Achmea Bank N.V.

Pillar III report 2017

KvK 27154399

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SUMMARY ANALYSIS

Common Equity Tier 1 ratio (CET1-ratio) (2016: 19.2%)	Tier 1 Capital ratio (2016: 19.2%)	Total Capital ratio (2016: 19.3%)
20.4%	**20.4%**	**20.5%**

Leverage ratio (2016: 5.6%)	Total Risk Weighted Exposure Amounts (2016: € 4,237 mln)	Loans impairment charges (2016: 7.7bps)
6.0%	**€ 4,024 mln**	**4bps**

Liquidity Coverage ratio (LCR) (2016: 572%)	Net Stable Funding ratio (NSFR) (2016: 122%)
255%	**119%**

Capital management

Through consistent monitoring, stress testing and capital projections Achmea Bank has determined that it is adequately capitalized and that the capital position of the bank remains within the internal and external limits for both short and long term.

The Total Capital ratio at 31 December 2017 amounted to 20.5% and is well above the current standards and limits of the capital (risk) position of Achmea Bank.

Liquidity management

The liquidity risk management of Achmea Bank is adequate. The development of relevant indicators, such as the cash and liquidity position, the survival period and the Liquidity Coverage ratio (LCR) are monitored consistently by the bank. The amount and composition of the liquidity buffers at 31 December 2017 are adequate and enables the bank to continuously meet its payment obligations both under normal and stress conditions. Achmea Bank complies structurally with the internal and external requirements, including standards for (maintaining) healthy balance sheet ratios, e.g. the funding mix, asset encumbrance (ratio) and overcollateralisation.

INTRODUCTION

This document presents the consolidated Capital Adequacy and Risk Management report (hereafter referred to as Pillar III report) of Achmea Bank N.V. as at 31 December 2017.

Achmea Bank operates under the CRDIV capital framework which came into force in 2014. CRDIV constitutes the Basel framework which seeks to align regulatory requirements with the economic principles of risk management. CRDIV was implemented into Dutch law as amendments to the 'Financial Supervision Act' (Wet op het financieel toezicht, Wft) and further accompanying regulations. Pillar III requirements under CRDIV are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. Achmea Bank's 2017 year end disclosures are prepared in accordance with the CRDIV requirements and associated guidelines of the European Banking Authority (EBA) technical standards that came into force on 31 December 2016.

The implementation of CRDIV is subject to transitional arrangements. By 1 January 2018 all CET1 capital deductions should be phased in. Consequently, Achmea Bank's capital position is presented by applying the transitional arrangements.

In addition to the changes required under CRDIV, Achmea Bank monitors and assesses the impact of ongoing regulatory developments.

This report describes the Bank's:

- Company profile
- Risk management
- Capital management
- Liquidity management
- Credit Risk management
- Securitisations
- Operational Risk management
- Market risk management
- Remuneration principles and policy

ACHMEA BANK

Achmea Bank N.V. (Achmea Bank or the Bank) is licensed as a 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 Group, one of the largest insurance companies in the Netherlands with a history stretching back more than 200 years, 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 (65%) and Coöperatieve Rabobank U.A. (29%). The percentages reflect the capital rights of the shareholders of Achmea.

Achmea Bank is a wholly owned subsidiary of Achmea and is Achmea Bank strategically important for Achmea. We provide savings and mortgage products which are an important part of the propositions of Achmea brands. We service three labels: Centraal Beheer, Woonfonds and Acier.

Achmea Bank is a customer driven, efficient and agile bank. We are actively involved with our customers and society. In order to offer the best solutions for our customers, we use the expertise of our business partners. Together we offer financial solutions for wealth creation and the purchase of a house. We are entrepreneurial, result-oriented and have an open and informal culture.

PRODUCTS

Achmea Bank primarily provides owner-occupied residential mortgage loans to private customers under the labels Centraal Beheer and Woonfonds. Mortgage lending is secured by a contingent claim on residential properties in the Netherlands. Centraal Beheer and Woonfonds use the distributive power of intermediaries to offer mortgage loans. Furthermore Centraal Beheer offers mortgage loans online. The Acier portfolio relates to the former Staalbankiers portfolio that was acquired in 2015 and 2016. This portfolio is a run-off portfolio, no active or new production is offered to the existing customers.

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. In that respect Achmea Bank plays an important role in the retirement services strategy of Achmea Group.

STRATEGY

MISSION: PROVIDE LONG-TERM FINANCIAL SECURITY TO OUR CUSTOMERS

Achmea’s goal is to provide long-term financial security to our customers. We put the interests of our customers first. That means manage the savings of our customers in a prudent 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 strong financial position, 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.

As an independent legal entity with a banking licence, Achmea Bank N.V. has direct access to the capital market. We ensure adequate liquidity and capital to meet our obligations to our investors and our customers. Achmea Bank has and aims to have a strong capital and liquidity position and a diversified funding mix with retail savings and wholesale funding.

We report in a clear and transparent manner about our activities, services and products, as well as about the financial stability of our business. Our staff is trustworthy, knowledgeable and professional and treats 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 anticipating a shift to more individualized need for retirement solutions. Achmea strongly positioned itself in this market and offers consumers integrated propositions consisting of pension solutions, together with asset management, savings and mortgages products. Achmea Bank plays a key role in the retirement services strategy of Achmea Group. Our products form a critical component of the retirement services and of the solutions offered by Centraal Beheer. The retirement services strategy is expected to lead to future growth in the Bank's mortgage and savings portfolio.

We provide expertise in the fields of product management, balance sheet management, product pricing, operating processes, risk management and compliance. We originate and service mortgages for both the balance sheets of Achmea Bank and Achmea Pensioen & Leven N.V. (AP&L).

Our mortgage & savings products are sold using two respected and well-known brand's Centraal Beheer and Woonfonds. Customers expect outstanding service quality, simple and intuitive processes, 24/7 availability, self-service, transparency of products and pricing, personalization and tailoring and a consistent experience across channels. We aim to have processes that contribute to a high level of customer satisfaction and be competitive in terms of costs.

Achmea Bank is a well-established originator of mortgages with over 40 years of experience with a high quality mortgage portfolio and low write-offs. Our business model is straightforward: We develop and market simple and transparent savings and mortgage products that are easy to use. 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:

1. realize profitable growth by developing new propositions for specific segments of the mortgage market which offer higher returns
2. be cost efficient: improving the cost-to-income ratio and realising economics of scale by originating mortgages for Achmea Bank as well as for Achmea Pensioen & Leven N.V. (AP&L)
3. optimize funding, capital and liquidity management.

Core objectives

To fulfil the ambition in the next three years, the Bank has defined critical success factors which are set out in the Banks strategy map. These success factors are linked to the following perspectives:

1. Customer perspective;
2. Social perspective;
3. Employee perspective;
4. Partner perspective;
5. Process perspective;
6. Financial perspective

Rating agencies

Achmea bank is rated by S&P and Fitch. The rating of both rating agencies is derived from Achmea's credit rating. The S&P rating is A-/Negative Outlook since March 2017. Since year-end October 2016 Achmea Bank has a Fitch long-term rating of A/Stable Outlook. Standard and Poor's revised the rating per 31 March 2017 from A-/Stable Outlook to A-/Negative Outlook. Both agencies apply their own methodology to assess the capital and the liquidity adequacy of Achmea Bank. These assessments also take into account the competitiveness and conditions of the Dutch financial markets.

Liquidity

The rating agencies value the access to the (contingency) liquidity facilities of Achmea B.V.. With regard to the funding profile, the rating agencies indicate that there is a dependency on secured wholesale funding, but also mention the growth of savings and unsecured funding, which is regarded as an improvement of the Bank's funding profile.

Capital

The rating agencies indicate that Achmea Bank has a strong capital base combined with a sound asset quality and lower credit losses than its peers. They expect that the Bank will maintain this level of credit losses over the next two years. In addition, Fitch does not assign a Viability Rating to Achmea Bank given its close integration with the group and Fitch's opinion that the bank's franchise cannot be assessed on a standalone basis.

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 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. (shares are held by Stichting Holding Achmea Covered Bond Company) ***)
- Achmea Conditional Pass-Through Covered Bond Company B.V. (shares are held by Stichting Achmea Conditional Pass-Through Covered Bond Company B.V.)
- Stichting Trustee Achmea Hypotheekbank
- Stichting Incasso Achmea Hypotheken

*) Called in 2017
**) Called January 2018
***) Liquidated in 2017

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, Achmea Covered Bond Company B.V. and Achmea Conditional Pass-Through 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 involved in the boards of these entities.

In 2017 Achmea Bank set up a EUR 5 billion Conditional Pass-Through Covered Bond Programme ("CPTCB") to replace its existing soft bullet covered bond programme which was terminated in October 2017. The shares of Achmea Conditional Pass-Through Covered Bond Company B.V. are held by Stichting Achmea Conditional Pass-Through Covered Bond Company B.V..

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.

The purpose of Stichting Incasso Achmea Hypotheken is to collect and distribute payments on the mortgage receivables of 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 no longer has 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 in the profit and loss statement. Any interest retained in the former subsidiary is measured at fair value once the Bank no longer has control.

RISK MANAGEMENT

INTRODUCTION

The Executive Board bears the ultimate responsibility for formulating the bank's strategy. An important element of the bank's strategy is the policy concerning capital and financial risk management and the resulting capital and funding plan. The Executive Board is responsible for the review, approval and execution of this plan. This also means that the Executive Board has the ultimate responsibility for the set up and effective operation of the processes that enable Achmea Bank to hold sufficient capital and liquidity considering its objectives and the statutory and regulatory capital and liquidity adequacy requirements. Within this scope, the Executive Board has delegated specific tasks to committees, including the Asset & Liability Committee (ALCo).

The objective of the bank's risk framework is identifying and analyzing risks at an early stage and setting and monitoring limits. Adequate internal control procedures and reporting systems, including the application of appropriate limits, are key elements in the bank's risk management.

In addition to stronger prudential CRR/CRDIV requirements, there was also a need for a framework on recovery and resolution measures for banks to ensure that bank failures across the EU are managed in a way which avoids financial instability and minimizes costs for taxpayers. Therefore, in April 2014, the European Parliament passed the Bank Recovery and Resolution Directive (BRRD) effective 1 January 2016.

The minimum requirement for own funds and eligible liabilities (MREL) will be set on a case-by-case basis (bank specific). The National Resolution Authority has not set MREL requirements (if any) for Achmea bank yet.

The Financial Stability Board (FSB) has published its final Total Loss Absorbing Capacity (TLAC) standard in November 2015 to be applied to global systemically important banks (G-SIB's). Hence TLAC does not apply for Achmea Bank.

KEY METRICS SUMMARY

IN MILLIONS OF EUROS	2017	2016
Common Equity Tier 1 (CET1)	821	808
Tier 1	821	808
Total capital	825	813
Total risk-weighted assets (RWA)	4,024	4,237
Common Equity Tier 1 ratio	20.4%	19.1%
Tier 1 ratio	20.4%	19.1%
Total capital ratio	20.5%	19.2%
Additional CET1 buffers		
Capital conservation buffer	1.3%	0.6%
Countercyclical buffer	0.0%	0.0%
Bank GSIB and/or DSIB	0.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%
TLAC requirements	0.0%	0.0%
Leverage ratio		
leverage ratio exposure	13,742	14,326
Leverage ratio	6.0%	5.6%
Liquidity Coverage Ratio		
Total HQLA	2,046	1,830
Total Net Cash Outflow	802	320
LCR ratio	255%	572%
Net Stable Funding Ratio		
Total Available Stable funding	11,465	12,480
Total Required Stable funding	9,662	10,215
NSFR ratio	119%	122%

RISK APPROACH

Risk strategy

Achmea Bank's risk strategy supports management in the realisation of the business strategy by defining boundaries within which the bank must operate. The risk strategy focuses on:

- a healthy risk-return ratio;
- sound balance sheet management to mitigate financial risks; and
- protection of Achmea Bank's identity and reputation: Achmea Bank wants its customers and other stakeholders to continue to have confidence in the bank.

The mission of the Risk Management departments is to ensure the financial and operational stability and continuity of Achmea Bank. The Risk Management departments safeguards a continuously monitoring of the risk profile and that risk management is implemented correctly, in line with legislation and best practices in the market.

Risk appetite

Risk appetite is defined as the level of financial and non-financial risk on its balance sheet 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 an acceptable 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 in its credit portfolio;
- maintain a sound balance sheet with a diversified funding mix and an acceptable level of asset encumbrance; and
- have a conservative investment policy.

The Risk Appetite Statement (RAS) 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 & Risk Committee (FRC), the Executive Board and ultimately by the Supervisory Board.

