---|---|
| | NOTIONAL | FAIR VALUE | | | |
| IN THOUSANDS OF EUROS | AMOUNT | ASSETS | | LIABILITIES | |
| | | CURRENT | NON-CURRENT | CURRENT | NON-CURRENT |
| Cross Currency and interest rate swaps | 5,586,811 | 72,959 | 83,159 | 27,131 | 636,398 |
| Foreign exchange derivatives | 323,776 | 11 | – | 1,623 | – |
| Back-to-back swaps and interest caps | – | 8,068 | 91,313 | 8,068 | 91,313 |
| **Total derivative assets/liabilities** | | **81,038** | **174,472** | **36,822** | **727,711** |

| AS AT 31 DECEMBER 2015 | | | | | |
|---|---|---|---|---|---|
| | NOTIONAL | FAIR VALUE | | | |
| IN THOUSANDS OF EUROS | AMOUNT | ASSETS | | LIABILITIES | |
| | | CURRENT | NON-CURRENT | CURRENT | NON-CURRENT |
| Cross Currency and interest rate swaps | 6,259,783 | – | 159,954 | 41,474 | 714,486 |
| Foreign exchange derivatives | 183,053 | 58 | – | – | – |
| Back-to-back swaps and interest caps | – | 8,327 | 131,787 | 8,327 | 131,787 |
| **Total derivative assets/liabilities** | | **8,385** | **291,741** | **49,801** | **846,273** |

# Notes To The Consolidated Financial Statements

All derivatives are used for risk management purposes and to mitigate the Bank's currency and interest exposure as explained in paragraph F Market risk of the Capital and Financial risk management paragraph. For most of the derivatives Achmea Bank applies hedge accounting.

## 9. LOANS AND ADVANCES TO BANKS

Loans and advances to banks refer to receivables from banks, other than Interest-bearing securities.

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Loans and advances to banks | 1,117,344 | 1,247,814 |

| IN THOUSANDS OF EUROS | 2016 | 2016 |
|---|---|---|
| * Not available on demand | 1,092,585 | 1,222,142 |
| * On demand | 24,759 | 25,672 |
| | **1,117,344** | **1,247,814** |

The amount not available on demand is composed of collateral for derivatives (CSA), Stichting Incasso and the bank accounts related to securitisation transactions.

## 10. LOANS AND ADVANCES TO PUBLIC SECTOR

This item comprises funds lent to public authorities.

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Loans and advances to public sector | 15,820 | 132,085 |

An amount of EUR 15.8 million (2015: EUR 96.1 million) of the total amount is current.

## 11. LOANS AND ADVANCES TO CUSTOMERS

This includes all receivables from the private sector.

### LOANS AND ADVANCES TO CUSTOMERS

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| | | |
| **Mortgage loans at fair value** | **260,555** | **288,955** |
| | | |
| Loans and advances to customers at amortised cost | 11,204,334 | 11,968,883 |
| Less: Provisions for impairment | 11,488 | 18,380 |
| | | |
| **Total loans and advances to customers regular Achmea Bank portfolio** | **11,453,401** | **12,239,458** |
| | | |
| Loans and advances to customers Acier loan portfolio at amortised cost | 1,111,505 | 1,004,367 |
| Less: Provisions for impairment Acier loan portfolio | 61,888 | 70,741 |
| **Total loans and advances to customers** | **12,503,018** | **13,173,084** |

The remaining contractual term to maturity of the Loans and advances to customers net of provision, including a prepayment rate of 7.25%, are:

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| * < or equal to 3 months | 795,019 | 255,910 |
| * 3 months < x < or equal to 1 year | 593,173 | 572,672 |
| * 1 year < x < or equal to 5 years | 1,813,174 | 2,855,187 |
| * > 5 years | 9,301,652 | 9,489,315 |
| | **12,503,018** | **13,173,084** |

# Notes To The Consolidated Financial Statements

The Loans and advances to customers of the regular Achmea Bank portfolio consist of residential mortgage loans on properties in the Netherlands only. The Acier loan portfolio consists of mortgage loans secured by mainly Dutch real estate and mortgage loans secured by commercial real estate or real estate management companies.

## ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

| IN THOUSANDS OF EUROS | | 2016 | | 2015 |
|---|---|---|---|---|
| **Balance as at 1 January** | | **89,121** | | **22,756** |
| Acquisitions Acier loan portfolio | 1,272 | | 72,835 | |
| Additions | 11,764 | | 9,212 | |
| Releases | −937 | | −2,546 | |
| | | **12,099** | | **79,501** |
| | | | | |
| Write-offs | | −27,844 | | −13,136 |
| **Balance as at 31 December** | | **73,376** | | **89,121** |
| | | | | |
| Specific allowances for impairment | | 66,615 | | 82,103 |
| IBNR | | 6,761 | | 7,018 |
| **Balance as at 31 December** | | **73,376** | | **89,121** |
| | | | | |
| Regular Achmea Bank portfolio | | 11,488 | | 18,380 |
| Acier loan portfolio | | 61,888 | | 70,741 |
| **Balance as at 31 December** | | **73,376** | | **89,121** |

In December 2016 the Bank acquired the remaining part of the loan portfolio of Staalbankiers, which also included an allowance for losses on loans and advances for an amount of EUR 1.3 million (note 4). As at December 2016 the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 61.9 million (2015: EUR 70.7 million). Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited (see also note 30).

## MORTGAGES AT FAIR VALUE

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| **Balance as at 1 January** | **288,955** | **314,403** |
| Repayments | −28,331 | −24,488 |
| Fair value movement | −69 | −960 |
| **Balance as at 31 December** | **260,555** | **288,955** |

The movement of the fair value is mainly caused by the fluctuation in the euro swap curve and an update of the spread which is based on the pricing of mortgages within the market and includes a spread for liquidity and credit risk. The mortgages at fair value have been reduced by EUR 0.2 million (2015: EUR 0.1 million) for the past due loans.

## LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| **Balance as at 1 January** | **12,884,129** | **12,191,336** |
| Acquired Acier loan portfolio | 209,544 | 1,052,468 |
| Changes in the nominal portfolio | −799,234 | −177,251 |
| Changes in basis adjustment | −64,970 | −167,158 |
| Allowances for losses on loans and advances | 17,019 | 6,467 |
| Other movements | −4,025 | −21,733 |
| **Balance as at 31 December** | **12,242,463** | **12,884,129** |

# Notes To The Consolidated Financial Statements

## LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (REGULAR ACHMEA BANK PORTFOLIO)

| IN THOUSANDS OF EUROS | | | 2016 | | 2015 |
|---|---|---|---|---|---|
| **Balance as at 1 January** | | | **11,950,503** | | **12,191,336** |
| Changes nominal portfolio | Loans granted | 392,575 | | 860,685 | |
| | Repayments | −1,087,855 | | −917,180 | |
| | | | **−695,280** | | **−56,495** |
| Fair value hedge accounting | Revaluation basis adjustment mortgages | −80,730 | | −175,447 | |
| | Amortisation basis adjustment mortgages | 15,760 | | 8,289 | |
| | | | **−64,970** | | **−167,158** |
| Allowances for losses on loans and advances | Additions | −2,274 | | −7,070 | |
| | Releases | 726 | | 1,644 | |
| | Write-offs | 8,442 | | 9,801 | |
| | | | **6,894** | | **4,375** |
| **Other movements** | | | **−4,300** | | **−21,555** |
| **Balance as at 31 December** | | | **11,192,847** | | **11,950,503** |

The carrying amount of the fair value hedge adjustment is EUR 543 million (2015: EUR 623 million).

## LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST (ACIER LOAN PORTFOLIO)

| IN THOUSANDS OF EUROS | | | 2016 | | 2015 |
|---|---|---|---|---|---|
| Balance as at 1 January | | | 933,626 | | |
| Changes nominal portfolio | Acquired portfolio | 210,816 | | 1,125,303 | |
| | Repayments | −103,954 | | −120,756 | |
| | | | **106,862** | | **1,004,547** |
| Allowances for losses on loans and advances | at acquisition date | −1,272 | | −72,835 | |
| | Additions | −9,488 | | −2,443 | |
| | Releases | 211 | | 1,201 | |
| | Write-offs | 19,402 | | 3,336 | |
| | | | **8,853** | | **−70,741** |
| **Other movements** | | | **275** | | **−180** |
| **Balance as at 31 December** | | | **1,049,616** | | **933,626** |

TRANSFERRED ASSETS

As at 31 December 2016 EUR 4.4 billion (2015: EUR 4.8 billion) of the Loans and advances to customers was pledged in connection with money and capital market transactions for funding purposes. A further EUR 1.1 billion (2015: EUR 1.1 billion) of the Loans and advances to customers was pledged as part of the Asset Switch for liquidity purposes.

## OVERVIEW OF PLEDGED MORTGAGE TRANSACTIONS (AGAINST NOMINAL VALUE)

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| * Stichting Trustee Achmea Hypotheekbank | 229,755 | 258,485 |
| * Dutch Mortgage Portfolio Loans IX B.V. | – | 643,119 |
| * Dutch Mortgage Portfolio Loans X B.V. | 640,784 | 705,230 |
| * Dutch Mortgage Portfolio Loans XI B.V. | 647,386 | 712,055 |
| * Dutch Mortgage Portfolio Loans XII B.V. | 719,652 | 801,703 |
| * Dutch Residential Mortgage Portfolio I B.V. | 885,059 | 969,508 |

# Notes To The Consolidated Financial Statements

| | | |
|---|---|---|
| * Dutch Residential Mortgage Portfolio II B.V. | 680,150 | – |
| * Asset Switch | 1,062,508 | 1,093,692 |
| * Securitised Guaranteed Mortgage Loans II B.V. | 358,351 | 404,779 |
| * Achmea Covered Bond Programma | 228,223 | 273,686 |
| | **5,451,868** | **5,862,257** |

These transactions were effected on market terms and conditions as mentioned in the prospectus of each transaction. All the bonds issued by SGML II B.V. and the B and C tranches of the bonds issued by DMPL X B.V. ,DMPL XI B.V., DMPL XII B.V., DRMPI B.V. and DRMPII B.V. are held by the Bank.

The Bank uses securitisations as a funding source. In all these securitisation transactions, the Bank assigns a portfolio of mortgage receivables to an SPV which issues notes on the capital markets. With the proceeds of the notes the SPV can finance the assigned mortgage receivables, and with the received interest on the mortgage receivables the SPV can pay the interest on the notes.

The liabilities related to these securitisations are included in note 16 Debt securities issued. The following table provides an overview of both the outstanding amount and the fair value of the Loans and advances to customers and the related debt securities part of Debt securities issued. The assets transferred to the SPVs are classified as derecognised assets with ongoing exposure per IFRS paragraph 7.42d.

## OVERVIEW OF THE CARRYING AMOUNT AND THE FAIR VALUE OF LOANS AND ADVANCES TO CUSTOMERS AND RELATED BONDS AND DEBT SECURITIES

| OVERVIEW TRANSFERED ASSETS AND LIABILITIES<br>AS AT 31 DECEMBER 2016<br>IN THOUSANDS OF EUROS | CARRYING AMOUNT | FAIR VALUE |
|---|---|---|
| Loans and advances to customers included in securitisation transactions | 3,931,382 | 4,305,302 |
| Related other debt securities part of debt securities issued | 3,075,453 | 3,105,959 |
| **Net position** | **855,929** | **1,199,343** |

| OVERVIEW TRANSFERED ASSETS AND LIABILITIES<br>AS AT 31 DECEMBER 2015<br>IN THOUSANDS OF EUROS | CARRYING AMOUNT | FAIR VALUE |
|---|---|---|
| Loans and advances to customers included in securitisation transactions | 4,236,394 | 4,590,229 |
| Related other debt securities part of debt securities issued | 3,321,030 | 3,359,748 |
| **Net position** | **915,364** | **1,230,481** |

The net position consists mainly of the notes of the SPVs which are held by the Bank. The total exposure for the Bank on the transferred assets and liabilities amounted to EUR 873 million (2015: EUR 813 million) and is defined as the total value of the notes of the SPVs which are held by the Bank and the receivables on subsidiaries (SPVs).

Third-party pledges on mortgage loans are also included in the covered bond programme. The Bank acts as originator and issuer in the covered bond programme. The payment of principal and interest on the bonds issued is guaranteed by a bankruptcy-remote SPV.
The guarantee provided by this SPV is supported by mortgage receivables pledged by the Bank to the SPV. The outstanding amount of these pledged mortgage receivables will at all times be at least 33.3% higher than the bonds issued under the covered bond programme. For investors there is a so-called ‘double recourse’, which means that in the event of default of the Bank an investor has recourse on the bank and on the underlying mortgage portfolio.

The liabilities related to these pledges are included in note 16 Debt securities issued. The pledges by trust arrangements and the covered bond programme are not classified as transferred assets per IFRS paragraph 7.42d.

As part of the pledges by means of trust arrangements, the Bank has pledged mortgage receivables to a Trustee as security for certain private placements of loans. In the event of default by Achmea Bank, investors can recover their investment from the pledged mortgage receivables.

# Notes To The Consolidated Financial Statements

## 12. INTEREST-BEARING SECURITIES

The Interest-bearing securities amounted to EUR 0.4 billion (2015: EUR 0.5 billion). The Interest-bearing securities are classified as available for sale (measured at fair value and with changes in fair value recorded in other comprehensive income). The changes in the value of investments in the interest-bearing securities mentioned below amounts to EUR 0.4 million positive (2015: EUR 1.5 million positive) of which an amount of EUR 0.3 million positive (2015: EUR 2.6 million negative) is recognised in Equity.

MOVEMENTS IN INTEREST-BEARING SECURITIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| **Balance as at 1 January** | **474,820** | **631,855** |
| Purchases | 196,001 | 335,880 |
| Sales/repayments | −269,993 | −492,824 |
| Value adjustments | 445 | 1,450 |
| Changes in accrued interest | −92 | −1,541 |
| **Balance as at 31 December** | **401,182** | **474,820** |

## 13. PREPAYMENTS AND OTHER RECEIVABLES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Prepayments and other receivables | 31,849 | 5,881 |
| | **31,849** | **5,881** |

Prepayments and other receivables include an amount of EUR 22.7 million (2015: EUR 3.8 million) relating to receivables to Achmea Group companies. For an analysis of receivables within Achmea, we refer to the separate related-parties disclosure (note 31). An amount of EUR 1.2 million (2015: EUR 1.5 million) of the total amount of the prepayments is non-current.

## 14. DEPOSITS FROM BANKS

The remaining contractual term to maturity of the Deposits from banks is:

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| * < or equal to 3 months | 25,942 | 782 |
| * 3 months < x < or equal to 1 year | 7,828 | 2,358 |
| * 1 year < x < or equal to 5 years | 42,374 | 114,806 |
| * > 5 years | 21,267 | – |
| | **97,411** | **117,946** |

## 15. FUNDS ENTRUSTED

This includes all non-subordinated liabilities other than debts to credit institutions and those included in debt securities issued.

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| * < or equal to 3 months | 2,891,466 | 2,877,988 |
| * 3 months < x < or equal to 1 year | 404,793 | 785,887 |
| * 1 year < x < or equal to 5 years | 1,695,435 | 1,615,176 |
| * > 5 years | 1,396,760 | 1,307,610 |
| | **6,388,454** | **6,586,661** |

Funds entrusted include an amount of EUR 1.0 billion (2015: EUR 1.2 billion) related to liabilities to non-banking institutions within the Achmea Group, which includes an amount of EUR 0.8 billion saving deposits linked to mortgages. For an analysis of these liabilities, we refer to the separate related-parties disclosure (note 31).

# Notes To The Consolidated Financial Statements

## 16. DEBT SECURITIES ISSUED

This item includes bonds and other debt securities.

