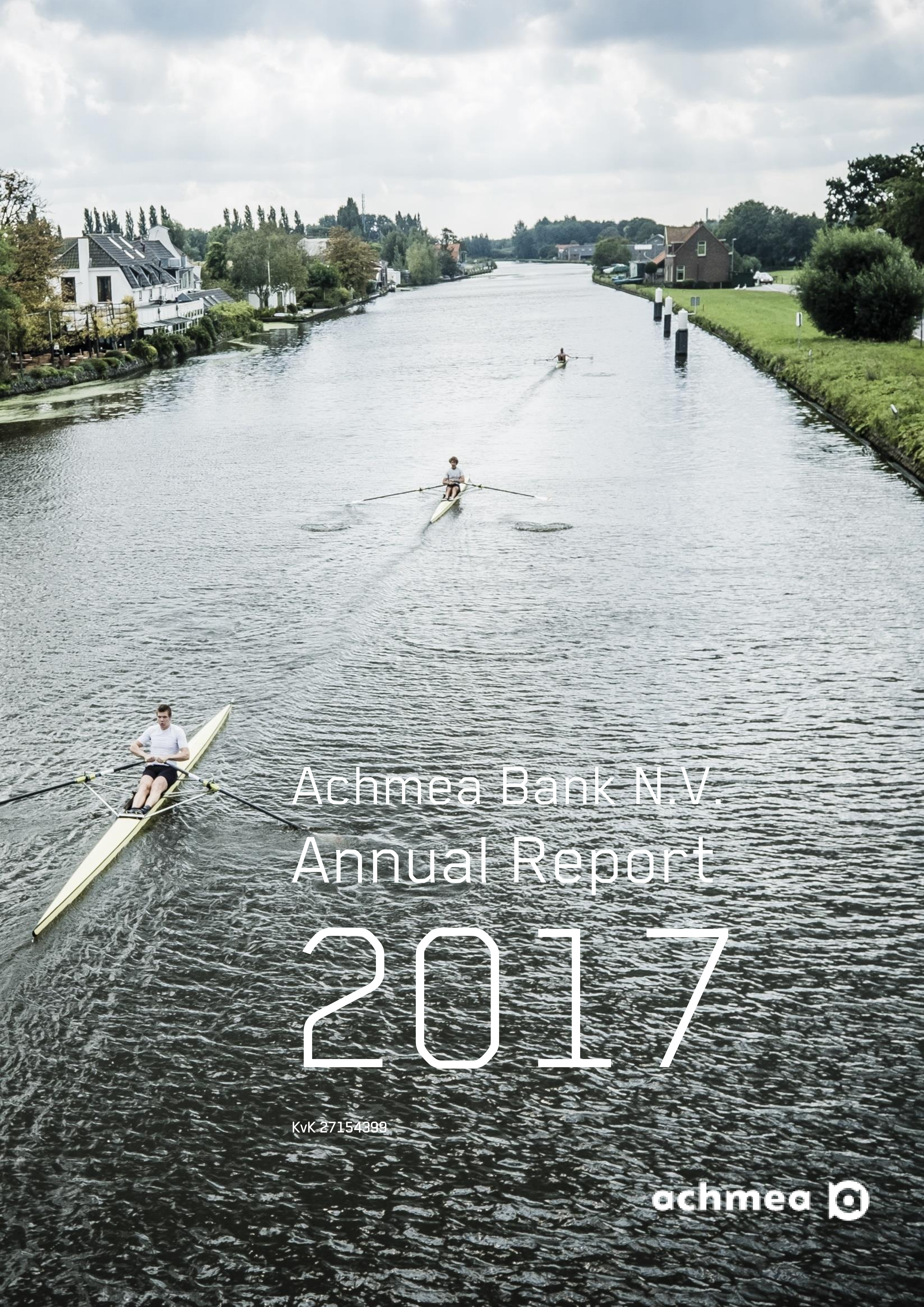

Achmea Bank N.V.
Annual Report
2017

KvK 27154399

achmea

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

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

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

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

Executive Board Report

GENERAL

Achmea Bank's strategy is to focus on profitable growth, reducing costs by engaging in strategic partnerships and focusing on our core activities. As part of our strategy to grow in savings and mortgages we restructured our business model and invested heavily in new systems, processes and products in 2017.