The RAS is monitored by benchmarking the actual and forecasted risk profiles against the risk appetite and is discussed on a monthly basis in the ALCo and the Executive Board. This ensures that day-to-day operations are executed within the boundaries that are set by the business and risk strategy. Breaches of the risk appetite will result in immediate action at the appropriate management level.

Significant risks and developments

Achmea Bank identifies the following types of material risks:

- Solvency risk: Solvency risk is defined as the risk that the bank's solvency ratios are too low, causing the market to lose its confidence in the bank;
- Liquidity risk: Liquidity risk is defined as the risk that the bank fails to fulfil its short and long-term liabilities. This includes the risk that the bank is not able to attract funding with appropriate maturities or at appropriate interest rates and the risk that the bank fails to liquidate assets at a reasonable price or within a reasonable period of time;
- Credit risk: Credit risk is defined as the risk that a counterparty cannot (fully) meet its obligations to Achmea Bank and comprises retail credit risk and the credit risk related to exposures to professional counterparties;
- Interest rate risk on banking book: Interest rate risk is the present or future risk of a decline in equity or income due to changes in market interest rates;
- Operational risk: Operational risks are possible losses as a result of inadequate or defective internal processes and systems, inadequate or incorrect human actions or external events and fraud;
- Strategic risk: Strategic risk is defined as risk that affects an entity's vital interests or execution of chosen strategy, whether imposed by external threats or arising from flawed or poorly implemented strategy.

The integral overview of the material risks, the changes in these risks and the measures taken are regularly discussed in the ALCo, Credit Committee and the Executive Board. To control the material risks, risk management processes are in place which ensure that the risks are taken within the risk appetite of the bank.

RISK MANAGEMENT ORGANIZATION

Achmea Bank has two departments who share the responsibility for risk management. The Balance Sheet management & Financial Risk department is responsible for the financial risks of the Bank. The Compliance & Operational Risk Management department Is responsible for the non-financial risks.

Risk decision making

The CEO is responsible for the execution of non-financial risk activities of Achmea Bank, the CFRO is responsible for the execution of financial risk activities. The financial risk management organisation is led by the senior manager Balance Sheet

Management & Financial Risk department. The non-financial risk management organisation, i.e. operational risk, is led by the senior manager Compliance & Operational Risk management department.

Risk governance and risk management committee structure

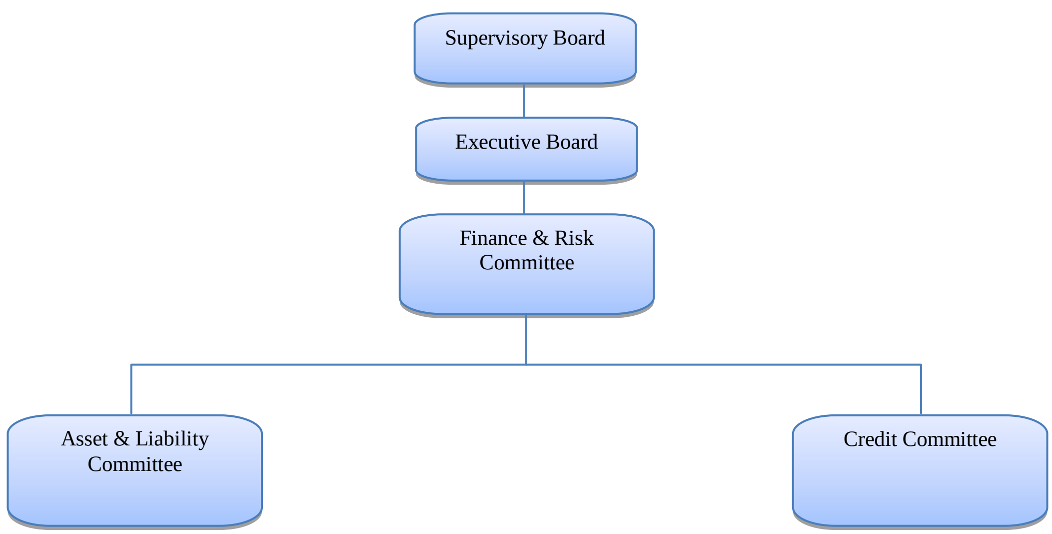
The Bank aims to achieve an optimal balance between risk and return. Adequate risk management is key in order to support and monitor the Bank's core activities.

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 and liquidity with respect to its objectives and the regulatory capital and liquidity 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 and amended to policies regarding financial risks. The Executive Board members have seats in all of these committees.

The ALCo focuses on the management of interest rate risk, foreign currency 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 presented. In addition, the ALCo supervises compliance with the relevant regulatory guidelines, especially with regard to capital, funding, liquidity and market risk. The ALCo is chaired by the CFRO of Achmea Bank. Other members of the ALCo are representatives of Balance Sheet Management & Financial Risk, Control, (Group) Corporate Finance and (Group) Treasury.



RISK MANAGEMENT FRAMEWORK

The objective of the bank's risk framework is identifying and analyzing risks at an early stage and setting and monitoring objective limits. Adequate internal control procedures and reporting systems are key elements in the bank's risk management.

The basis of the risk framework is a three lines of defense model, in which day-to-day responsibility for risk control is assigned to the commercial and/or operational departments (first line). Achmea Bank's first line also includes the Corporate Finance and Treasury department of Achmea. The Compliance & Operational Risk Management and Balance Sheet & Financial Risk

Management departments form the second line and are responsible for the relevant risk policies and for the monitoring and control of the Bank's risks. Internal Audit forms the third line and performs independent audits on the risk framework.

The core activities of the second line of defense are the following:

Balance Sheet & Financial Risk Management supports (and challenges) the first line in identifying, modelling, assessing, measuring and monitoring financial risks. Balance Sheet & Financial Risk Management is, with respect to (financial) risks, responsible for limit monitoring, providing risk assessments and reporting of potential limit breaches. Finally, Balance Sheet & Financial Risk Management is responsible for the development and maintenance of the stress testing policies and for the stress scenarios for the financial risk domain.

Operational Risk Management supports the first line in identifying, assessing, measuring and monitoring of operational risks.

Compliance is responsible for the monitoring of compliance with applicable laws and regulations to ensure the reputation and integrity of Achmea Bank and its employees and (senior) management.

The core function of the third line of defense is performed by Internal Audit:

Internal Audit (IA Bank) performs a continuous internal audit function within the bank. The internal audit function is responsible for assessing whether the internal controls are effective in set up, existence and operation. This concerns the quality and effectiveness of the system of governance and risk management processes within the bank. The internal audit function reports its findings to the executive board and the Audit and Risk Committee.

RISK MEASUREMENT

Achmea Bank uses the Standardised approach to determine credit risk and the Basic Indicator approach to determine operational risk capital requirements. The Bank applies an internal model to determine interest rate risk on the banking book. Achmea Bank has the ambition to become an AIRB (Advanced Internal Rating-Based) compliant bank in the near future.

Stress testing

Banks should have the capacity to fully understand their risks and the potential impact of stressful events and circumstances on their financial condition. Stress testing is one of the techniques used to manage the risks the Bank is exposed to. Stress testing can assist in highlighting unidentified or under-assessed risk concentrations and interrelationships and their potential impact on the bank during times of stress.

Stress testing is an integral part of risk management at Achmea Bank. Achmea Bank has drawn up a stress testing policy and several scenarios for stress testing solvency and liquidity. The governance, methodology (including relevant risk factors) and application of stress testing in the capital and liquidity management processes are described in the policy. These documents are reviewed at least annually.

The stress testing framework consists of sensitivity analyses by risk type, scenario analysis and reverse stress testing. Through sensitivity analysis Achmea Bank will have and/or improves insight in the relevant risks Achmea Bank faces. Achmea Bank uses the following subtypes of scenario analyses, namely idiosyncratic and market-wide stress testing. Combining idiosyncratic and market-wide stress provides the basis for enterprise-wide stress testing and reverse stress testing.

The results of the solvency and liquidity stress scenarios are reported (at least) on a quarterly basis. The time horizon of the solvency scenarios is three years. Based on the outcomes, ALCo may have to take corrective measures, when necessary, so that the risk exposures remain within the boundaries of the Bank's risk appetite.

Capital management
On a quarterly basis, stress tests are executed. The impact of four stress scenarios are calculated, i.e. EU crisis, EU integration, deterioration of the Banks competitive position and reputational damage of Achmea or Achmea Bank. The most severe scenario is the EU crisis scenario. This scenario leads to higher unemployment, lower house prices and to a downgrade cycle for credit ratings of professional counterparties. Although this stress scenario leads to a decrease of the Common Equity Tier 1 (CET1)

ratio, the ratio does not breach the minimum risk appetite limit. This means that Achmea Bank is comfortable with the amount of stress it can withstand.

Stress testing is also used to determine the pillar II capital charges for interest rate risk on banking book, concentration risk and strategic risk.

Liquidity management

On a quarterly basis the impact of a severe market-wide stress scenario, a severe idiosyncratic stress scenario and a combined scenario are determined. Market-wide stress focusses on the effects of changes in the yieldcurve, credit ratings of counterparties and a limited access to the unsecured wholesale markets. Idiosyncratic stress is the result of a (sudden) loss of trust in the creditworthiness of Achmea Bank. This can have a negative effect on the credit rating of the Bank and leads to an outflow of a considerable amount of retail funding (customer savings) and will result in a limited access to the wholesale markets for several months.

Although the severe stress scenarios lead to substantial liquidity drains, the available liquid buffer of Achmea Bank is sufficient to compensate for these negative stress effects.

Recovery plan

The Bank Recovery and Resolution Directive (BRRD) requires banks to have a recovery plan operational. The recovery plan is an important management tool for the early detection of and averting a (potential) crisis.

In order to cope with a (developing) crisis situation, the recovery plan contains a trigger framework and specific governance. The recovery plan contains a list of possible recovery actions, depending on the (potential) crisis situation, which can ensure that Achmea Bank maintains or restores a solid liquidity and/or capital position. Furthermore, the recovery plan also includes several near-default scenarios, including calculations of the negative quantitative impact of these scenarios on the bank's solvency and/or liquidity.

For the defined liquidity and solvency metrics, the trigger framework contains trigger levels which present the depth of a crisis.

Achmea Bank defines four crisis levels:

- Level 0: Business as usual;
- Level 1: Early warning trigger;
- Level 2: Risk appetite limits;
- Level 3: Legal / SREP (Supervisory Review and Evaluation Process) limits.

The risk appetite is the basis of the trigger framework. The Early Warning levels and Risk Appetite levels are defined in the risk appetite of Achmea Bank. The SREP limit is the transition to level 3 and the legal minimum (if applicable) is the transition to the stage where non-conventional measures should be considered to avoid bankruptcy of resolution. The trigger framework is applied to the following metrics:

- Capital: CET1 ratio, Total Capital ratio and Leverage ratio;
- Liquidity: Cash position, LCR, NSFR and survival period.

The monthly ALCo report is the main source for monitoring the historic and expected, future development of the liquidity and capital metrics. The cash position is monitored on a daily basis. In addition, a monthly 'Early warning report' is prepared for the ALCo and a crisis level is determined; under normal circumstances this is Level 0 (Business as usual).

IRFS 9

IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash flow characteristics and the business model for 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 International Accounting Standard Board (IASB) has introduced an expected-loss impairment model that will require entities to account for expected credit losses from the moment when financial instruments are 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 22nd 2016.

Implementation Achmea Bank

Achmea Bank had set up a multidisciplinary implementation team with members of Finance, Risk Management and IT to prepare for IFRS 9 application. The project has had several work streams, including work streams for classification and measurement, impairment, hedge accounting and disclosure. The implementation consisted of three phases; assessment phase, design phase and implementation phase.

- During the assessment phase, an assessment of the working methods, policies & processes and data & IT systems was performed and gaps with IFRS 9 requirements were identified.
- During the design phase solutions were designed to bridge the identified gaps. This included drafting accounting papers and policies, conceptual model framework and tooling for developing of the models needed for the implementation.
- During the implementation phase, particular attention was given to development of impairment models. Parallel run was performed to analyse the outcome of the models.

The impact of IFRS related to classification and measurement is estimated on EUR 13 million negative and the impact related to impairment is estimated on EUR 4 million negative, excluding the impact of the Acier portfolio. The estimated impact of impairment related to the Acier portfolio is compensated by the guarantee of Achmea B.V. related to this portfolio. The estimated total impact of the first time adoption of IFRS 9 of EUR 17 million negative before tax, EUR 13 million negative after tax (or approximately 30bp impact on the CET1 Capital ratio) will be taken through Equity as per 1 January 2018. These estimates are based on changes in accounting policies, different assumptions, judgements and estimation techniques that are subject to change during the finalization of the implementation in 2018. In 2018 the Bank will integrate the new models in the existing reporting systems, IT infrastructure and establish and test the control framework supporting the new standard. This includes also periodic independent validation of the models and finalization of the documentation.