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| * Dutch Mortgage Portfolio Loans IX B.V. | – | 537,651 |
| * Dutch Mortgage Portfolio Loans X B.V. | 554,986 | 620,992 |
| * Dutch Mortgage Portfolio Loans XI B.V. | 587,374 | 653,564 |
| * Dutch Mortgage Portfolio Loans XII B.V. | 612,209 | 698,156 |
| * Dutch Residential Mortgage Portfolio I B.V. | 726,780 | 810,667 |
| * Dutch Residential Mortgage Portfolio II B.V. | 591,498 | – |
| * Achmea Covered Bond Company B.V. | 186,237 | 184,587 |
| * European Medium Term Notes Programme | 61,183 | 61,200 |
| * Senior Unsecured Loans | 3,198,389 | 3,642,241 |
| * Commercial paper | 208,042 | 262,000 |
| **Total notional amounts** | **6,726,698** | **7,471,058** |
| | | |
| Accrued interest | 42,492 | 52,461 |
| FV hedge accounting | 54,776 | 56,249 |
| Amortised cost | 1,483 | −1,616 |
| | | |
| **Carrying amount** | **6,825,449** | **7,578,152** |

The notes held by the Bank on own book are eliminated upon consolidation and as such not presented in the table above.
The fair value adjustment is the fair value of bonds which are included in a hedge relation as at 31 December 2016.

The average interest rate for the year 2016 was 1.52% (2015: 1.84%).

Debt securities issued according to remaining contractual term to maturity are as follows:

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| * < or equal to 3 months | 153,260 | 660,744 |
| * 3 months < x < or equal to 1 year | 1,245,892 | 882,081 |
| * 1 year < x < or equal to 5 years | 3,890,115 | 4,250,827 |
| * > 5 years | 1,536,182 | 1,784,500 |
| | **6,825,449** | **7,578,152** |

## 17. PROVISIONS

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Balance as at 1 January | – | 551 |
| Addition | 1,065 | – |
| Releases | – | −551 |
| **Balance as at 31 December** | **1,065** | – |

The addition of the Provisions relates to a provision for interest income for early redemptions on mortgage loans.

# Notes To The Consolidated Financial Statements

## 18. SUBORDINATED LIABILITIES

The Subordinated liabilities are as follows:

| IN THOUSANDS OF EUROS | INTEREST RATE (%) | 2016 | 2015 |
|---|---|---|---|
| Loan 1999/2020 | 5.57 | 7,144 | 7,144 |
| Loan 1999/2024 | 5.68 | 1,192 | 1,192 |
| | | **8,336** | **8,336** |

The interest expenses for 2016 amounted to EUR 0.4 million (2015: EUR 0.8 million).

The total amount of the subordinated liabilities is non-current (2015: total non-current).

## 19. ACCRUALS AND OTHER LIABILITIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Accruals | 4,469 | 3,381 |
| Other liabilities | 42,293 | 41,493 |
| | **46,762** | **44,874** |

Accruals and other liabilities include an amount of EUR 12.2 million (2015: EUR 10.2 million), relating to liabilities to Achmea Group companies. For an analysis of these liabilities within Achmea Group, we refer to the separate related-parties disclosure (note 31). The total amount of Accruals and other liabilities is current.

## 20. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is calculated for all temporary differences at an effective tax rate of 25.0%. The Deferred tax assets and liabilities are related to the following items:

### DEFERRED TAX

| | ASSETS | | LIABILITIES | | BALANCE | |
|---|---|---|---|---|---|---|
| IN THOUSANDS OF EUROS | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Interest-bearing securities | – | – | 1,573 | 2,634 | − 1,573 | − 2,634 |
| Valuation differences due to differences in tax base | 1,136 | 1,627 | 101,169 | 101,567 | − 100,033 | − 99,940 |
| **Tax position asset/liability** | **1,136** | **1,627** | **102,742** | **104,201** | **− 101,606** | **− 102,574** |
| TAX RATE | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| **Net deferred tax** | **284** | **407** | **25,686** | **26,050** | **− 25,401** | **− 25,643** |

### SPECIFICATION VALUATION DIFFERENCES DUE TO APPLICATION OF IFRS

| IN THOUSANDS OF EUROS | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Derivative assets held for risk management | – | – | −464,800 | −533,746 | 464,800 | 533,746 |
| Debt securities issued | – | – | −60,732 | −56,249 | 60,732 | 56,249 |
| Accrued interest | – | – | −672 | −849 | 672 | 849 |
| Loans and advances to customers | 1,136 | 1,627 | 627,373 | 692,411 | −626,237 | −690,784 |
| **Tax position asset/liability** | **1,136** | **1,627** | **101,169** | **101,567** | **−100,033** | **−99,940** |
| TAX RATE | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% |
| **Net deferred tax** | **284** | **407** | **25,292** | **25,392** | **−25,008** | **−24,985** |

From deferred tax assets and liabilities an amount of EUR 10.5 million is current (2015: EUR 9.3 million), the remainder is non-current.

# Notes To The Consolidated Financial Statements

## CHANGES TO TEMPORARY DIFFERENCES

| IN THOUSANDS OF EUROS | BALANCE AS AT 01-01-2016 | RECOGNISED IN RESULT | RECOGNISED IN EQUITY | BALANCE AS AT 31-12-2016 |
|---|---|---|---|---|
| 2016 | | | | |
| Interest-bearing securities | −2,634 | 1,506 | −445 | −1,573 |
| Valuation differences due to differences in tax base | −99,940 | −93 | − | −100,033 |
| **Tax position asset/liability** | **−102,574** | **1,413** | **−445** | **−101,606** |
| TAX RATE | 25.0% | 25.0% | 25.0% | 25.0% |
| **Net deferred tax** | **−25,643** | **353** | **−111** | **−25,401** |

| IN THOUSANDS OF EUROS | BALANCE AS AT 01-01-2015 | RECOGNISED IN RESULT | RECOGNISED IN EQUITY | BALANCE AS AT 31-12-2015 |
|---|---|---|---|---|
| 2015 | | | | |
| Interest-bearing securities | −1,027 | −12,624 | 11,017 | −2,634 |
| Valuation differences due to differences in tax base | −87,796 | −12,144 | − | −99,940 |
| **Tax position asset/liability** | **−88,823** | **−24,768** | **11,017** | **−102,574** |
| TAX RATE | 25.0% | 25.0% | 25.0% | 25.0% |
| **Net deferred tax** | **−22,206** | **−6,192** | **2,754** | **−25,643** |

## 21. CURRENT TAX ASSETS AND LIABILITIES

The net current corporate tax liabilities of EUR 2.5 million (2015: tax liabilities EUR 31.2 million) refers to the tax payable for the reporting period and for previous periods. The Bank is part of a fiscal unity with Achmea B.V., settlement of tax liabilities is handled centrally by Achmea B.V.

## 22. TOTAL EQUITY

As at 31 December 2016 the authorised share capital amounted to EUR 90 million (2015: 90 million), divided into 90 million shares (2015: 90 million) each with a nominal value of EUR 1 (2015: EUR 1). As at 31 December 2016 18,151,663 shares had been issued and paid up in full (2015: 18,151,663 shares). Holders of the shares have a right of pre-emption on the issue of shares.

The fair value reserve comprises the cumulative net gains and losses on the fair value of the financial assets that are classified as available for sale.

The profit for the year includes the 2016 net profit.

Addition of reserves comprises the addition of profit from prior years, including the addition of the legal reserve for financial assets at fair value through profit and loss. The fair value of the financial assets at fair value through profit and loss exceeded its amortised cost by EUR 7.7 million (2015: 7.8 million). The other reserves consist of retained earnings (EUR 277.3 million) and the legal reserve (EUR 7.7 million).

In December 2016 Achmea B.V. provided an additional capital injection of EUR 33.5 million to Achmea Bank, in connection with the acquisition of the remaining loan portfolio of Staalbankiers N.V. This transaction is further disclosed in note 4 Business combinations.