The highlights of 2017 are:

- In May 2017 we transferred the main part of the primary servicing of our mortgages to Quion. Quion is an independent third-party service provider for the administration of mortgage and consumer credit loans. The company ranks No. 2 in the Netherlands in this field. The outsourcing agreement has resulted in significant cost savings. Furthermore, the partnership with Quion enables us to improve customer service levels and develop new product propositions in a shorter time to market.
- In January 2018 we implemented EuroPort+ as a new system for the administration of savings products and payments. The new system will enable Achmea Bank to further improve customer service levels and achieve structural cost reductions. Able is the developer and supplier of EuroPort+, an online service (SaaS).
- We also implemented a new system for arrears handling and a new data warehouse. By outsourcing non-core activities, investing in new systems and restructuring our business model, we have repositioned ourselves for future growth and new revenue opportunities.

We diversified our funding mix with the implementation of a new EUR 5 billion Conditional Pass Through Covered Bond Programme. The first transaction was very well received in the capital markets and received broad interest from institutional investors across Europe. Through this programme Achmea Bank can further diversify its funding sources and attract new external long-term funding at attractive levels.

Increased competition puts pressure on interest margins. Next to mainstream mortgages, Achmea Bank will focus more on niche segments of the mortgage market that offer higher margins. In The Netherlands a large segment of creditworthy borrowers, such as self-employed people without personnel, are denied mortgage credit, depriving them of a proven method of building wealth. Therefore we developed a new proposition for self-employed people in 2017.
The Netherlands also has a growing buy-to-let market. In February 2018 we have introduced a new mortgage proposition for this market segment, focusing on retail consumers.

STRATEGY

MISSION: PROVIDE LONG-TERM FINANCIAL SECURITY TO OUR CUSTOMERS

Achmea Bank is a wholly owned subsidiary of Achmea, the largest insurer of The Netherlands, with a history stretching back more than 200 years. Achmea Bank is 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.

Our 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 careful and responsible manner and maintain a responsible lending policy. It also means that Achmea Bank is committed to safeguard the continuity and reliability of its services. We have a 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 a strong capital and liquidity position and a diversified funding mix with retail savings and wholesale funding.

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

Executive Board Report

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.
Achmea Bank is the competence and service center for mortgage and retail savings products within Achmea Group. 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:

- realize profitable growth by developing new propositions for specific segments of the mortgage market which offer higher returns
- 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)
- optimize funding, capital and liquidity management.

MARKET DEVELOPMENTS

In 2017 the volume of the Dutch mortgage market increased to approximately EUR 100 billion (2016: EUR 83 billion). The underlying factors for this growth are increasing consumer confidence in the economy, combined with low interest rates and improved employment rates. Due to low interest rates, consumers tend to choose longer fixed interest rates periods. The demand for interest rates with a term of 20-years or longer has grown from 40% to almost 50% in 2017. Low interest rates and shortage on the Dutch housing market have led to an increase in housing prices. On the other hand, the strict maximum levels set for loan-to-value and loan- to-income are putting a cap on price increases. In general house prices are rising in larger cities, however, differences in housing prices in specific Dutch regions still exist. The Randstad area, and more particularly Amsterdam and Utrecht, are showing the largest price increases and absolute price levels on a national level.

In 2017 the savings market grew by EUR 2.3 billion. The volume of fixed deposits decreased to EUR 50 billion (2016: EUR 53 billion) and savings available on demand increased to EUR 289 billion (2016: EUR 287 billion). This shows that as a result of the low interest rates consumers are less interested in fixed deposits. However, despite the low interest rates, saving is still popular.

RISK MANAGEMENT

As part of an ongoing internal risk management process, the Bank has embedded the key risks and controls defined for its primary processes in the entire organization. The Bank continuously reviews and fine-tunes the monitoring and managing of its financial and non-financial risks. More detailed information about the financial risks and how Achmea Bank manages that risks can be found in the section 'Capital and Financial Risk Management'. Overall the Bank has shown that it is in control of its risks and balance sheet management.

CORPORATE GOVERNANCE

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

LIQUIDITY AND CAPITAL POSITION

In November 2017, Achmea Bank has set up a EUR 5 billion Conditional Pass Through Covered Bond Programme ("CPTCB") to replace its existing soft bullet covered bond programme which has been terminated in October 2017. At inception the Bank issued a first tranche of EUR 0.5 billion. This transaction enables Achmea Bank to further diversify its funding sources and to attract new external long-term funding. In 2017 the Bank redeemed EUR 0.5 billion of RMBS notes.