MREL

Minimum Required Eligible Liabilities (MREL) is a measure stemming from the Bank Recovery and Resolution Directive (BRRD). MREL is to ensure that institutions' failure can be managed in an orderly way, while minimizing risks to financial stability, disruption to critical economic functions and risks to public funds.

MREL ensures that banks have enough loss absorbing capital ('bail-in-able' debt) on their balance sheets for the resolution authority to effectively use their bail-in-tool. The bail-in-tool allows for an orderly resolution or for recapitalization (dependent on the preferred resolution strategy) and is to prevent a contribution from public funds in managing the failure of an institution.

The MREL requirement is institution specific and will be set by the Resolution Authority. SREP capital and the preferred resolution strategy will determine total MREL. The preferred resolution strategy is expected to be determined by the national resolution authority during 2018.

TLAC

The TLAC (Total Loss Absorbing Capacity) is a measure similar to MREL, however, TLAC is only applicable for banks identified by the Bank for International Settlements (BIS) as Globally and systematically important banks (G-SIBs). Achmea Bank is not a G-SIB, so TLAC does not apply.

Basel IV

After the Basel III reforms, the Basel committee finalised the new guidelines in December 2017: Basel IV[1] (also labelled Basel 3.5). Where the Basel III reforms focussed on the capital side of solvability, Basel IV is focussing on de risk weights of the assets. This guideline will be incorporated into European law, which is expected not to be finalized before 2022.

Achmea Bank has assessed the potential impact on the risk weights of its assets of the definitive Basel IV guidelines. Application of the loan splitting method of Basel IV, the expected impact of the adjusted risk weights is negligible. However, there may be an impact arising from the mandatory use of the original market value of residential property (currently, the Basel guidelines do not provide enough information on how to implement this rule. Therefore its impact remains uncertain).

[1] Basel III: Finalising post-crisis reforms. (https://www.bis.org/bcbs/publ/d424.htm)

CAPITAL MANAGEMENT

Achmea Bank must hold sufficient buffer capital to cover the (unexpected) risks arising from its operations. Pillar I of the Capital Requirements Regulation (CRR) offers regulation for calculating the minimum amount of capital that needs to be held in relation to credit risk, market risk and operational risk. Under these rules, the capital adequacy requirements relating to these risks can be calculated in a number of ways with varying degrees of sophistication. Achmea Bank uses the standardized approach to calculate the credit risk weightings for its assets. The Bank's policy is to maintain a strong capital base to ensure investor, creditor and market confidence in order to sustain the future development of the business.

The Dutch Central Bank (DNB) sets overall (capital) limits based on the outcomes of its annual Supervisory Review and Evaluation Process (SREP). The Bank complied with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 20.4% and a Total Capital Ratio of 20.5% at 31 December 2017, which are well above the internally applied target for the minimum capital ratio level. For 2018 the Executive Board set the internally applied target for the minimum capital ratio level at SREP requirement plus the Pillar 2 Guidance plus the combined buffer requirement plus a management buffer of at least 1%.

COMPOSITION OF REGULATORY CAPITAL

IN THOUSANDS OF EUROS

	AMOUNTS	SOURCES BASED TO REGULATORY SCOPE
Directly issued qualifing common share capital plus related stock surplus	523,761	(b) + (c)
Retained earnings	297,979	(d) minus result of 2017
Accumulated other comprehensive income	1,009	(d)
Common Equity Tier 1 capital before regulatory adjustments	822,749	
Prudential valuation	1,227	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	373	
Other transitional adjustments to CET1 Capital	202	(Revaluation) (d)
Total regulatory adjustment to CET1	1,802	
Common Equity Tier 1 Capital (CET1)	820,947	
Paid up capital instruments and subordinated loans	4,010	(a) including amortisation
Tier 2 Capital	4,010	
Total regulatory capital	824,957	
Total risk weighted assets	4,023,748	
Common Equity Tier 1 ratio	20.4%	
Tier 1 ratio	20.4%	
Total Capital Ratio	20.5%	
Institution specific buffer requirement	1.3%	
of which: capital conservation buffer requirement	1.3%	
of which: bank specific countercyclical buffer requirement	0.0%	
Common Equity Tier 1 available to meet buffers after meeting the banks' minimum capital requirements	10.7%	

The total qualifying capital of EUR 825 million consist mainly of core equity tier 1 and is more than sufficient for the pillar 1 capital requirements of EUR 322 million[2].

Dividend

In line with Achmea Group's policy to manage excess capital at group level, Achmea Bank has drawn up a dividend policy in 2017 whereby dividend is paid out if the Bank's Total Capital Ratio exceeds a minimum limit. In accordance with this policy and given its solid capital position, the clear and lower than expected impact of both Basel IV and IFRS 9 and positive developments in the Acier portfolio, Achmea Bank proposed to pay out a total dividend of EUR 50 million. The dividend has been paid out in May 2018.

Internal capital adequacy requirements

Achmea 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. Achmea 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. Achmea Bank has prepared a recovery plan that describes appropriate measures in place in order to bring the solvency of the Bank back to the desired level in stress situations. The recovery plan is reviewed at least once a year.

REGULATORY CAPITAL

Achmea Bank is using the standard calculation methods for calculating the Regulatory Capital requirements under Basel II and CRR (CRD IV) for credit and operational risk. Since Achmea Bank does not perform any trading activities, there is no regulatory capital required for market risk.

QUALIFYING CAPITAL

Achmea Bank's capital consists of tier 1 and tier 2 capital. Tier 1 capital consists of three components: paid-up capital, reserves and hybrid capital. Achmea Bank currently does not hold any hybrid tier 1 capital. The reserves consist of the share premium reserve and the retained profits. The tier 2 capital is composed of subordinated loans. The deductions mainly relate to a revaluation reserve and prudent valuation.

The available qualifying capital of EUR 825 that the Bank retains to compensate for potential losses, is well above the level of the total external and internal capital requirements. This underlines the financial solidity of Achmea Bank.

Common equity tier 1 capital

In 2017 the Tier 1 capital increased by EUR 12 million from EUR 808 million to EUR 821 million, mainly as a result of the positive result of 2017. As the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its core tier 1 capital.

Tier 2 capital

As of 31 December 2017 an amount of EUR 4 million (2016: EUR 5 million) is qualified as Lower Tier 2, which consist of two subordinated loans.

[2] Sources based to regulatory scope: reference to balance sheet on page 42. Overview of RWA can be found in the appendix.

CAPITAL RATIOS

Total capital ratio

The increase of qualifying capital combined with the reduction of risk weighted assets leads to an increase of the Total Capital Ratio (TCR) of 1.2% (to 20.5%) compared to December 2016. The dividend pay-out of EUR 50 million in May 2018 decreases the TCR with 1.2%.

The current (fully phased in) capital ratios and targets are higher than the minimum capital requirements. Achmea Bank's ambition is to maintain a strong capital position. The Bank has the following (minimum) capital ambitions as per the end of 2017

- Minimum CET1 ratio of 11.7%;
- Minimum Total Tier 1 ratio of 11.7%;
- Minimum Total capital ratio of 15.2%.

SREP ratio

The SREP ratio is the minimum capital level that the bank has to maintain, which is determined by DNB in the annual Supervisory Review and Evaluation Process (SREP). The SREP ratio is a measure of the Bank's minimum required capital expressed as a percentage of its risk exposure amount. The minimum required capital consists of pillar I capital, pillar II capital charges and any add-ons imposed by DNB.

Leverage ratio

The leverage ratio is the comparison between the Bank's tier 1 capital and its balance sheet positions and off-balance-sheet liabilities, based on the CRR/CRDIV definitions.

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 complies with the internal minimum requirement for 2017 of 3.5% and the (expected future) external minimum requirements; the LR at 31 December 2017 was 6.0% (2016: 5.6%). The LR increased during 2017 due to a lower balance sheet total of roughly EUR 700 million, caused by a decline in loans and advances to customers (including the Acier portfolio) and due to an increase in Tier 1 capital as a result of addition of the year profit to capital. The category 'Other adjustments' in the table below consists mainly of a correction for collateral covered derivative positions, e.g. Interest Rate Swaps (IRSs).

Processes to manage the risk of excessive leverage

The LR is reported monthly to the ALCo, including a three year forecast. This way, a potential decline in de LR is detected early and timely corrective management actions can be taken.

LIQUIDITY MANAGEMENT

Liquidity risk 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, Achmea 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, Achmea Bank will become unable to settle obligations when due. A typical example of this type of risk is a 'bank run'.

Internal liquidity adequacy process and requirements

The day-to-day cash management is executed through Achmea B.V.'s central Treasury department, which monitors the daily cash position. Achmea Bank has a minimum cash position target of EUR 75 million, but manages a cash position of EUR 200 million. Liquidity risk monitoring and reporting, which include actual and forecasted figures, is the responsibility of the Balance Sheet Management & Financial Risk department (2nd line of defense). Furthermore, the ALCo monitors Achmea Bank's liquidity risks on a monthly basis.

The bank has implemented internal processes to monitor and manage the liquidity risk of the bank. The objective is to manage liquidity risk within the bank to prevent that the bank can no longer meet its obligations. These processes are included in the Internal Liquidity Adequacy Assessment Process (ILAAP) manual. Amongst others, this manual describes the governance structure, the procedures, the assumptions and the methods used to determine the minimum level of liquidity. The objective of ILAAP is to assess liquidity risks maintain an adequate level of current and future liquidity on a continuous basis.

Liquidity and funding contingency

Achmea Bank has a Liquidity Contingency Plan (LCP), as an integral part of the Bank's Recovery plan, available in case of a liquidity stress event. The Recovery plan provides solutions to ensure the survival of the Bank for at least six months in case 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.

RISK MEASUREMENT

Liquidity position

Liquidity buffer and liquidity ratios

As part of adequate liquidity management it is necessary for banks to have a liquidity buffer large enough to overcome 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 (on demand) savings;
- A large outflow of cash due to collateral calls on (interest rate) derivatives in an adverse interest rate scenario; and
- No access to the unsecured wholesale markets for a prolonged period (three to six months).

In 2015 the Bank entered into an Asset Switch agreement with Achmea Pensioen & Leven (AP&L) in order to improve its liquidity position. The Bank legally (i.e. not commercially/economically) exchanged mortgages for Dutch and German 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 2017 EUR 1.103 million of mortgages at nominal value were exchanged for EUR 921 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 692 million (interest bearing securities and SGML II) that can easily be sold or posted as collateral and approximately EUR 845 million cash available 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; the Bank has the right to extend this facility in 2019 for a maximum period of two years.

Achmea Bank applies a liquidity minimum position that ensures the bank's survival for at least six months, based on combined market liquidity and funding liquidity stress conditions. The 'survival period' at year-end was 9.1 months (2016: 10.4 months).

In 2015 two new regulatory liquidity measures were introduced in the CRD IV/CRR: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). 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 NSFR aims 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 2017, which are higher than the (future) minimum external requirements. The Bank complies with all external and internal minimum requirements in 2017. At year-end 2017 the LCR was 255 % (2016: 572%) and the NSFR was 119% (2016: 122%). The decrease in the LCR is mainly due to the repayment of EUR 0.5 billion unsecured notes in January 2018, which is a large cash outflow within the 30-day period.

FUNDING STRATEGY

The Bank has a wide range of funding sources to finance its activities. Achmea Bank values a well-diversified funding mix which comprises retail funding (savings), unsecured wholesale funding and secured wholesale funding. In addition, the Bank applies a maturity ladder of its funding instruments to mitigate potential refinancing risks in the future.

Entrusted funds (retail)

Achmea Bank generates consumer savings under the Centraal Beheer Achmea label. The total savings portfolio consists of 43% available on demand accounts and 57% term deposits. At 31 December 2017, the total amount of savings was EUR 5.9 billion (2016: EUR 5.9 billion).

Unsecured wholesale funding

French commercial paper programme

In 2013 the Bank set up a French commercial paper programme of EUR 1.5 billion. This programme enables the Bank to access the international money markets in order to further diversify its funding mix. In 2017 the ongoing programme resulted in a total outstanding amount of EUR 257 million as at year-end 2017 (2016: EUR 208 million).

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 3.1 billion at year-end 2017 (2016: EUR 3.2 billion), of which EUR 0.7 billion was in private placements (2016: EUR 0.8 billion) and includes CHF loans for an amount of CHF 0.3 billion.

Other unsecured funding

In May 2017 Achmea Bank repaid a CHF 0.2 billion loan of Achmea B.V. before its original maturity of June 2019. This loan was partly replaced by a new CHF denominated bond, issued under the unsecured EMTN programme of the Bank.