# Notes To The Consolidated Financial Statements

## 23. INTEREST MARGIN AND CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

The interest margin and changes in fair value of financial instruments can be specified as follows:

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Interest income | 489,045 | 538,532 |
| Interest expenses | 379,381 | 445,646 |
| Changes in fair value of financial instruments | 601 | −2,310 |
| **Interest margin and changes in fair value of financial instruments** | **110,265** | **90,576** |

### Interest income

The total interest income can be specified as follows:

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Loans and advances to customers | 485,867 | 529,710 |
| Loans and advances to banks and public sector | 244 | 5,137 |
| Other interest income | 2,934 | 3,685 |
| | **489,045** | **538,532** |

Interest income on Loans and advances to customers mainly includes interest income on mortgage loans.

### Interest expenses

The total interest expenses can be specified as follows:

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Deposits | 691 | 1,279 |
| Funds entrusted | 133,720 | 188,488 |
| Debt securities issued | 98,606 | 70,848 |
| Derivative liabilities held for risk management | 139,753 | 163,445 |
| Other interest expenses | 6,611 | 21,586 |
| | **379,381** | **445,646** |

Other interest expenses mainly include funding costs other than interest.

### Changes in fair value of financial instruments

The total changes in fair value of financial instruments can be specified as follows:

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Effectiveness results of fair value hedge accounting | 2,689 | 1,664 |
| Amortisation effects | −9,008 | −2,650 |
| Other fair value effects | 6,920 | −1,324 |
| | **601** | **−2,310** |

The change of the effectiveness of fair value accounting is in line with the fluctuation of the interest rates during 2016 in comparison with the fluctuation of the interest rates during 2015.

The amortisation effects are related to the hedge of mortgages and the hedge of external loans.

Other fair value effects mainly consist of revaluation effects of derivatives which are not designated in a hedge relation and the revaluation effect of the mortgages at fair value for which the Bank does not apply hedge accounting.

# Notes To The Consolidated Financial Statements

The Bank applies fair value hedge accounting for part of the mortgages and the related interest rate derivatives (macro hedge accounting) in order to hedge the interest rate risk of the mortgages. The hedged items consist of a portfolio of mortgages while the hedging instrument consists of a portfolio of interest rate swaps.

The Bank also entered into derivative transactions in order to limit the interest rate risk of its funding operations. The Bank applies fair value hedge accounting (micro hedge accounting) for those derivatives. The hedged item consists of individual external loans while the hedging instrument consists of interest rate swaps and cross-currency swaps.

Any ineffectiveness effect related to fair value hedge accounting is reported in the income statement as part of the effectiveness result of fair value hedge accounting.

The effectiveness results related to the macro hedges and micro hedges are specified below.

FAIR VALUE CHANGES HEDGES

| IN THOUSANDS OF EUROS | GAIN | LOSS | NET 2016 | NET 2015 |
|---|---|---|---|---|
| **Macro hedge** | | | | |
| Fair value changes in hedged items | 113,528 | 169,801 | −56,273 | −163,118 |
| Fair value changes in hedging instruments | 180,802 | 117,891 | 62,911 | 170,875 |
| | **294,330** | **287,692** | **6,638** | **7,757** |
| **Micro hedge** | | | | |
| Fair value changes in hedged items | 36,086 | 40,719 | −4,633 | −1,613 |
| Fair value changes in hedging instruments | 42,249 | 41,565 | 684 | −4,480 |
| | **78,335** | **82,284** | **−3,949** | **−6,093** |
| **Total hedge** | | | | |
| Fair value changes in hedged items | 149,615 | 210,520 | −60,906 | −164,731 |
| Fair value changes in hedging instruments | 220,091 | 156,497 | 63,595 | 166,395 |
| | **369,706** | **367,017** | **2,689** | **1,664** |

## 24. OTHER INCOME

Other income includes amounts received relating to receivables which have been written off in previous periods.

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Other Income | 2,357 | 2,594 |

## 25. FEES AND COMMISSION INCOME AND EXPENSE

Fees and Commission includes commission paid and received related to mortgages as well as saving products.

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Fees and commission income | 2,516 | 1,485 |
| Fees and commission expense | 497 | 1,395 |
| | **2,019** | **90** |

Fees and commission income and expense increased by EUR 2 million, mainly as a result of fees for originating mortgages for the balance sheet of Achmea Pensioen & Leven N.V.

# Notes To The Consolidated Financial Statements

## 26. OPERATING EXPENSES

Operating expenses includes staff costs and administrative expenses and are stated in the following table.

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Staff costs | 36,437 | 40,252 |
| Administrative expenses | 58,813 | 41,771 |
| | **95,250** | **82,023** |

## 27. STAFF COSTS

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Wages and salaries | 17,729 | 19,544 |
| Pension costs | 4,120 | 4,492 |
| Compulsory social security obligations | 2,547 | 2,662 |
| Other staff costs | 12,041 | 13,554 |
| | **36,437** | **40,252** |

The average number of employees during 2016 was 354 FTEs (2015: 395 FTEs). All personnel including the Executive Board of Achmea Bank are employed by Achmea Interne Diensten N.V. The personnel costs and other operating expenses associated with the activities of Achmea Bank are passed on. Achmea Interne Diensten N.V. allocates the pension expenses to the various entities of Achmea Group. Allocation is effected on the basis of the pensionable salary of the current employees. For more information we refer to the section Related parties. In 2016 there were no adjustments or claw backs in connection with (past) remuneration to members of the Executive Board.

## 28. INDEPENDENT AUDITOR'S FEES

The independent auditor's fees related to the Bank are included in the consolidated financial statements of Achmea B.V. This is in line with article 2: 382a.3 of the Dutch Civil Code.

## 29. INCOME TAX EXPENSES

### RECONCILIATION OF THE EFFECTIVE TAX RATE

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Operating profit before taxes | 17,301 | 5,956 |
| Nominal tax rate | 25.0% | 25.0% |
| Nominal tax expenses | 4,325 | 1,489 |
| **Effective tax expenses** | **4,325** | **1,489** |
| | | |
| **Effective tax rate** | **25.00%** | **25.00%** |

The Bank is part of a fiscal unity with Achmea B.V. for company tax purposes and VAT. The effective tax expenses consist of EUR 4.7 million current tax and EUR 0.4 million deferred tax.

## 30. CONTINGENT LIABILITIES AND COMMITMENTS

LEGAL PROCEEDINGS

In the course of 2016 several instances of legal proceedings were started against the bank. However, based on legal advice, the Executive Board does not expect the outcome of the various proceedings to have a material effect on the company's financial position at 31 December 2016.

CONTRACTUAL OBLIGATIONS

At year-end 2016 the Bank had contractual obligations amounting to EUR 7.1 million (2015: EUR 8.7 million), primarily in connection with ICT-related contracts with Achmea Group companies.

# Notes To The Consolidated Financial Statements

The Bank also had contractual obligations to Quion amounting to EUR 5 million in connection with outsourcing of the servicing of the regular mortgage portfolio, and EUR 0.4 million in contractual obligations to Stater for the servicing of the Acier mortgage portfolio.

###### CONTINGENT LIABILITIES

Contingent liabilities include all liabilities arising from transactions in which the Bank acts as guarantor for third parties. At year-end 2016 there were outstanding bank guarantees amounting to EUR 0.02 million (2015: EUR 0.02 million).

###### IRREVOCABLE FACILITIES

This refers to all liabilities relating to irrevocable undertakings which could lead to credit losses, including mortgage loan proposals for EUR 117 million (2015: EUR 53 million), construction accounts of EUR 22 million and an undrawn credit facility of EUR 9 million (2015: 10 EUR million).

###### FISCAL UNITY

The Bank forms a fiscal unity with Achmea B.V. for company tax purposes and VAT. Within this fiscal unity the Bank is severally liable. The tax expenses are settled in the current account with the Group.

###### POST FORECLOSURE CLAIM

Achmea Bank has a residual claim after write-off of mortgage receivables of EUR 48 million (2015: EUR 38 million). The expected net recovery of this exposure is limited.

###### ACIER LOAN PORTFOLIO

In the course of 2017 the remaining part of the acquired loan portfolio of Staalbankiers will be transferred to the balance sheet of Achmea Bank. This transfer includes loans up to a maximum of EUR 35 million and saving deposits related to the total former loan portfolio of Staalbankiers of approximately EUR 57 million.

## 31. RELATED PARTIES

### IDENTITY OF RELATED PARTIES

Achmea Bank N.V. is a wholly-owned subsidiary of Achmea B.V. (incorporated in the Netherlands).

Related parties are other companies within Achmea B.V. and members of the Supervisory and Executive Boards of Achmea Bank. Rabobank Group is a major shareholder of Achmea B.V. and is also deemed to be a related party. Within the scope of ordinary business operations, a number of banking transactions take place with related parties.

A sum of EUR 1.0 billion (2015: EUR 1.2 billion) is included under Funds entrusted for liabilities to non-banking institutions within Achmea B.V. EUR 2.1 billion of the total liabilities (2015: EUR 2.3 billion) is related to Achmea Pensioen- en Levensverzekeringen N.V. and consists mainly of investments in the Bank’s securitisation programmes.

Achmea B.V. has issued a capped guarantee to Achmea Bank to cover credit risk and legal claims in connection with the acquired loan activities of Staalbankiers. The maximum amount for the duration of the financial guarantee is EUR 350 million. The contract for the financial guarantee will end in line with the maturity of the related loans. As at year-end 2016, the total amount claimed by Achmea Bank is EUR 9.4 million.
The Bank entered into an Asset Switch agreement with the Achmea B.V. division Achmea Pensioen & Leven (AP&L) in order to improve its liquidity position. In addition, the Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V. Furthermore, the Bank has a commitment from an associate company within the Achmea group that enables the Bank to transfer EUR 1.5 billion of mortgage loans in exchange for cash in case of a liquidity emergency.
The movements in Loans and advances from and to related parties are a result of repayments and additional borrowings.

### ANALYSIS OF RECEIVABLES, DEBTS AND LOANS ON THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION.

### POSITIONS WITH RELATED PARTIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| **Assets** | | |
| Prepayments and other receivables | 22,739 | 3,759 |
| | **22,739** | **3,759** |

# Notes To The Consolidated Financial Statements

| Liabilities | | |
|---|---|---|
| Deposits from banks | – | 84 |
| Funds entrusted | 1,018,717 | 1,201,542 |
| Secured bank loans | 1,341,539 | 1,511,536 |
| Accruals and other liabilities | 12,831 | 10,193 |
| | **2,373,087** | **2,723,355** |

## PREPAYMENTS AND OTHER RECEIVABLES FROM RELATED PARTIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Achmea Beleggingsfondsen Beheer B.V. | – | 84 |
| Achmea B.V. | 8,772 | 845 |
| Achmea Pensioen- en Levensverzekeringen N.V. | 13,851 | – |
| Achmea Interne Diensten N.V. | 116 | 2,800 |
| Staalbankiers N.V. | – | 30 |
| | **22,739** | **3,759** |

## INTEREST INCOME ON RECEIVABLES TO RELATED PARTIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| | | |
| Friends First Finance Ltd | 1 | 1 |
| Interamerican Health General Insurance Company of Health and Assistance SA | 17 | – |
| Interamerican Hellenic Life Insurance Company SA | 39 | – |
| Interamerican Property and Casualty Insurance Company SA | 41 | – |
| Interassistance Road Assistance Services SA | 1 | – |
| Practice Medical Company SA | 2 | – |
| Athinaiki General Clinic SA | 3 | – |
| Staalbankiers N.V. | – | 1,402 |
| | **104** | **1,403** |

## FUNDS ENTRUSTED AND SECURED BANK LOANS

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Achmea B.V. | 187,306 | 185,410 |
| Achmea Pensioen- en Levensverzekeringen N.V. | 2,095,917 | 2,259,668 |
| Imperio Life Hellenic Life Insurance Company SA | – | 6,252 |
| Interamerican Health General Insurance Company of Health and Assistance SA | 11,315 | 15,252 |
| Interamerican Hellenic Life Insurance Company SA | 7,996 | 29,400 |
| Interamerican Property and Casualty Insurance Company SA | 34,825 | 183,931 |
| Interassistance Road Assistance Services SA | 299 | 300 |
| Friends First Finance Ltd | – | 1,249 |
| Modern Private Medical Group Practice Medical Company SA | 898 | 650 |
| Mentor Assessors Estimator, engineers SA | 60 | 60 |
| Achmea Schadeverzekeringen N.V. | 18,030 | 21,734 |
| Interamerican Assistance Gen Ins Company | 3,004 | 6,017 |
| Athinaiki General Clinic SA | 606 | 2,368 |
| FBI Zorg Vastrentende waarden | – | 788 |
| | **2,360,256** | **2,713,079** |

## DEPOSITS FROM BANKS AND OTHER LIABILITIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Achmea Beleggingsfondsen Beheer B.V. | – | 84 |
| Staalbankiers N.V. | – | 3,912 |

# Notes To The Consolidated Financial Statements

| | | |
|---|---|---|
| Achmea Interne Diensten N.V. | 2,281 | 567 |
| Achmea Pensioen- en Levensverzekeringen N.V. | 9,966 | 6,281 |
| | **12,247** | **10,844** |

## INTEREST EXPENSES ON LOANS AND ADVANCES TO RELATED PARTIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Achmea B.V. | 3,087 | 1,819 |
| Achmea Pensioen- en Levensverzekeringen N.V. | 51,974 | 54,584 |
| Achmea Schadeverzekeringen N.V. | 250 | 419 |
| Zilveren Kruis Ziektekostenverzekeringen N.V. | – | 84 |
| FBI Zorg Vastrentende waarden | 1 | 51 |
| Friends First Life Assurance Company SA | – | 1 |
| Imperio Life Hellenic Life Insurance Company SA | – | 7 |
| Interamerican Health General Insurance Company of Health and Assistance SA | – | 15 |
| Interamerican Hellenic Life Insurance Company SA | – | 1 |
| Interamerican Property and Casualty Insurance Company SA | – | 624 |
| NV Hagelunie | – | 14 |
| Achmea Zorgverzekeringen N.V. | – | 79 |
| OZF Achmea Zorgverzekeringen N.V. | – | 70 |
| FBTO Zorgverzekeringen N.V. | – | 66 |
| Interpolis Zorgverzekeringen N.V. | – | 14 |
| Interamerican Assistance Gen Ins Company | – | 25 |
| | **55,312** | **57,873** |

## COMMISSION INCOME AND EXPENSES RELATED PARTIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Achmea Pensioen- en Levensverzekeringen N.V. | 1,342 | 10 |
| | **1,342** | **10** |

## OTHER INCOME RELATED PARTIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Staalbankiers N.V. | 366 | 174 |
| Achmea Interne Diensten N.V. | – | 146 |
| | **366** | **320** |

## OTHER EXPENSES RELATED PARTIES

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| | | |
| Achmea Interne Diensten N.V. | 16,705 | 12,483 |
| | **16,705** | **12,483** |

# Notes To The Consolidated Financial Statements

## 32. REMUNERATION EXECUTIVE BOARD AND SUPERVISORY BOARD

### REMUNERATION OF SUPERVISORY BOARD MEMBERS

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Short term remuneration | 157 | 76 |
| | **157** | **76** |

### REMUNERATION OF EXECUTIVE BOARD MEMBERS

| IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| Short term employee benefits | 1,094 | 1,076 |
| Long term employee benefits | 90 | 89 |
| | **1,184** | **1,165** |

The increase in remuneration of the Supervisory Board members is due to changes in the Board. For details concerning the composition of the Supervisory Board, reference is made to the report of the Supervisory Board. The long-term employee benefits consist exclusively of pension costs.

The members of the Executive Board and Supervisory Board are classified as key management personnel. At year-end 2016 there were no outstanding loans to members of the Supervisory Board.

LOANS AND ADVANCES TO EXECUTIVE BOARD MEMBERS

There are no outstanding loans to the Executive Board.