Secured wholesale funding

The Bank partly finances itself via secured funding. For this type of funding pledges are given on mortgage receivables as collateral to third parties.

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

Conditional pass-through covered bond programme
Achmea Bank has set up a EUR 5 billion conditional pass-through covered bond (CPTCB) programme in 2017 to replace its existing soft bullet covered bond programme which has been terminated in October 2017.

The Achmea Conditional Pass-Through Covered Bond Company (ACPTCB), a bankruptcy remote special purpose vehicle, provides the covered bond investors a guarantee for full payment of interest and principal on the outstanding bonds under the programme by pledging the mortgage receivables of Achmea Bank to the ACPTCB and a parallel debt agreement with the Security Trustee. 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 portfolio of high quality Dutch residential mortgage loans.

The programme is UCITS (Undertakings for Collective Investment in Transferable Securities) eligible and registered with the Dutch Central Bank (DNB). Issuances under this programme are compliant with article 129 of CRR. The bonds are rated Aaa/AAA (Moody's/Fitch) and are listed on Euronext Amsterdam.

In November 2017 Achmea Bank successfully issued its inaugural 7yr EUR 500 million CPTCB, priced at six basis points below mid-swap.

Residential Mortgage-Backed Securities
One of the Bank's funding sources is securitisation of residential mortgages (RMBS). For RMBS 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.

In 2017 the Bank redeemed the notes of DMPL X (EUR 0.5 billion) at its first optional redemption date. As of 31 December 2017 the Bank has four outstanding securitisation transactions, with a total outstanding amount of EUR 2.2 billion (2016: EUR 3.1 billion), excluding retained notes for an amount of EUR 0.6 billion (2016: EUR 0.8 billion). EUR 0.9 billion of the RMBS notes has been placed within Achmea Group (2016: EUR 1.3 billion).

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 loans 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 private loans covered by the Trust amounts to EUR 105 million (2016: EUR 132 million). The Secured EMTN Programme is used to fund a limited portion of the mortgage portfolio. As at 31 December 2017 a total of EUR 61 million was outstanding (2016: EUR 61 million). Two of the issued notes (EUR 20 million) are listed on Société de la Bourse de Luxembourg.

Achmea Bank does not issue new Trust guaranteed loans or medium term notes (run off).

Covered bond programme (soft bullet)
Under the (soft bullet) covered bond programme the Bank has issued eight covered bonds. The last outstanding transaction of CHF 200 million was redeemed in August 2017, after which the programme was terminated in October 2017.

ASSET ENCUMBRANCE

The EBA states that an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balancesheet or off-balancesheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered. At year-end 2017, EUR 5.1 billion of total assets were encumbered. The total asset encumbrance per year-end 2017 was 33.8% (2016: 32.3%).

ENCUMBRANCE OVERVIEW - ASSETS

IN THOUSANDS OF EUROS	CARRYING AMOUNT OF ENCUMBERED ASSETS	FAIR VALUE OF ENCUMBERED ASSETS	CARRYING AMOUNT OF UNENCUMBERED ASSETS	FAIR VALUE OF UNENCUMBERED ASSETS
Loans on demand			944,398	
Equity instruments				
Debt securities			403,561	403,561
Loans and advances other than loans on demand	5,110,520		7,085,957	
Other assets			654,920	
Assets of the reporting institution	5,110,520		9,088,836	403,561

CREDIT RISK

CREDIT RISK MANAGEMENT

The scope of this chapter includes all positions subject to the credit risk framework in the strict sense, excluding all positions subject to the securitization framework (Securitisation chapter).

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. This includes both actual payment arrears and impairments due to deterioration of the creditworthiness of a counterparty. For payment arrears of retail clients, provisions are made.

CREDIT PORTFOLIO

The credit portfolio consists of loans and advances to banks, public sector, retail customers, interest bearing securities in the banking book and derivatives.

Achmea Bank's mortgages and consumer credits activities are concentrated in the Netherlands, except for a small number of Acier loans. Achmea Bank's exposures to banks, e.g. derivatives, are both to domestic and foreign counterparties. No geographical segmentation is applied.

Credit risk consists of risks relating to mortgage lending, consumer credits and risks relating to counterparties in funding transactions (e.g. swaps). Achmea Bank's total credit portfolio is categorized by source of risk:

- The private sector (retail credit risk);
- Professional counterparties (counterparty credit risk);
- Other credit risks and contingent liabilities and commitments.

Private sector risks are risks related to the mortgage portfolio and risks on the consumer credit portfolio. Risks of professional counterparties are related to treasury exposures. Risks on other items are related to other assets, prepayments and accrued income. Contingent liabilities and commitments are irrevocable facilities which may increase credit risk. These categories are explained in the next paragraphs.

Private sector

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

Achmea Bank mortgage portfolio
Achmea Bank's portfolio risks are risks related to the mortgage portfolio and risks on the consumer credit portfolio. In 2017 the regular Achmea Bank portfolio decreased with EUR 617 million to EUR 10.8 billion at year-end (2016 YE: EUR 11.5 billion). Achmea Bank's mortgages and consumer credits activities are concentrated in the Netherlands, except for a small number of mortgages in the Acier loan portfolio.

The mortgage portfolio consists of residential, owner occupied property loans. Collateral for these loans consists of residential property, pledged life insurance policies or savings and security accounts.

Acier loan portfolio
In 2017 the Acier loan portfolio decreased with EUR 207 million to EUR 900 million at year-end (2016 YE: EUR 1.1 billion). The portfolio is a heterogeneous loan portfolio. The Acier loan portfolio is handled as a run off portfolio. The portfolio is managed by the former Achmea unit Staalbankiers credit department that was transferred to Achmea Bank simultaneously with the first

transaction on 1 July 2015 and is now completely integrated into Achmea Bank. The run-off of the portfolio is proceeding according to plan.

As at December 2017 the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 31.8 million (2016: EUR 61.9 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 low.

Consumer and corporate credit portfolio

Consumer credit is credit used by the borrower to finance consumer expenditure. The main forms of consumer credit are revolving credit facilities and personal loans. Achmea Bank has been active in consumer credit via various distribution channels until mid-2009. No new loans have been granted since then. A substantial part of the revolving credit and personal loan portfolio was sold to a third party in December 2010. A small remaining part of this portfolio is still being managed by Achmea Bank. The Acier portfolio contains loans with an exposure above EUR 1 million, Achmea Bank defines these loans as corporate credit.

Professional counterparties

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 group policy. To manage counterparty risk, Achmea Bank imposes individual counterparty limits on both exposure and maturity. The individual limits are approved by ALCo. Positions are managed by the treasury department and are monitored by Balance Sheet Management & Financial Risk. The credit risk exposure to professional counterparties is coordinated by ALCo.

Contingent liabilities, commitments and other risks

Liabilities due to off balance irrevocable facilities which may lead to an actual credit risk exposure, are mainly offers to customers for mortgage loans and credit facilities. Irrevocable facilities consist mainly of available credit under revolving credit facilities. No credit risk is incurred on revocable facilities. Bank guarantees are among the items accounted for under 'irrevocable facilities'. Other credit risks include tax receivables, tangible assets and other assets.

Post foreclosure claim

Achmea Bank has a residual claim after write-off of mortgage receivables of EUR 45 million (2016: EUR 48 million). The expected net recovery of this exposure is limited.

Irrevocable facilities

This refers to all liabilities relating to irrevocable undertakings which could lead to credit losses, including mortgage loan proposals for EUR 155 million (2016: EUR 117 million), construction accounts of EUR 35 million (2016: EUR 22 million) and undrawn credit facilities of credit mortgages of EUR 9 million (2016: EUR 9 million).

Contingent liabilities

Contingent liabilities include all liabilities arising from transactions in which the Bank acts as guarantor for third parties. At year-end 2017 there were no outstanding bank guarantees (2016: EUR 0.02 million).

Guarantee

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 ('Acier') of Staalbankiers. The maximum amount for the duration of the financial guarantee is EUR 350 million. The contract for the financial guarantee will be phased out in line with the maturity of the related loans. As at year-end 2017, the total amount claimed by Achmea Bank under the guarantee is EUR 11.3 million (2016: EUR 9.4 million).

Contractual obligations

At year-end 2017 the Bank had contractual obligations amounting to EUR 4.8 million (2016: EUR 7.1 million), primarily in connection with ICT related contracts with Achmea Group companies.

The Bank also had contractual obligations to Quion amounting to EUR 10.6 million (2016: EUR 5 million) in connection with outsourcing of the servicing of the regular mortgage portfolio, EUR 1.9 million in contractual obligations to Able for the servicing of the saving portfolio and EUR 0.4 million (2016: EUR 0.4 million) in contractual obligations to Stater for the servicing of the Acier mortgage portfolio.

Legal proceedings
In the course of 2017 several instances of legal proceedings are pending 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 2017.

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.

MORTGAGE PORTFOLIO

Credit committees

Achmea Bank has two credit committees, one committee dedicated to the Achmea Bank retail portfolio and one committee dedicated to the Acier loan portfolio. Both Credit Committees are chaired by the Director Finance & Risk, other members of the Credit Committees (not limited) are the following department's managers: Balance Sheet & Financial Risk Management, Operations, Product Management and collections. The Credit Committees monitor the risk profile (policies, procedures, products) and the mortgage portfolios' credit risk by means of the credit cycle. The credit cycle is the foundation on which credit risk management forms its objective and independent judgement about the overall credit risk profile.

Credit policy

Achmea Bank's policy on credit risk revolves primarily around counterparty risks associated with residential mortgage loans. Appropriate underwriting criteria for new clients and active credit risk management for existing clients safeguard the quality of the mortgage loan portfolio. Achmea Bank manages credit risk by applying a strict policies for underwriting, for regular management of existing clients and for arrears management. Product Management is responsible for the annual update and/or revision of the first two aforementioned policies, the collections department is responsible for the latter. The Mid-Office and Default Management department are responsible for the implementation of, and being compliant with, the underwriting policy and supplementary credit risk management measures. Balance Sheet & Financial Risk Management is responsible for the review of the updated and/or revised policies as part of their 2nd line of defense role. Credit risk is monitored by the Credit Committee.

Credit approval

The underwriting policy sets the parameters to approve mortgage applications. Loan applications which do not meet the underwriting criteria can be discussed via a special procedure for non-compliant applications (in Dutch: 'buiten kader proces'). This procedure allows the operational department to approve non-compliant applications under increased scrutiny and by means of the so called 4-eye principal. Under some circumstances (in case of two or more deviations from the underwriting criteria, applications > € 750.000,- and/or impairments > € 100.000,-) applications are to be discussed with credit risk management. This department has the final verdict in accepting or rejecting a specific file. With respect to Acier, the Credit Approval Committee has the remit to accept loan applications and is chaired by the CFRO.

Arrears management

Stringent procedures are in place to monitor payment arrears. Borrowers that fail to pay the scheduled payment will be approached (by telephone) by the collections department within 8 days in arrears. If regular customer contact fails, a physical house call will be made within 38 days in arrears. Borrowers will be transferred to Special Servicing in case of no contact and 3 sent reminders, the transfer will take place at 3 months in arrears at the latest. Together they are responsible for arrears management and debt collection.

The Credit Risk Management department monitors the credit risk of the portfolio as part of their 2nd line of defense role. When steering actions are needed, the credit risk management department will advise the Credit Committee and propose possible steering action(s). Possible steering actions are adjustment/review of the policies, such as Product Approval and Review Process (PARP), Underwriting policy and Credit Risk policy.

Achmea Banks credit risk originates mainly from residential mortgages. There are two measures which have an impact on the financial position of the bank, i.e. the provision (IFRS 9) and the capital charge (Standardized Approach). Achmea Bank has the ambition to become an AIRB compliant bank in the near future. In 2018 the Bank started the project to realize that ambition.

Definition of default

In 2017, during the IFRS 9 project to introduce the expected credit loss model for the provision of impaired loans, the definition of default has been updated. The definition is broadly in line with the new standard as laid down in the latest Guidelines of EBA (EBA GL Default definition (EBA-GL-2016-07) (2016)). This new Definition of Default is also used in the calculation of the IFRS 9 provision as of January 2018.

Impairment and past due loans

In 2016 and 2017 Achmea Bank worked on the adoption of the IFRS 9 regulation which replaced IAS 39. One of the three aspects of the new regulation is a different approach towards impairments and the related provisioning. One of the goals of International Accounting Standards Board (IASB) is to harmonize Finance and Risk with a more model driven approach for the provisions using the so-called Expected Credit Losses.

Expected credit loss (ECL) is, in contrast to the IAS 39 incurred losses, a forward looking measure. The forward looking aspect is included to make sure that future losses are accounted for in an early stage to avoid future “too little, too late” situations.

Risk management of Achmea Bank has used IFRS 9 to harmonize Finance and Risk and for two years the two departments have worked on the implementation of IFRS 9 in the monthly reporting. The main responsibility of Credit Risk Management is to develop and maintain the ECL models to be used by Control for its monthly reporting. These models will also be used by the Financial Risk departments for stresstesting and capital planning.

The ECL models for the regular and Acier portfolio consist of several sub-models which are common in the banking world. The sub-models are amongst others: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Discounting. All models are validated by Group Model Validation, a proved fit for purpose. The model development will continue to follow the model lifecycle and the first in-depth review (which can start changes or redevelopment) is already planned.

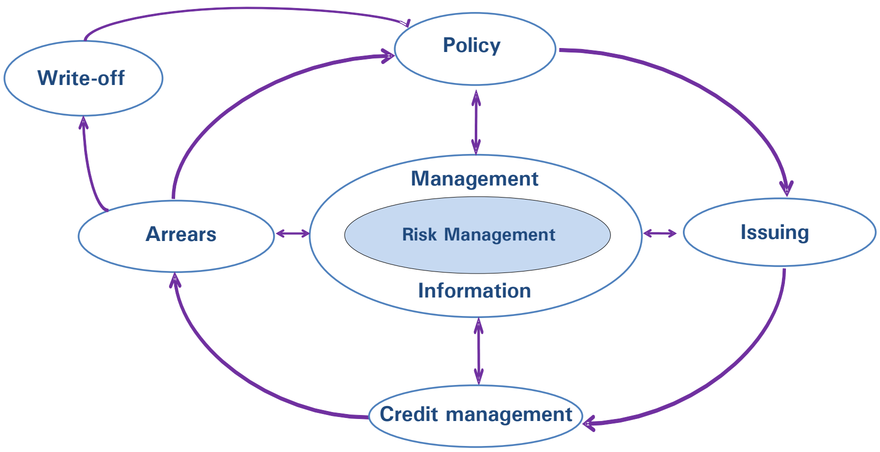
During the design of the IFRS 9 model the new EBA requirements on the Definition of Default are also adopted by Achmea Bank. Therefore, defaults are recognized earlier and have a probation period which makes sure the clients will get proper attention.

For 2017 the total write offs for the regular retail portfolio amounted EUR 3.9 million (2016: EUR 8.4 million). For the Acier portfolio the write offs amounted EUR 26.6 million (2016: EUR 19.4 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.

Credit risk measurement

Credit risk measurement framework

Credit risk is managed by means of the 'credit cycle'. The credit cycle monitors for each part of the mortgage process (policies, underwriting, maintenance, arrears management, write offs and management information in general) if credit risk is under control. If not, risk mitigating solutions are discussed in the credit committee. In addition, IFRS9 models are being used for actively identifying high risk clients. An example of the IFRS9 use case is applying the underlying models for pre-emptive arrears management.



For the Acier portfolio, risk classes are used to manage the clients. The risk class for each client results from an individual assessment.

Risk classification and internal rating system

For the Acier portfolio, loans are rated based on LTV and LTI. Loans with payment problems and with increased risk are classified accordingly. For the Achmea Bank portfolio internal credit risk models have been developed which are in use as of the beginning of 2018.

Credit risk reporting

Balance Sheet & Financial Risk Management compiles monthly reports for both the regular and the Acier portfolio. The reports focus on the developments in the credit portfolio, which is distributed to the Credit Committee. The report structure is based on the credit cycle and provides insight into new mortgages, the portfolio as a whole, collections and write-off and links these subjects to policy. Due to migration of the DataWareHouse (as a result of the external outsourcing of the operational mortgage processes to Quion) the underlying analytical environment which forms the reports' base, is being redeveloped. Before the end of 2018 a new, interactive environment (QlikView) will be available for steering information purposes.

The control department compiles a monthly financial report that includes impairments and provisions. This report is discussed in meetings of the management board.

The Special Servicing department compiles a monthly report on clients under management. This report is discussed in the Credit Committee.

For capital calculations Achmea Bank applies the standardised approach for its credit risk portfolio to calculate its regulatory capital requirements according to CRR (CRD IV). Achmea Bank has the ambition to become AIRB compliant in the near future, the first steps have been taken in 2017.

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 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 2017 the forborne exposure amounted to EUR 157 million (2016: EUR 81 million), of which EUR 106 million relates to performing forborne exposures (2016: EUR 5 million). The remaining part of EUR 51 million (2016: EUR 76 million) relates to non-performing forborne exposures.

SPECIFIC COUNTERPARTY CREDIT RISK

Counterparty risk policy

Achmea Bank manages credit risk to professional counterparties by applying a strict counterparty risk policy. The counterparty risk policy of Achmea Bank restricts or prohibits certain counterparty types or countries. When determining country limits and limits for financial institutions, Achmea Bank applies a risk mitigation policy that complies with the relevant group policy. To manage counterparty risk, Achmea Bank imposes individual counterparty limits on both exposure and maturity. Achmea Bank uses data from credit rating agencies to determine the counterparty's creditworthiness. Achmea Bank applies long-term credit ratings to set the exposure limits for its professional counterparties. Individual limits are approved and (at least) annualy reviewed by ALCo. Furthermore, the counterparty risk policy is also reviewed at least once a year.

Credit risk measurement

The Bank uses both Credit Support Annexes (CSA) and central clearing to reduce counterparty risk on its derivative exposures by means of (cash) collateral. The setting of the main parameters of a collateral agreement are geared to a low threshold, daily margining and acceptable collateral to be held. No impairments on counterparty positions occurred in 2017. 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 2017 the net exposure amounted to EUR 14 million (2016: EUR 58 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 (2016: EUR 0.3 million). 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. Achmea (Bank) applies a 'middle rating', derived from the credit ratings from Standard & Poor's, Moody's and Fitch (if available).

The lowest rating of a counterparty at year-end 2017 was BBB (EUR 125 million) (year-end 2016: rating BB, EUR 129 million). Most of the collateral positions are included in the category loans and advances to banks. At year-end 2017 part of the collateral positions (credit rating is A and BBB) account for EUR 67 million (2016: EUR 67 million) is reported as a liability and recognised under deposits from banks.

Qualifying Central Counterparties

Following regulatory requirements, Achmea Bank clears all new derivatives (IRS) via a qualifying central counterparty (QCCP). Counterparty risk policies and appropriate limit setting is applied for QCCPs in line with the regular policies. Achmea Bank's exposure to QCCPs at year-end 2017 amounts to EUR 19 million.

Credit risk reporting

Exposures to professional counterparties are monitored by the treasury department (1st line) and Balance Sheet & Financial Risk Management (2nd line). Balance Sheet & Financial Risk Management is responsible for daily exposure reports to involved senior management of Achmea Bank. The daily report covers e.g. the gross and net exposures and the corresponding limits of the individual professional counterparties.

Additional contractual obligations in case of a rating downgrade

In the event of a downgrade of specific counterparty credit rating, Achmea bank could be required to provide additional collateral. These potential collateral requirements relate to the Back-to-Back swaps in the securitisation transactions of Achmea Bank and can be triggered in case of a rating downgrade of the relevant swap counterparty. In case of a rating downgrade of three notches for all swap counterparties the additional collateral to be posted is calculated to be EUR 72 million at year-end 2017.

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS

	Notional	Replacement cost/ current market value	Potential future credit exposure	EAD post CRM	RWA
Mark to market					
Original exposure	8,404,650				
Current Exposure Method		59,050	52,266	88,175	33,644
IMM (for derivatives and SFTs)					
Of which securities financing transactions					
Of which derivatives and long settlement transactions					
Of which from contractual cross-product netting					
Financial collateral simple method (for SFTs)					
Financial collateral comprehensive method (for SFTs)					
VaR for SFT's					
Total	8,404,650	59,050	52,266	88,175	33,644

SECURITISATIONS

OWN ASSET SECURITISATION

Achmea Bank uses securitisation as part of its funding mix via its SGML, DMPL and DRMP programmes. One transaction, SGML II, is fully retained by Achmea Bank. The class A notes of SGML II are ECB eligible and can be used as collateral for central bank funding. The total amount was EUR 288 million (SGML II A notes) as per 31 December 2017.

An amount of liquidity risk in securitisation transactions is retained by Achmea Bank by acting as liquidity facility provider in some of its own asset securitisation transactions. Achmea Bank does not act as swap counterparty in any of its own securitisations. Contingent liquidity risk in securitisation swaps arises from the rating triggers related to the back-to-back swaps as part of the securitisation structure.

REGULATORY CAPITAL APPROACHES

For the originator of a securitisation there are two options for the calculation of regulatory capital. The first option is to calculate Risk Weighted Assets (RWA) for the underlying assets as if these assets where not securitized (‘look-through’). With this method the issuance of a securitisation does not change the required capital amount for the originator.

The second option is to calculate RWA for the retained securitisation positions held on the balance sheet of the bank. With this method the total RWA of the retained notes is capped at the level of RWA of the underlying assets. Achmea Bank uses this option in case of significant risk transfer (SRT: for further details see below) on a securitisation transaction. For securitisations without SRT, the first option is used. In both cases, Achmea Bank remains the servicer of the securitized mortgages (including risk management).

Significant Risk Transfer

Achmea Bank holds capital for the mortgages underlying the securitisation notes or for the notes themselves, depending on applying Significant Risk Transfer (SRT). When SRT is applied, a significant amount of risk is transferred to the investors who invested in (part of) the notes. Therefore, Achmea Bank achieves a certain amount of capital relief. This is currently the case for the outstanding DMPL XI and DMPL XII notes, of which the latter has a First Optional Redemption Date (FORD) on 26 May 2020. The DRMP (DRMP I and DRMP II) transactions do not have SRT due to changes in regulation: In case of a call option held by the originator and of an issuance after June 2014, the application of SRT is no longer permitted.

According to the regulation, an institution needs to sell at least 50% of the mezzanine notes or receive permission from the supervisor in order to apply SRT. Achmea Bank has permission from DNB to apply (partial) SRT on both DMPL securitisations.

The table below provides an overview of the current securitisations (as per 31 December2017) of Achmea Bank.

SECURITISATION EXPOSURES IN THE BANKING BOOK

IN THOUSANDS OF EUROS

	BANK ACTS AS ORIGINATOR			BANK ACTS AS SPONSOR			BANK ACTS AS INVESTOR		
	TRADITIONAL	SYNTHETIC	SUB-TOTAL	TRADITIONAL	SYNTHETIC	SUB-TOTAL	TRADITIONAL	SYNTHETIC	SUB-TOTAL
Retail (total); of which	155,880	–	155,880	–	–	–	403,561	–	403,561
residential mortgage	155,880	–	155,880	–	–	–	403,561	–	403,561
credit card	–	–	–	–	–	–	–	–	–
other retail exposures	–	–	–	–	–	–	–	–	–
re-securitisation	–	–	–	–	–	–	–	–	–
Wholesale (total); of which	–	–	–	–	–	–	–	–	–
loans to corporates	–	–	–	–	–	–	–	–	–
commercial mortgages	–	–	–	–	–	–	–	–	–
lease and receivables	–	–	–	–	–	–	–	–	–
other wholesale	–	–	–	–	–	–	–	–	–
re-securitisation	–	–	–	–	–	–	–	–	–

RISK MEASUREMENT

RMBS related risk management and measurement can be split into two categories: own securitisations and investments in third party securitisations.

Own securitisations

As mentioned in the previous paragraph, all securitised mortgages stay in Achmea Bank's regular risk management and measurement process. This means that these mortgages are treated the same as non-securitized mortgages. Only for capital reporting purposes there can be a difference, depending on whether or not Significant Risk Transfer (SRT, see previous paragraph) is applied. When applied, the RWA calculation is done on the retained RMBS positions instead of on the underlying mortgages.

Investing in third party RMBS

Achmea Bank also acts as an investor in RMBS. These assets are used as part of a buffer of liquid assets held to manage liquidity risk. Investing in the RMBS market is a specialized business and therefore Achmea Bank has outsourced this activity to a specialised professional party under a mandate from Achmea Bank. The mandate allows for investments of approx. EUR 400 million in prime (AAA rated) UK and Dutch RMBS. RWA of these investments is based on the market value of the notes.

Standardised approach

All RWA calculations are done using de Standardised Approach in accordance with the Capital Requirements Regulation (CRR).