## 33. EVENTS AFTER REPORTING PERIOD

There are no events after reporting period which impact the understanding of the financial statements.

## PROFIT APPROPRIATION ACCORDING TO THE ARTICLES OF ASSOCIATION

The appropriation of profits is subject to Article 18 of the Articles of Association of Achmea Bank N.V. as follows:

ARTICLE 18 PROFITS AND LOSSES

18.1. Profits shall be at the unrestricted disposal of the General Meeting;

18.2. The Bank shall only be entitled to make payments to the shareholders and other parties entitled to distributable profits if its total equity exceeds the amount of the issued capital plus the reserves to be maintained by law;

18.3. Profits shall only be distributed after the adoption of financial statements showing that such distribution is permissible;

18.4. The General Meeting may decide that an interim dividend shall be distributed, including an interim distribution from the reserves, subject to the provisions of article 2:105.4, of the Dutch Civil Code;

18.5. Dividends shall be made payable directly after their declaration, unless another date is determined by the General Meeting;

18.6. Dividends that have not been collected within five years of becoming payable shall accrue to the Bank.

## PROPOSAL FOR PROFIT APPROPRIATION

It is proposed that the General Meeting of Shareholders add the net profit after tax for 2016, amounting to EUR 13 million, to the reserves. The profit after tax for 2015 has been recognised in total equity as retained earnings.

## AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

# Notes To The Consolidated Financial Statements

Tilburg, 13 March 2017

The Board of Directors,

Mr. P.J. Huurman Chief Executive Officer (as of 1 July 2016)
Mr. V.J. Teekens Director of Operations
Director of Finance & Risk (vacancy as of 1 march 2017)

The Supervisory Board,
Mrs. P.H.M. Hofsté
Mr. J.B.J.M. Molenaar
Mr. H.W. te Beest

# Company Statement of financial position of Achmea Bank N.V.

## COMPANY STATEMENT OF FINANCIAL POSITION

| BEFORE APPROPRIATION OF RESULT<br>AS AT THE YEAR ENDED 31 DECEMBER<br>IN THOUSANDS OF EUROS | 2016 | 2015 |
|---|---|---|
| | | |
| **Assets** | | |
| Cash and balances with Central Banks | 658,325 | 731,360 |
| Derivative assets held for risk management | 252,884 | 300,126 |
| Loans and advances to banks | 784,084 | 873,153 |
| Loans and advances to public sector | 15,820 | 132,085 |
| Loans and advances to customers | 8,580,432 | 8,938,963 |
| Interest-bearing securities | 1,175,535 | 1,276,528 |
| Current tax assets | 2,185 | 6,569 |
| Prepayments and other receivables | 178,189 | 146,216 |
| Receivables from subsidiaries | 10,283 | 11,543 |
| **Total Assets** | **11,657,737** | **12,416,543** |
| | | |
| | | |
| **Liabilities** | | |
| Derivative liabilities held for risk management | 764,533 | 896,074 |
| Deposits from banks | 46,899 | 16,596 |
| Funds entrusted | 6,188,357 | 6,357,523 |
| Debt securities issued | 3,748,570 | 4,254,529 |
| Provisions | 1,065 | – |
| Current tax liabilities | 4,674 | 37,713 |
| Deferred tax liabilities | 25,401 | 25,643 |
| Accruals and other liabilities | 46,761 | 43,796 |
| Subordinated liabilities | 8,336 | 8,336 |
| | | |
| **Total Liabilities** | **10,834,596** | **11,640,211** |
| | | |
| **Equity** | | |
| Share Capital | 18,152 | 18,152 |
| Share premium | 505,609 | 472,109 |
| Reserves | 299,380 | 286,072 |
| | | |
| **Total Equity** | **823,141** | **776,332** |
| | | |
| **Total Equity and Liabilities** | **11,657,737** | **12,416,543** |

# Company Statement of comprehensive income of Achmea Bank N.V.

## COMPANY STATEMENT OF COMPREHENSIVE INCOME

| FOR THE YEAR ENDED 31 DECEMBER | 2016 | 2015 |
|---|---|---|
| IN THOUSANDS OF EUROS | | |
| Interest income | 489,045 | 538,398 |
| Interest expenses | 379,381 | 445,512 |
| **Interest margin** | **109,664** | **92,886** |
| | | |
| Changes in fair value of financial instruments | 601 | −2,310 |
| **Interest margin and changes in fair value of financial instruments** | **110,265** | **90,576** |
| | | |
| Investment income | 2,357 | 2,594 |
| Fees and commission income and expense | 2,019 | 90 |
| **Operating income** | **114,641** | **93,260** |
| | | |
| Impairment on financial instruments and other assets | 2,090 | 5,281 |
| Operating expenses | 95,250 | 82,023 |
| **Operating profit before taxes** | **17,301** | **5,956** |
| | | |
| Income tax expenses | 4,325 | 1,489 |
| **Net profit** | **12,976** | **4,467** |

# Statement of changes in company equity of Achmea Bank N.V.

## STATEMENT OF CHANGES IN COMPANY EQUITY

| FOR THE YEAR ENDED 31 DECEMBER | SHARE CAPITAL | SHARE PREMIUM | FAIR VALUE RESERVE | PROFIT FOR THE YEAR | OTHER RESERVES | TOTAL EQUITY |
|---|---|---|---|---|---|---|
| **In thousands of euros** | | | | | | |
| **Balance at 1 January 2016** | **18,152** | **472,109** | **1,066** | **4,467** | **280,538** | **776,332** |
| **Total comprehensive income for the period** | | | | | | |
| Profit or loss | – | – | – | 12,976 | – | 12,976 |
| **Other comprehensive income, net of income tax** | | | | | | |
| Change in fair value net of income tax (will be fully recycled through P&L) (note 12) | – | – | 333 | – | – | 333 |
| **Total comprehensive income for the period** | – | – | **333** | **12,976** | – | **13,309** |
| **Transaction with owners, recognised directly in equity** | | | | | | |
| Capital contribution (note 4) | – | 33,500 | – | – | – | 33,500 |
| Appropriation of profit 2015 | – | – | – | −4,467 | 4,467 | – |
| **Total contributions by and distributions to owners** | – | **33,500** | – | **−4,467** | **4,467** | **33,500** |
| | | | – | | | |
| **Balance at 31 December 2016** | **18,152** | **505,609** | **1,399** | **12,976** | **285,005** | **823,141** |
| | | | | | | |
| **Balance at 1 January 2015** | **18,152** | **301,609** | **3,625** | **24,048** | **256,490** | **603,924** |
| **Total comprehensive income for the period** | | | | | | |
| Profit or loss | – | – | – | 4,467 | – | 4,467 |
| **Other comprehensive income, net of income tax** | | | | | | |
| Fair value reserve (available-for-sale financial assets): | – | – | – | – | – | – |
| Change in fair value net of income tax (will be fully recycled through P&L) (note 12) | – | – | −2,559 | – | – | −2,559 |
| **Total comprehensive income/expense for the period** | – | – | **−2,559** | **4,467** | – | **1,908** |
| **Transaction with owners, recognised directly in equity** | | | | | | |
| Appropriation of profit 2014 | – | – | – | −24,048 | 24,048 | – |
| Capital contribution (note 4) | – | 170,500 | – | – | – | 170,500 |
| **Total contributions by and distributions to owners** | – | **170,500** | – | **−24,048** | **24,048** | **170,500** |
| | | | | | | |
| **Balance at 31 December 2015** | **18,152** | **472,109** | **1,066** | **4,467** | **280,538** | **776,332** |

As at 31 December 2016, the authorised share capital amounted to EUR 90 million (2015: 90 million), divided into 90 million shares (2015: 90 million) each with a nominal value of EUR 1 (2015: EUR 1). As at 31 December 2016, 18.151.663 (2015: 18.151.663) had been issued and paid up in full. Holders of the shares have a right of pre-emption on the issue of shares.

The fair value reserve comprises the cumulative net gains and losses on the fair value of the financial assets that are classified as available for sale. The profit for the year includes the net profit of 2016.