OPERATIONAL RISK MANAGEMENT

Achmea bank defines operational risk as the risk of loss from inadequate or failed internal processes, personnel or systems or from external events. This also covers compliance, legal and IT risks. Compliance risk is in scope of operational risk from a classification perspective as this risk is not regarded as a separate event. As regulatory supervisors expect specific management and reporting on compliance risk, Achmea Bank ensures that identified compliance risks are earmarked as such. Risks arising from strategic decisions and business risks are in principle not subject to the definition of operational risk, but Achmea Bank chooses these risks, where possible, to be integrated into the activities, methods and techniques of the Operational Risk Management function.

OPERATIONAL RISK FRAMEWORK

Achmea Bank has a framework for identifying, evaluating, monitoring and managing operational risks and risks surrounding information security and business continuity. This contains a number of operational risk management techniques. These aim to effectively manage the operational risk in our business and are used to identify, assess and mitigate operational risks:

- Risk self-assessments: Based on planned or ad hoc processes we identify our operational risks, by means of qualitative risk assessments. This concerns strategic, tactical, operational risk self-assessments and risk assessments of projects and programmes. Also included are risk assessments of outsourced activities.
- Loss data collection: The continuous collection of operational risk loss events as a prerequisite for operational risk management, includes detailed analyses, the identification of mitigating actions and providing timely information to senior management. All losses and 'near misses' above EUR 5,000 are collected in our loss event system. Management encourages that lessons should be learned from these events.
- Issue management: Issues from various sources which include audit, risk, compliance and supervisors are registered. The progress of the improvement actions is systematically monitored;
- Control framework: Achmea Bank systematically monitors the effectiveness of key controls.

The responsibility to manage operational risks is primarily assigned to the operating and commercial departments (1^{st} line of defense).

The risk management cycle is monitored continuously by means of a wide internal control framework. The risk management cycle is thoroughly discussed within the Risk Board on a (at least) quarterly basis. The governance, processes, techniques and methods of the operational risk framework are described in the Operational Risk Policy, which is reviewed annually. Additionally, the results of the quarterly evaluation of the risk management cycle is reflected in the Bank's annual 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 comprehensive ICS is written once a year as part of the 4th quarter risk report.

Achmea Bank applies the basic indicator approach for calculating its pillar I capital charge for operational risk. Based on the activities and risk analysis of Achmea Bank, there is no indication to assume that the capital charge should be increased.

Managing operational risk

The operational risk management process follows the following process steps:

- Risk identification;
- Risk assessment;
- Risk response;
- Implementation; and
- Monitoring & reporting.

DEVELOPMENTS IN 2017

Managing risk is essential to achieve Achmea Bank's goals. A sound administration and permanent monitoring of the functioning of the internal risk management and control systems is of importance to the management of Achmea Bank. The level of control is reported to the Finance & Risk Committee on a quarterly basis by Compliance & Operational Risk. The Internal Control Statement is added to this rapport in the fourth quarter of each year.

In 2017, Achmea Bank executed and/or completed two important strategic projects:

- Outsourcing of the mid and back office mortgage activities, by migrating the mortgage portfolio to the administration systems of Quion;
- A more cost effective savings chain. Simplifying the processes and replacing the current IT systems are expected to result in material benefits for both client and Bank.

As a result, the level of outsourcing in 2017 has increased. This has an impact on the operational risk profile of Achmea Bank and has constant attention of risk management.

Another important development in 2017 is the implementation of the General Data Protection Regulation (GDPR), which will take effect on 25 May 2018.

MARKET RISK

INTEREST RATE RISK BANKING ENVIRONMENT

Interest rate risk framework

The main income of Achmea Bank results from the net interest margin on its banking operations. Achmea Bank's market risk mainly consists of interest rate risk arising from its banking operations. Achmea Bank uses financial instruments to hedge interest rate risk and has a strict policy on mitigating foreign currency risk.

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

Achmea Bank does not engage in proprietary trading activities on financial markets and therefore does not calculate a pillar 1 market risk capital charge.

Governance of management interest rate risk in the banking book

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:

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

Several limits have been set on the bank's interest positions under the interest rate risk policy and Risk Appetite Statement. ALCo uses duration, Value-at-Risk (VAR) and Income-at-Risk as the main ratio's to manage interest rate risk. Treasury is responsible for executing the decisions of ALCo.

Risk measurement

Effects of a change in interest rates on total equity

The impact on total equity is based on the market value of all financial instruments. This 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 yield curve by 200 basis points (up and downward). 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 over a period of one year.

These sensitivity analysis are also used in management reports and discussed in ALCo. The outcome of the sensitivity analysis were within the limits during 2017.

DURATION

IN YEARS	2017	2016
Duration of equity	1.88	3.48

The table above shows that the duration of total equity of Achmea Bank decreased from 3.48 years as at 31 December 2016 to 1.88 years as at 31 December 2017. The lower duration is mainly due to newly obtained EUR 500 million seven years wholesale funding in November 2017, of which interest rate risk is only partly hedged. The duration of 1,9 years is slightly below the target duration range of between two and three years, set by ALCo.

SENSITIVITY ANALYSIS

IN THOUSANDS OF EUROS	2017	2016
Parallel change in the interest rate of 200 basis points downward	−63,865	−66,873
Parallel change in the interest rate of 200 basis points upward	−35,372	−58,517

The effect of a 200 basis point upward shift of the yield curve on the value of equity is EUR -35 million at 31 December 2017, compared to EUR -59 million at 31 December 2016. This is mainly due to a decrease of the duration of equity. Compared to 2016, the negative impact on a downward shift of the yield curve of 200 basis points shows only a slight decrease. This is mainly due to the lower duration combined with the expected impact of the prepayment levels in case of a shift in interest rates.

Effects of a change in interest rates on interest income

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

INTEREST RATE RISK EXPOSURE

IN THOUSANDS OF EUROS	2017	2016
Income at Risk	156	86

The increase in the Income at Risk is due to a larger interest rate gaps in the first year.

NON-TRADING CURRENCY RISK

With respect to foreign currencies, the Bank´s policy is to fully hedge its exposure to foreign currency risk. The Bank´s exposure at 31 December 2017 is limited to the CHF mortgage portfolio as part of the Acier loan portfolio and a CHF bank account

Part of the Acier loan portfolio is denominated in CHF (EUR 434 million at year-end 2017). This position is partly hedged by unsecured wholesale funding of CHF 300 million in total. The remaining CHF exposure is fully hedged on a monthly basis via foreign exchange derivatives (forward contracts).

All foreign exchange (CHF) positions are being hedged. The remaining open CHF position (EUR 1.5 million long) is negligible. Therefore Achmea Bank does not calculate a charge for market risk.

FOREIGN CURRENCY EXPOSURE

	2017			2016		
In thousands of euros	Total exposure	Notional amounts of hedging instruments	Net exposure	Total exposure	Notional amounts of hedging instruments	Net exposure
Assets						
Swiss Franc	434,181	−432,105	2,076	487,391	−485,275	2,117
	434,181	−432,105	2,076	487,391	−485,275	2,117
Liabilities						
Swiss Franc	–	–	–	−186,237	186,237	–
	–	–	–	−186,237	186,237	–
Net						
Swiss Franc	434,181	−432,105	2,076	301,154	−299,038	2,117
	434,181	−432,105	2,076	301,154	−299,038	2,117

REMUNERATION PRINCIPLES AND POLICY

The Remuneration Committee consists of two members of the Supervisory Board (Petri Hofsté and Jan Molenaar). The execution of the remuneration policy was evaluated in 2017. 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.

RENUMERATION AWARDED DURING THE FINANCIAL YEAR

IN THOUSANDS OF EUROS

RENUMERATION AMOUNT	SENIOR MANAGEMENT	OTHER MATERIAL RISK-TAKERS
Fixed remuneration		
Number of employees	4	0
Total fixed remuneration	669	0
Of which: cash-based		
Of which: deferred		
Of which: shares or other share-linked instruments		
Of which: deferred		
Of which: other forms		
Of which: deferred		
Variable remuneration		
Number of employees	3	0
Total variable remuneration	85	0
Of which: cash-based		
Of which: deferred	43	0
Of which: shares or other share-linked instruments		
Of which: deferred		
Of which: other forms		
Of which: deferred		

DEFERRED REMUNERATION

IN THOUSANDS OF EUROS

DEFERRED AND RETAINED REMUNERATION	TOTAL AMOUNT OF OUTSTANDING DEFERRED REMUNERATION	OF WHICH: TOTAL AMOUNT OF OUTSTANDING DEFERRED AND RETAINED REMUNERATION EXPOSED TO EX POST EXPLICIT AND/OR IMPLICIT ADJUSTMENT	TOTAL AMOUNT OF AMENDMENT DURING THE YEAR DUE TO EX POST EXPLICIT ADJUSTMENTS	TOTAL AMOUNT OF AMENDMENT DURING THE YEAR DUE TO EX POST IMPLICIT ADJUSTMENTS	TOTAL AMOUNT OF DEFERRED REMUNERATION PAID OUT IN THE FINANCIAL YEAR
Senior management					
Cash	226	226	0	43	0
Shares					
Cash-linked instruments					
Other					
Other material risk-takers					
Cash					
Shares					
Cash-linked instruments					
Other					
Total	226	226	0	43	0

APPENDIX: TABLES

KEY METRICS

KEY METRICS

IN MILLIONS OF EUROS	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016
Available capital (amounts)					
Common Equity Tier 1 (CET1)	821	821	821	821	808
Tier 1	821	821	821	821	808
Total capital	825	825	826	826	813
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	4,024	4,114	4,294	4,176	4,237
Risk-based capital ratios					
Common Equity Tier 1 ratio	20.4%	20.0%	19.1%	19.7%	19.1%
Tier 1 ratio	20.4%	20.0%	19.1%	19.7%	19.1%
Total capital ratio	20.5%	20.1%	19.2%	19.8%	19.2%
Additional CET1 buffers					
Capital conservation buffer	1.3%	1.3%	1.3%	1.3%	0.6%
Countercyclical buffer	0.0%	0.0%	0.0%	0.0%	0.0%
Bank GSIB and/or DSIB	0.0%	0.0%	0.0%	0.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%	0.0%	0.0%	0.0%
TLAC requirements	0.0%	0.0%	0.0%	0.0%	0.0%
Leverage ratio					
leverage ratio exposure	13,742	13,450	13,703	14,449	14,326
Leverage ratio	6.0%	6.1%	6.0%	5.7%	5.6%
Liquidity Coverage Ratio					
Total HQLA	2,046	1,475	1,290	2,077	1,830
Total Net Cash Outflow	802	410	388	469	320
LCR ratio	255%	359%	333%	443%	572%
Net Stable Funding Ratio					
Total Available Stable funding	11,465	11,269	11,912	12,068	12,480
Total Required Stable funding	9,662	9,787	10,162	10,080	10,215
NSFR ratio	119%	115%	117%	120%	122%

BALANCE SHEET

RECONCILIATION OF REGULATORY CAPITAL TO BALANCE SHEET

IN THOUSANDS OF EUROS	BALANCE SHEET AS IN PUBLISHED STATEMENTS	REFERENCE
Cash and balances with Central Banks	890,063	
Derivative assets held for risk management	118,635	
Loans and advances to banks	993,221	
Loans and advances to public sector	722	
Loans and advances to customers	11,730,641	
Interest-bearing securities	403,561	
Current tax assets	–	
Deferred tax assets	–	
Prepayments and other receivables	62,512	
Assets held for sale and discontinued operations	–	
Total Assets	14,199,355	
Derivative liabilities held for risk management	573,427	
Deposits from banks	144,635	
Funds entrusted	6,171,584	
Debt securities issued	6,362,719	
Provisions	1,600	
Current tax liabilities	25,857	
Deferred tax liabilities	9,519	
Accruals and other liabilities	61,204	
Subordinated liabilities	8,336	a
Liabilities held for sale and discontinued operations	–	
Total Liabilities	13,358,881	
Share Capital	18,152	b
Share premium	505,609	c
Reserves	316,714	d
Total shareholders' equity	840,475	
Total Equity and Liabilities	14,199,355	

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION

Carrying values in millions of euros			Of which:		
	financial statement	Regulatory reports	credit risk	counterparty credit risk	securitisation framework
Cash and balances with Central Banks	890	890	890	–	–
Derivative assets held for risk management	119	119	–	119	–
Loans and advances to banks	993	993	993	–	–
Loans and advances to public sector	1	1	1	–	–
Loans and advances to customers	11,731	11,731	10,453	–	1,277
Interest-bearing securities	404	404	–	–	404
Current tax assets	–	–	–	–	–
Deferred tax assets	–	–	–	–	–
Prepayments and other receivables	63	63	63	–	–
Assets held for sale and discontinued operations	–	–	–	–	–
Total assets	14,199	14,199	12,400	119	1,681

MAIN SOURCES OF DIFFERENCES FOR 2017

IN MILLIONS OF EUROS	TOTAL	CREDIT RISK	SECURITISATION	COUNTERPARTY CREDIT RISK
Asset carrying value amount under scope of regulatory consolidation	14,199	12,400	1,681	119
Liabilities carrying value amount under the regulatory scope of consolidation	–	–	–	–
Total net amount under the regulatory scope of consolidation	14,199	12,400	1,681	119
Off-balance sheet amounts	200	43	–	–
Differences due to different netting rules for derivatives	−77	–	–	−77
Differences due to valuation of derivatives (add on for potential future exposure)	46	–	–	46
Differences due to the application of Significant Risk Transfer	−1,121	–	−1,121	–
Exposure amounts considered for regulatory purposes	13,248	12,443	559	88

Credit risk exposure from the off-balance sheet amounts is after the application of the relevant conversion factors.