The addition of the reserves comprise of the addition of profit of prior years including the addition of the legal reserve for the financial assets at fair value through profit and loss. The fair value of the financial assets at fair value through profit and loss exceeds its amortised cost by EUR 7.7 million (2015: 7.8 million). The other reserves consist of retained earnings (EUR 277.3 million) and the legal reserve (EUR 7.7 million).

Furthermore in December 2016 Achmea B.V. provided an additional capital injection of EUR 33.5 million to Achmea Bank which relates to the acquisition of the remaining loan portfolio of Staalbankiers N.V. This transaction is further disclosed in notes 4 Business combinations.

# Notes To The Company Financial Statements of Achmea Bank N.V.

## Notes to the company financial statements

### GENERAL

The company financial statements form part of the consolidated financial statements of Achmea B.V.

In respect to the measurement basis for assets and liabilities and for determination of the results, the Bank has made use of the option in article 2:362 (8) of the Dutch Civil Code. This means that the accounting policies used are identical to the IFRS standards applied to the consolidated financial statements of Achmea Bank.

Concerning the Company cash flow statement of Achmea Bank N.V., use has been made of the principle according to Section 360.106 of the Dutch Accounting Standards (RJ).

Reference is made to the notes to the consolidated financial statements for more information regarding the items in the company financial statements.

### AMENDMENTS RELATED TO PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

There are no prior period corrections or changes in presentations.

### AUTHORIZATION OF COMPANY FINANCIAL STATEMENTS

Tilburg, 13 March 2017

The Board of Directors,

Mr. P.J. Huurman Chief Executive Officer (as of 1 July 2016)
Mr. V.J. Teekens Director of Operations
Director of Finance & Risk (vacancy as of 1 march 2017)

The Supervisory Board,

Mrs. P.H.M. Hofsté
Mr. J.B.J.M. Molenaar
Mr. H.W. te Beest

**INDEPENDENT AUDITOR'S REPORT**
To: the general meeting and supervisory board of Achmea Bank N.V.

## Report on the financial statements 2016

### Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Achmea Bank N.V. as at 31 December 2016 and of its result and cash flows for the year then ended 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 Achmea Bank N.V. as at 31 December 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### What we have audited

We have audited the accompanying financial statements 2016 of Achmea Bank N.V., the Hague ('the Bank'). The financial statements include the consolidated financial statements of Achmea Bank N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the following statements for 2016: the consolidated statement of comprehensive income, changes in equity and cash flows; and
- 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 statement of comprehensive income for the year then ended;
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

### The 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 section 'Our responsibilities for the audit of the financial statements' of our report.

### Independence

We are independent of Achmea Bank N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Our audit approach

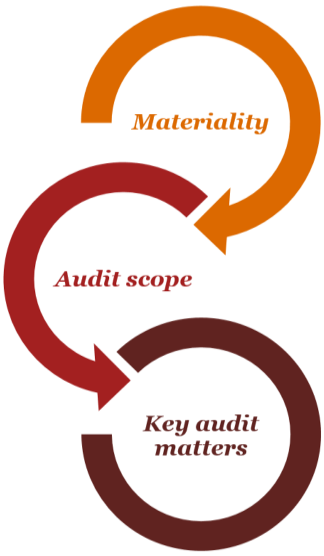
### Overview and context

Achmea Bank N.V. is a bank that provides residential mortgage loans and saving products to private customers. Besides savings the Bank obtains a substantial part of its funding in the form of unsecured and secured notes issued on the capital markets. The Group comprises of several components. We considered our group audit scope and approach as set out in 'the scope of our group audit' section. We paid specific attention to the areas of focus driven by the operations of the Bank, as set out below.
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the executive board made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As indicated in note 6 on page 45 of the financial statements there is significant estimation uncertainty in impairment of loans to customers and the fair value measurement of financial instruments including the application of hedge accounting, we considered these to be key audit matters as set out in the key audit matter section of this report.

# Other information

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the executive board that may represent a risk of material misstatement due to fraud. The impact of (changes in) laws and regulations have significant impact on the banking business and therefore has been addressed to the extent it was relevant to our audit.
We ensured that the audit team had the appropriate skills and competences that are needed for performing a financial statement audit of a bank. In addition to banking and IT specialists, we also included valuation experts, treasury specialists and tax specialists in our team.

The outlines of our audit approach were as follows:




***Materiality***

- Overall materiality: € 2.5 million which represents 2.5% of interest margin.

***Audit scope***

- We performed audit work on Achmea Bank N.V. and all of its subsidiaries.

***Key audit matters***

- Impairment of loans and advances to customers at amortised cost
- Valuation of derivatives and the application of hedge accounting

## *Materiality*

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.
We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| ***Overall group materiality*** | € 2.5 million (2015: € 1.5 million / five year average: € 2 million). |
| ***How we determined it*** | 2.5% of interest margin |
| ***Rationale for benchmark applied*** | We consider, as a point of reference, that (average) profit before tax is the preferred materiality benchmark as it generally is seen as best representing the interests of the stakeholders. However given the results trend of the Bank including several one-off results in the last couple of years, this is not considered to be the most appropriate benchmark to be applied anymore. In assessing other benchmarks we believe interest margin, being an important financial metric for the general performance of a bank including reflecting the link between return on assets and cost of funding, is an appropriate benchmark to use. To ensure, in switching benchmarks, we arrive at an appropriate level of materiality we assessed this benchmark against other benchmarks such as: total income, total assets and equity . We consider € 2.5 million to be the appropriate overall materiality level. |

In our audit we also consider misstatements and/or possible misstatements that, in our judgement, are material for qualitative reasons.
We agreed with the supervisory board that we would report misstatements identified during our audit above € 250,000 (2015: € 74,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons. For our audit execution and documentation purposes we assessed all misstatements above € 125,000.

## *The scope of our group audit*

Achmea Bank N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Achmea Bank N.V.

The group audit encompassed all components included in the consolidation of Achmea Bank N.V. as disclosed in note B on page 22 of the financial statements.

In our view, due to their significance and/or risk characteristics, each of these components required an audit of their complete financial information. In performing the work on these components the group engagement team did not make use of component auditors.

Banks in general depend heavily on the reliability and continuity of their information technology (IT) environment. We engaged our IT specialists to assist us in assessing the information technology general controls (ITGCs) at the Bank for the purpose of our audit. This includes the assessment of policies and procedures applied by the Bank to ensure IT operates as intended and provides reliable data for financial reporting purposes. Furthermore, our IT specialists supported us in our key report testing and IT application controls testing. Our approach was also tailored towards the fact that the bank makes use of several service organisations (within the Achmea group as well as externally) in its day-to-day operations. We obtained evidence over the controls performed by the service organisations through obtaining and assessing ISAE 3402 type 2 reports and leveraging on work performed by component auditors within the Achmea group.

For the testing of the Bank's internal control framework, we made use of the work performed by internal audit in areas where we deemed that use appropriate. In making this assessment we have considered factors such as our assessment of the level of risk and the amount of judgement involved related to the associated financial statement line item. Where we deemed the risk associated with a financial statement line item to be significant, or where a high degree of judgement was required, we performed testing of internal controls. In order to make use of the work performed by internal audit we evaluated their objectivity, level of competence and application of a systematic and disciplined approach. We also performed a review of the documentation of the work performed by internal audit that included re-performance for those areas where we made use of their work.

In performing the procedures above on a component level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

## *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board, however these do not form a comprehensive reflection of all matters that were identified by our audit and that we discussed. We describe the key audit matters below and include a summary of the audit procedures we performed on those matters.
The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context. We note that the key audit matters related to 'Impairment of loans and advances to customers at amortized cost' and 'Fair value measurement of derivatives and application of hedge accounting' are recurring. These relate to the Bank's primary business objectives and did not change significantly as compared to prior year. The key audit matter 'Accounting for newly acquired loan portfolio in 2015' was non-recurring in nature, a second (related) transaction took place in 2016, however this was considerably less significant, and therefore not considered a key audit matter.

| ***Key audit matter*** | ***How our audit addressed the matter*** |
|---|---|
| ***Impairment of loans and advances to customers at amortised cost***<br><br>*See note K on page 26 of the summary of significant accounting policies "impairment of financial assets measured at amortised cost", paragraph "impairments of loans and advances to customers" on page 45 of the critical estimates and judgments used in applying the accounting policies and note 11 on page 47 "loans and advances to customers".*<br><br>We consider the impairment of loans and advances to customers a key audit matter as management applies judgment in the determination and recognition of these impairments. As the loans and advances are significant to the financial statements, a change in assumptions may have a material effect on the financial statements.<br><br>The impairment of loans and advances consists out of two different | Our audit procedures over the impairment of loans and advances to costumers at amortised cost (both the regular portfolio as well as the Acier portfolio) consisted of testing of the company's internal controls over their credit risk management and impairment process, with a focus on internal controls to ensure the timely recognition and measurement of impairments on loans and advances to customers at amortised cost.<br><br>In line with the maturity level of the internal control framework, our substantive audit procedures on the regular portfolio included, amongst others, a reconciliation of the data underlying the parameters used to historical loss information, an assessment of the reliability of this historical loss information by reconciling the data to the underlying subsystems and reconciling a sample of the collateral to the underlying valuation reports. We reconciled the exposure at risk and the interest rate (discount rate) applied to the |

| Key audit matter | How our audit addressed the matter |
| --- | --- |
| components:<br>Specific impairment for loans and advances where an impairment trigger was identified; and<br>A model-based impairment for incurred but not reported losses ('IBNR').<br><br>The specific allowance for impairment amounts to € 66.6 million and the IBNR amounts to € 6.8 million (refer to note 11 "Loans and advances to customers" in the financial statements). A distinction is made between the regular Achmea Bank portfolio for an amount of € 11.2 billion with a provision for impairment of € 11.5 million and the Acier loan portfolio amounting to € 1.1 billion with a provision for impairment of € 61.9 million. The nature and composition of the Acier loan portfolio is different compared to the regular Achmea Bank portfolio which results in a higher credit risk for example related to the nature of the financed object, collateral or currency (Swiss franc).<br><br>The main judgmental elements included in the impairment for individual identifiable impaired loans and advances are:<br>timely identification of impairment triggers;<br>expected future cash flows;<br>the discount rate; and<br>the value of the corresponding collateral.<br>For the Acier loan portfolio the specific impairment provision is determined per individual client. For the regular Achmea Bank portfolio parameters are applied based on historical data.<br><br>For loans and advances to customers that are individually not impaired, the company determines, based on experience- and historical loss data, whether further impairment losses are present in the portfolio. Given the difference in nature this is done separately for the regular and the Acier portfolio. The key parameters used in this calculation are the probability of default (PD), the loss given default (LGD), the loss identification period (LIP) and the exposure at default ('EAD'). | underlying subsystems. We found no differences in the recalculation of the provision and reconciliation to the underlying subsystems and source data.<br><br>For the Acier loan portfolio we made a selection of individual loans whereby we assessed the underlying documentation, including reconciliation to source documents of expected future cash flows including collateral and recalculations. We discussed individual items with management on which significant judgement was applied and challenged the assumptions applied. We found the explanations provided by management to be reasonable and noted no differences exceeding our threshold when recalculating the provision.<br><br>To assess the completeness of the specific provision we reconciled the past due listing to the detailed listing of the provision, read minutes of meetings and inquired with management. We did not identify additional items that should have been provided for.<br><br>Our audit procedures over the IBNR provision included an examination of the applied methodology, as well as the calculations used, by the company for both the regular and the Acier portfolio respectively. We reconciled the data from which these underlying parameters are extracted to the underlying subsystems in order to verify the accuracy and completeness of the parameters. We recalculated the provision and reconciled the EAD to the underlying subsystems where we found no differences.<br><br>We also assessed the completeness and accuracy of the disclosures relating to impairments of loans and advances to customers at amortised cost to assess compliance with disclosure requirements included in EU-IFRS. |
| ***Fair value measurement of derivatives and application of hedge accounting***<br>*See note I on page 24 of the summary of significant accounting policies " Amortised cost and fair value measurement", note J on page 24 "Financial assets and financial liabilities", note L on page 26 "Derivative and hedge accounting", note 8 on page 46 "derivatives held for risk management", note 11 "loans and advances to customers", and note 23 on page 55 "Interest margin and changes in fair value of financial instruments".*<br><br>The Bank has designated derivatives held for risk management in two hedging strategies. Fair value hedges on interest rate risk in its mortgage portfolio (macro hedge) and interest rate risk and currency risk related to debt securities issued (micro hedges). The derivatives are measured at fair value through profit or loss and amount to € 255.5 million of assets and € 764.5 million of liabilities. | Our audit included testing of the company's internal controls over the valuation process and analysis of validation procedures performed by the company over the relevant model inputs. We also tested the bank's internal controls with respect to their hedge accounting strategies and relevant hedge accounting documentation and calculation. We determined that we could rely on these controls for the purpose of our audit.<br><br>We tested the company's hedge relationships by evaluating the methodology and reconciling input and output of the prospective and retrospective testing, including the fair value measurements of the hedge instrument and hedged item, as performed by the Bank. We evaluated whether the hedge accounting methodology and the hedge documentation applied by the company is in accordance with EU-IFRS. We determined the hedge relationships were correctly defined and calculated as being effective. |

| *Key audit matter* | *How our audit addressed the matter* |
| --- | --- |
| The fair value of the derivatives may fluctuate significantly from time to time due to fluctuations in market rates. The Bank applies a valuation model to fair value these positions. Although the valuation model makes maximum use of observable market inputs and limits there is still a considerable level of judgements to be made by the company for unobservable inputs. Consequently, determining the fair value of these types of instruments is considered to be complex and subject to judgement and estimation risk.<br><br>As required by EU-IFRS, the company has hedge accounting documentation in place describing the relationship between the hedging instrument(s) and the hedged item(s), as well as the risk management objective and strategy at the inception of the transaction. The company formally records whether the derivatives used in the hedge relationships are effective in offsetting changes in the fair value of the hedged items, both at the start and for the duration of the hedge relationship. This is done via prospective and retrospective testing.<br><br>Given the subjectivity around fair valuation, the size of the derivatives portfolio held for risk management and the complexity of the hedge accounting standards included in EU-IFRS, we considered this to be a significant element of our audit. | We reconciled the source data used in the company's valuation models that are critical in determining the fair value (e.g. cash flows, maturities and notional values) to the underlying source systems. No significant differences were noted. We challenged the assumptions applied in the unobservable inputs and performed a sensitivity analysis. We tested the outcomes of management's derivatives valuation by independently re-performing management's valuation using our own valuation tools and techniques. Although our own valuation tools and techniques also provide inherently judgemental outcomes, we considered this to be an appropriate basis for challenging management's outcomes. We found that management's outcome of the models used for the fair value of the derivatives, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes.<br><br>We assessed the completeness and accuracy of the disclosures relating to derivatives and hedge accounting to assess compliance with disclosure requirements included in EU-IFRS. |

## Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- The supervisory board report;
- The executive board report;
- Implementation of and compliance with the banking code;
- Corporate social responsibility; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is 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 in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.
The executive board is responsible for the preparation of the other information, including the directors' report and the other information pursuant to Part 9 Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Our appointment

We were appointed as auditors of Achmea Bank N.V. on 29 April 2011 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 6 April 2011 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 6 years.

## Responsibilities for the financial statements and the audit

### Responsibilities of the executive board and the supervisory board for the financial statements

The executive board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the executive 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 executive board is responsible for assessing the Bank's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going-concern basis of accounting unless the executive board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Bank's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Bank's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 13 March 2017
PricewaterhouseCoopers Accountants N.V.

Original signed by C.C.J. Segers RA

# Appendix to our auditor's report on the financial statements 2016 of Achmea Bank N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

## The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional 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 Bank's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
- Concluding on the appropriateness of the executive board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Bank'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 and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the Bank's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

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 deficiencies 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.