PRUDENT VALUATION ADJUSTMENTS FOR 2017

IN THOUSANDS OF EUROS	EQUITY	INTEREST RATES	FX	CREDIT	COMMODITIES	TOTAL	OF WHICH: IN THE BANKING BOOK
Close-out uncertainty, of which:	–	1,227	–	–	–	1,227	1,227
Mid-market value	–	1,227	–	–	–	1,227	1,227
Close-out cost	–	–	–	–	–	–	–
Concentration	–	–	–	–	–	–	–
Early termination	–	–	–	–	–	–	–
Model risk	–	–	–	–	–	–	–
Operational risk	–	–	–	–	–	–	–
Future administrative costs	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–
Total adjustment	–	1,227	–	–	–	1,227	1,227

DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

as per 31/12/2017		Method of regulatory consolidation				Description of the entity
NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	FULL CONSOLIDATION	PROPORTIONAL CONSOLIDATION	NEITHER CONSOLIDATED OR DEDUCTED	DEDUCTED	
DMPL XI B.V.	Full consolidation	X				Special purpose vehicle
DMPL XII B.V.	Full consolidation	X				Special purpose vehicle
SGML II B.V.	Full consolidation	X				Special purpose vehicle
DRMP I B.V.	Full consolidation	X				Special purpose vehicle
DRMPII B.V.	Full consolidation	X				Special purpose vehicle
Stichting Trustee Achmea Hypotheekbank	Full consolidation	X				
Stichting Incasso Achmea Hypotheken	Full consolidation	X				
Achmea Conditional Pass-Through Covered Bond Company B.V.	Full consolidation	X				

CAPITAL MANAGEMENT

COMPOSITION OF REGULATORY CAPITAL

IN THOUSANDS OF EUROS

	AMOUNTS	SOURCES BASED TO REGULATORY SCOPE
Directly issued qualifing common share capital plus related stock surplus	523,761	(b) + (c)
Retained earnings	297,979	(d) minus result of 2017
Accumulated other comprehensive income	1,009	(d)
Common Equity Tier 1 capital before regulatory adjustments	822,749	
Prudential valuation	1,227	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	373	
Other transitional adjustments to CET1 Capital	202	(Revaluatio n) (d)
Total regulatory adjustment to CET1	1,802	
Common Equity Tier 1 Capital (CET1)	820,947	
Paid up capital instruments and subordinated loans	4,010	(a) including amortisation
Tier 2 Capital	4,010	
Total regulatory capital	824,957	
Total risk weighted assets	4,023,748	
Common Equity Tier 1 ratio	20.4%	
Tier 1 ratio	20.4%	
Total Capital Ratio	20.5%	
Institution specific buffer requirement	1.3%	
of which: capital conservation buffer requirement	1.3%	
of which: bank specific countercyclical buffer requirement	0.0%	
Common Equity Tier 1 available to meet buffers after meeting the banks' minimum capital requirements	10.7%	

OVERVIEW OF RWA

IN MILLIONS OF EUROS	RWA 2017	RWA 2016	MINIMUM CAPITAL REQUIREMENTS 2017
Credit risk (excl. counterparty credit risk)	3,358	3,383	269
Of which Standardised approach	3,358	3,383	269
Of which internal rating-based approach	–	–	–
Counterparty credit risk	34	82	3
Of which mark to market			–
Of which original exposure			–
Of which the standardised approach	34	82	3
Of which internal model method			–
Of which risk exposure amount for contribution to default fund of a CCP			–
Of which CVA			–
Settlement risk			–
Securitisation exposure in banking book	434	590	35
Of which securitisation internal rating-based approach			–
Of which securitisation external rating-based approach			–
Of which securitisation standardised approach	434	590	35
Market risk			–
Of which Standardised approach			–
Of which internal model approach			–
Large exposures			
Operational risk	193	173	15
Of which basic indicator approach	193	173	15
Of which standardised approach			
Of which advanced measurement approach			
Credit valuation adjustment	5	9	–
Amounts below the threshold for deduction (subject to 250% risk weight)			–
Floor adjustment			–
Total	4,024	4,237	322

In 2017 the total risk exposure amount decreased with EUR 213 million from EUR 4,237 million to EUR 4,024 million, mainly due to the overall reduction of the mortgage portfolio (including the Acier portfolio) and the reduction of the exposure in professional counterparties.

LEVERAGE RATIO COMMON DISCLOSURE

IN MILLIONS OF EUROS	2017	2016
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	14,080	14,730
(Asset amounts deducted in determining Tier 1 capital)		
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	14,080	14,730
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	42	126
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	46	43
Exposure determined under Original Exposure Method	–	–
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	−14	−17
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	−455	−585
(Exempted CCP leg of client-cleared trade exposures)	–	–
Adjusted effective notional amount of written credit derivatives	–	–
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
Total derivative exposures	−381	−433
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–	–
(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
Counterparty credit risk exposure for SFT assets	–	–
Derogation for SFTs: Counterparty credit risk exposure	–	–
Agent transaction exposures	–	–
(Exempted CCP leg of client-cleared SFT exposure)	–	–
Total securities financing transaction exposures	–	–
Off-balance sheet exposures at gross notional amount	200	148
(Adjustments for conversion to credit equivalent amounts)	−157	−119
Other off-balance sheet exposures	43	29
Tier 1 capital	821	808
Total exposure	13,742	14,326
Leverage ratio	6.0%	5.6%

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

IN MILLIONS OF EUROS	2017	2016
Total assets	14,199	14,985
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure)	–	–
Adjustments for derivative financial instruments	46	43
Adjustments for securities financing transactions "SFTs"	–	–
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	43	29
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure)	–	–
(Adjustment for exposures excluded from the leverage ratio exposure measure)	–	–
Other adjustments	−546	−731
Total leverage ratio exposure	13,743	14,326

LIQUIDITY MANAGEMENT

LIQUIDITY COVERAGE RATIO

AVERAGE OF Q4 2017 IN THOUSANDS OF EUROS	TOTAL UNWEIGHTED VALUE	TOTAL WEIGHTED VALUE
Total high quality liquid assets		1,993,267
Retail deposits and deposits from small business customers	2,737,128	267,981
of which stable deposits	454,811	22,741
of which less stable deposits	2,282,316	245,240
Unsecured wholesale funding	248,306	248,306
of which operational deposits and bank deposits	–	–
of which non operational deposits	23,461	23,461
of which unsecured debt	224,845	224,845
Secured wholesale funding	202,187	797
Additional requirements	224,803	184,087
of which outflows related to derivatives and collateral	148,901	148,901
of which outflows related to loss of funding	33,043	33,043
of which credit and liquidity facilities	42,859	2,143
Other contractual funding obligations	230,119	132,062
Other contingent funding obligations	–	–
TOTAL CASH OUTFLOWS	–	833,233
Secured lening (eg reverse repos)	–	–
Inflows from fully performing exposures	211,663	208,553
Other cash inflows	48,553	48,553
TOTAL CASH INFLOWS	260,217	257,106
		TOTAL ADJUSTED VALUE
Total HQLA		1,986,451
Total net cash outflows		576,127
Liquidity Coverage ratio		366%

NET STABLE FUNDING RATIO

IN THOUSANDS OF EUROS	UNWEIGHTED VALUE BY RESIDUAL MATURITY				WEIGHTED VALUE
	NO MATURITY	← 6 MONTHS	6 MONTHS TO ← 1YR	→ 1 YR	
AVAILABLE STABLE FUNDING (ASF) item					
Regulatory capital	824,958	–	–	–	824,958
Other capital instruments	–	–	–	4,269	4,269
Capital	824,958	–	–	4,269	829,227
Stable deposits	444,267	273,724	333,258	845,508	2,103,078
Less stable deposits	2,168,421	184,884	69,257	878,152	2,799,575
Retail deposits and deposits from small business customers	2,612,688	458,608	402,515	1,723,660	4,902,653
Operational deposits	–	–	–	–	–
Other wholesale funding	–	1,261,677	858,104	5,294,549	5,723,601
Wholesale funding	–	1,261,677	858,104	5,294,549	5,723,601
Liabilities with matching interdependent assets	–	–	–	–	–
NSFR derivative liabilities	–	15,253	27,073	51,618	–
All other liabilities and equity	52,792	88,823	–	9,356	9,356
Other liabilities	52,792	104,076	27,073	60,974	9,356
TOTAL AVAILABLE STABLE FUNDING	3,490,438	1,824,362	1,287,692	7,083,452	11,464,837
REQUIRED STABLE FUNDING(RSF) item					
Total NSFR high quality liquid assets (HQLA)	890,063	–	68,332	305,055	186,694
Deposits held at other financial institutions for operational purpose	–	–	–	–	–
Performing loans and securities; of which	52,447	317,124	81,381	11,564,254	9,029,850
Performing loans to financial institutions secured by Level 1 HQLA	–	–	–	–	–
Performing loans to financial institutions secured by non-level 1 HQLA	52,447	254,706	9,119	164,910	216,203
Performing loans to non-financial corporate clients, retail, sovereigns and central banks; of which	–	415	−6,913	158,341	527,347
with a risk weight of less than or equal to 35% (SA credit risk)	–	15,537	−2,265	98,423	70,611
Performing residential mortgages; of which	–	62,003	79,175	11,210,831	8,260,654
with a risk weight of less than or equal to 35% (SA credit risk)	–	58,704	60,676	10,883,061	8,114,489
Securities that are not in default and do not qualify as HQLA	–	–	–	30,173	25,647
Assets with matching interdependent liabilities	–	–	–	–	–
Assets posted as intitial margin for derivative contracts and contibutions to default funds of CCP's	–	–	–	–	–
NSFR derivative assets	–	8,772	9,274	62,200	–
NSFR derivative liabities before deduction of variation margin posted	–	15,253	27,073	507,113	108,488
All other assets	87,279	28,825	394	210,543	327,041
Other assets	87,279	37,597	9,668	272,743	435,529
Off balance sheet items	–	200,311	–	–	10,016
TOTAL REQUIRED STABLE FUNDING	1,029,789	555,032	159,381	12,142,053	9,662,089
Net Stable Funding Ratio					119%

SOURCES OF ENCUMBRANCE

IN THOUSANDS OF EUROS	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
Carrying amount of selected financial liabilities	3,461,871	3,735,865
Derivatives	564,645	542,642
Deposits	161,150	197,424
Debt securities issued	2,736,076	2,995,799
Other sources of encumbrance		1,374,655

COLLATERAL RECEIVED

IN THOUSANDS OF EUROS	ENCUMBERED	UNENCUMBERED	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal amount of collateral received or own debt securities issued not available for encumbrance
Collateral received by the reporting institution			
Loans on demand			
Equity instruments			
Debt securities		921,305	
Loans and advances other than loans on demand			
Other collateral received			
Own debt securities issued other than own covered bonds or ABSs			

CREDIT RISK

If not specifically indicated, the exposures (on balance and off balance) in the tables below relates to all instruments subject to credit and counterparty credit risk, excluding instrument related to the securitization framework. Regarding exposures related to securitisations, reference is made to the chapter 'Securitisations'.

TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

IN THOUSANDS OF EUROS

	NET VALUE OF EXPOSURE AN END OF THE PERIOD	AVERAGE NET EXPOSURES OVER THE PERIOD
Central governments or central banks	890,586	590,687
Regional governments or local authorities	–	3,778
Institutions	1,081,396	1,252,882
Corporates	142,574	153,226
Retail	1,037,735	1,117,811
Secured by mortgages on immovable property	9,315,008	9,385,568
Exposures in default	158,641	175,012
Items associated with particularly high risk		2,869
Other exposures	62,512	78,484
Total standardised approach	12,688,452	12,760,317

Average net exposure over the period: The average of the net exposure values contains the value at the end of each quarter of the observation period.

CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

IN THOUSANDS OF EUROS

	GROSS CARRYING VALUE OF				
	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Central governments or central banks		890,586			890,586
Institutions		1,081,396			1,081,396
Corporates		143,025		451	142,574
Retail		1,039,213		1,478	1,037,735
Secured by mortgages on immovable property		9,318,980		3,972	9,315,008
Exposures in default	191,054		32,413		158,641
Other exposures		62,512			62,512
Total standardised approach	191,054	12,535,713	32,413	5,902	12,688,452
Of which: Loans and advances	191,054	11,294,652	32,413	5,902	11,447,391
Of which: Debt securities					–
Of which: Off-balance-sheet exposures		200,311			200,311

MATURITY OF EXPOSURES

IN THOUSANDS OF EUROS

	ON DEMAND	<= 1 YEAR	> 1 YEAR <= 5 YEARS	> 5 YEARS	NO STATED MATURITY	TOTAL
Central governments or central banks	890,063			523		890,586
Institutions	54,384	312,449	164,311	28,459	521,793	1,081,396
Corporates		–	18,109	124,465	–	142,574
Retail		9,730	37,100	922,163	68,742	1,037,735
Secured by mortgages on immovable property		116,801	497,317	8,569,321	131,569	9,315,008
Exposures in default		9,460	2,803	146,378	–	158,641
Other exposures					62,512	62,512
Total standardised approach	944,447	448,440	719,639	9,791,310	784,616	12,688,453

Exposures presented in the column 'no stated maturity'are exposures with no contractual maturity date, other than the counterparties having the choice of the repayment date. Among Institutions, the collateral received as a result of derivative transactions is accounted as 'no stated maturity'. This also applies for off balance exposures, included under retail and secured by mortgages on immovable property.

CONCENTRATION OF EXPOSURE BY COUNTERPARTY TYPES

IN THOUSANDS OF EUROS

	FINANCIAL SECTOR	NON FINANCIAL SECTOR	TOTAL
Central governments or central banks	890,063	523	890,586
Institutions	1,081,396		1,081,396
Corporates		142,574	142,574
Retail		1,037,735	1,037,735
Secured by mortgages on immovable property		9,315,008	9,315,008
Exposures in default		158,641	158,641
Other exposures	25,023	37,490	62,512
Total standardised approach	1,996,482	10,691,970	12,688,452

Exposures to financial sector contains cash at central bank, loans and advances to banks and intercompany receivables.

CREDIT QUALITY OF EXPOSURES BY COUNTERPARTY TYPES

IN THOUSANDS OF EUROS

GROSS CARRYING VALUE

	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Financial sector		1,996,482			1,996,482
Non financial sector	191,054	10,539,231	32,413	5,902	10,691,970
Total	191,054	12,535,713	32,413	5,902	12,688,452

GEOGRAPHICAL BREAKDOWN OF EXPOSURES

In thousands of Euros	Net Value						
	Netherlands	United Kingdom	Germany	France	Denmark	Other Countries	Total
Central governments or central banks	890,063	–	–	–	–	523	890,586
Institutions	552,796	196,238	78,862	34,975	200,560	17,966	1,081,396
Corporates	141,162	–	–	–	–	1,412	142,574
Retail	1,035,301	–	–	758	–	1,676	1,037,735
Secured by mortgages on immovable property	9,305,431	–	185	1,398	–	7,994	9,315,008
Exposures in default	156,027	–	–	–	–	2,614	158,641
Other exposures	61,486	1,026	–	–	–	–	62,512
Total standardised approach	12,142,266	197,264	79,047	37,131	200,560	32,184	12,688,452

A materiality threshold of EUR 15mln is applied to specific material countries. The following countries are included among ‘Other countries’: Belgium, Switzerland, Aruba, Italy, Canada, Monaco, United states, Hong Kong, Spain and Austria.

CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

IN THOUSANDS OF EUROS	GROSS CARRYING VALUE OF		CREDIT RISK ADJUSTMENT		
	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	**NET VALUES**
Netherlands	188,441	11,992,140	32,413	5,851	12,142,317
United Kingdom		197,264		–	197,264
Germany		79,047			79,047
France		37,131		8	37,123
Denmark		200,560			200,560
Other Countries	2,614	29,571		43	32,142
Total	191,054	12,535,713	32,413	5,902	12,688,452

AGEING OF PAST-DUE EXPOSURES

IN THOUSANDS OF EUROS GROSS CARRYING VALUES	< 30 DAYS	30 DAYS < 60 DAYS	→ 60 DAYS < 90 DAYS	UNLIKELY TO PAY THAT ARE NOT PAST-DUE OR PAST-DUE ←= 90 DAYS	→ 90 DAYS < 180 DAYS	**→ 180 DAYS < 1 YEAR**	→ 1 YEAR
Loans and advances	77,944	7,556	3,043	117,319	27,666	7,126	42,631
Debt securities							
Total exposures	77,944	7,556	3,043	117,319	27,666	7,126	42,631

The presented past due exposures include exposures on mortgages, where significant risk transfers is applied. This is EUR 3,7 million for the defaulted part of the exposures.

NON-PERFORMING AND FORBORNE EXPOSURES PART A

IN THOUSANDS OF EUROS							
GROSS CARRYING VALUES							
		OF WHICH: PERFORMING BUT PAST DUE -> 30 DAYS AND <= 90 DAYS	OF WHICH: PERFORMING FORBORNE	OF WHICH: NON PERFORMING			
					OF WHICH: DEFAULTED	OF WHICH: IMPAIRED	OF WHICH: FORBORNE
Debt securities							
Loans and advances	12,526,457	10,599	105,978	191,054	191,054	191,054	50,826
Off-balance sheet exposures	200,311						

NON-PERFORMING AND FORBORNE EXPOSURES PART B

IN THOUSANDS OF EUROS						
	ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
	ON PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES	OF WHICH FORBORNE EXPOSURES
		OF WHICH: FORBORNE		OF WHICH: FORBORNE		
Debt securities						
Loans and advances	5,902	61	32,413	8,214	141,220	40,025
Off-balance sheet exposures						

CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

IN THOUSANDS OF EUROS	ACCUMULATED SPECIFIC CREDIT RISK ADJUSTMENT	ACCUMULATED GENERAL CREDIT RISK ADJUSTMENT
Opening balance	66,615	6,761
Increases due to amounts set aside for estimated loan losses during the period	27,829	–
Decreases due to amounts reversed for estimated loan losses during the period	−34,036	−563
Decreases due to amounts taken against accumulated credit risk adjustments	−30,540	
Transfers between credit risk adjustments		
Impact of exchange rate differences		
Business combinations, including acquisitions and disposals of subsidiaries		
Other adjustments	2,545	−296
Closing balance	32,413	5,902
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–	–
Specific credit risk adjustments directly recorded to the statement of profit or loss	–	–

CREDIT RISK MITIGATION TECHNIQUES

IN THOUSANDS OF EUROS					
			OF WHICH		OF WHICH
	UNSECURED	SECURED BY COLLATERAL	SECURED AMOUNT	SECURED BY FINANCIAL GUARANTEES	SECURED AMOUNT
Total loans and advances	538,249	10,909,143	10,909,143		
Total debt securites					
Total exposure	538,249	10,909,143	10,909,143	–	
Of which defaulted		158,641	158,641		

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION EFFECTS

IN THOUSANDS OF EUROS

	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
	ON-BALANCE	OFF-BALANCE	ON-BALANCE	OFF-BALANCE	RWA	RWA DENSITY
Exposure classes						
Central governments or central banks	890,586	–	3,001,003	2,370	105	0.0%
Institutions	1,081,396	–	625,901	–	158,489	14.7%
Corporates	142,574	–	135,050	–	135,050	94.7%
Retail	968,993	68,742	779,562	15,453	596,262	57.5%
Secured by mortgages on immovable property	9,183,439	131,569	6,589,072	25,069	2,314,950	24.9%
Exposures in default	158,641	–	143,857	–	143,857	90.7%
Other items	62,512	–	1,213,697	–	42,494	68.0%
Total	12,488,142	200,311	12,488,142	42,893	3,391,205	26.7%

EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

IN THOUSANDS OF EUROS

	0%	4%	20%	35%	50%	75%	100%	150%	OTHER	TOTAL (POST CFF AND POST CRM)
Exposure classes										
Central governments or central banks	3,002,851		523							3,003,374
Institutions		37,612	457,200		131,088					625,901
Corporates							135,050			135,050
Retail						795,015				795,015
Secured by mortgages on immovable property				6,614,142						6,614,142
Exposures in default							143,857			143,857
Other items	1,151,184		25,023				37,490			1,213,697
Total	4,154,035	37,612	482,746	6,614,142	131,088	795,015	316,396	–	–	12,531,035

COUNTERPARTY CREDIT RISK

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS

	Notional	Replacement cost/ current market value	Potential future credit exposure	EAD post CRM	RWA
Mark to market					
Original exposure	8,404,650				
Current Exposure Method		59,050	52,266	88,175	33,644
IMM (for derivatives and SFTs)					
Of which securities financing transactions					
Of which derivatives and long settlement transactions					
Of which from contractual cross-product netting					
Financial collateral simple method (for SFTs)					
Financial collateral comprehensive method (for SFTs)					
VaR for SFT's					
Total	8,404,650	59,050	52,266	88,175	33,644

CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

IN THOUSANDS OF EUROS

	EXPOSURE VALUE	RWA
All portfolios subject to the Standardised method	4,791	5,297
Based on the original exposure method		
Total subject op the CVA capital charge	4,791	5,297

CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

IN THOUSANDS OF EUROS

	0%	4%	20%	35%	50%	75%	100%	150%	OTHER	TOTAL
Exposure classes										
Central governments or central banks										–
Regional government or local authorities										–
Public sector entities										–
Multilateral development banks										–
International organisations										–
Institutions		19,050	5,603		63,522					88,175
Corporates										–
Retail										–
Institutions and corporates with a short-term credit assessment										–
Other items										–
Total	–	19,050	5,603	–	63,522	–	–	–	–	88,175

IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

IN THOUSANDS OF EUROS

	GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT	NETTING BENEFITS	NETTED CURRENT CREDIT EXPOSURE	COLLATERAL HELD	NET CREDIT EXPOSURE
Derivatives	118,635	76,803	41,832	14,400	27,432
SFTs					
Cross-product netting					
Total	118,635	76,803	41,832	14,400	27,432

COMPOSITION OF COLLATERAL FOR CCR EXPOSURE

IN THOUSANDS OF EUROS

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS				COLLATERAL USED IN SFT'S	
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF POSTED COLLATERAL		FAIR VALUE OF COLLATERAL RECEIVED	FAIR VALUE OF POSTED COLLATERAL
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED		
Cash- domestic currency		67,192		542,775		
Cash- other currency						
Domestic sovereign debt						
Other sovereign debt						
Government agency debt						
Corporate bonds						
Equity securities						
Other collateral						
Total		67,192	–	542,775		

SECURITISATIONS

SECURITISATION EXPOSURES AND CAPITAL REQUIREMENTS

IN THOUSANDS OF EUROS

	EXPOSURE VALUES					EXPOSURE VALUES (BY REGULATORY APPROACH)		RWA (BY REGULATORY APPROACH)		CAPITAL CHARGE AFTER CAP	
	← 20% RW	→ 20% TO 50% RW	→ 50% TO 100% RW	→ 100% TO 1250% RW	1250% RW	SA/SSFA	12.5	SA/SSFA	12.5	SA/SSFA	12.5
Bank acting as originator											
Traditional securitisation	–	–	138,700	–	17,180	138,700	17,180	138,700	214,750	11,096	17,180
Of which securitisation	–	–	138,700	–	17,180	138,700	17,180	138,700	214,750	11,096	17,180
Of which retail underlying	–	–	138,700	–	17,180	138,700	17,180	138,700	214,750	11,096	17,180
Of which wholesale	–	–	–	–	–	–	–	–	–	–	–
Bank acting as investor											
Traditional securitisation	403,561	–	–	–	–	403,561	–	80,712	–	6,457	–
Of which securitisation	403,561	–	–	–	–	403,561	–	80,712	–	6,457	–
Of which retail underlying	403,561	–	–	–	–	403,561	–	80,712	–	6,457	–
Of which wholesale	–	–	–	–	–	–	–	–	–	–	–

OPERATIONAL RISK

BUSINESS INDICATOR FOR OPERATIONAL RISK

IN THOUSANDS OF EUROS

	2017	2016	2015
Interest income	425,022	488,836	535,355
Interest expense	322,458	379,381	445,646
Interest	102,564	109,455	89,709
Fee income	5,481	2,516	1,485
Fee expenses	387	497	1,395
Other operating income	–	–	–
Other operating expense	–	–	–
Services	5,094	2,019	90
Net P&L on Banking Book	–	–	–
Financial	–	–	–
Total exposure for operational risk	107,658	111,474	89,799

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