Executive Board Report

In its liquidity and capital management, Achmea Bank applies a liquidity survival period (LSP) of at least six months. That means that the Bank has to maintain a liquidity buffer that covers the total net cash outflow during a period of at least six months. The LSP at year-end 2017 was 9.1 months (2016: 10.4 months). On a regular basis the Bank performs stress tests to assess the adequacy of its liquidity buffers.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are liquidity and funding ratios which are monitored against the minimum internal limits. The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The aim of the NSFR is to ensure that long-term assets are financed with stable, longer term funding. Achmea Bank has set its internal minimum targets for both the LCR and NSFR at 105% for 2017. 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%). Decrease in the LCR is mainly due to the repayment of EUR 0.5 billion unsecured notes in January 2018.

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 Total Capital ratio increased to 20.5% (2016: 19.2%). The Common Equity Tier 1 Capital ratio increased to 20.4% as per December 2017 (19.1% at the end of 2016). Profit for 2016 and the decrease of the mortgage portfolio both contributed to this increase.

The estimated impact of IFRS 9 is limited to approximately 30 basis points lower CET 1 Capital ratio, mainly related to a change in the classification and measurement of a small part of the mortgage portfolio. The new BASEL IV guidelines come into force in 2022, on the basis of a preliminary impact assessment Achmea Bank expects that these guidelines will have no material impact on the capital ratios.

FINANCIAL ANALYSIS

IN MILLIONS OF EUROS	2017	2016	CHANGE
Interest Income	426	489	−13%
Interest expense	323	380	−15%
Interest margin	**103**	**109**	**−6%**
Changes in fair value of financial instruments	2	1	100%
Interest margin and changes in fair value of financial instruments	**105**	**110**	**−5%**
Other income	2	2	0%
Fees and commission income and expense	5	2	150%
Operating income	**112**	**114**	**−2%**
Impairment of financial instruments and other assets	−7	2	
Operating expenses	95	95	0%
Total expenses	**88**	**97**	**−9%**
Operating profit before income taxes	**24**	**17**	**41%**
Income tax expense	6	4	50%
Net profit	**18**	**13**	**38%**
Operating profit before income taxes regular Achmea Bank portfolio	17	19	−11%
Operating profit before income taxes Acier loan portfolio	7	−2	
Operating profit before income taxes Achmea Bank	**24**	**17**	**41%**

Executive Board Report

RATIOS	2017	2016	
Return on average equity	2.1%	1.6%	
Efficiency ratio (excl. changes in fair value)	92.2%	86.9%	
Common Equity Tier 1 Capital Ratio	20.4%	19.1%	
Total Capital Ratio	20.5%	19.2%	
Leverage ratio	6.0%	5.6%	
Net Stable Funding Ratio	119%	122%	
Liquidity Coverage Ratio	255%	572%	

PROFIT ANALYSIS

Achmea Bank reported a profit before tax of EUR 24 million (2016 a profit of EUR 17 million) over 2017. This result includes the following exceptional items: release of the Acier loan loss provision of EUR 7 million and a positive fair value result of EUR 2 million. The operating result for 2017, excluding the above mentioned exceptional items, amounts to EUR 15 million (2016: EUR 16 million). Compared to last year, a lower interest margin of EUR 6 million is partly compensated by higher fees of EUR 3 million and lower impairment charges relating to the regular portfolio of EUR 2 million.

In 2017 the interest margin decreased by EUR 6 million, mainly as a result of lower income related to compensation for early redemptions of EUR 8 million. Lower interest income on the mortgage portfolio was compensated by lower funding costs for both the wholesale funding and the retail savings portfolio. The AFM guidelines for compensation for early redemptions on mortgage loans, which were published in March 2017, created further clarity about the interpretation of the Mortgage Credit Directive which had been effective as of 14 July 2016. The Bank implemented these guidelines in 2017 together with reimbursements to customers who were entitled to a compensation. This resulted in a total compensation to customers of EUR 3 million . At the end of 2016 a provision of EUR 1 million was already in place, therefore the overall impact on the interest margin in 2017 was EUR 2 million.

The fair value result amounted to a profit of EUR 2 million (2016: EUR 1 million). The fair value result is an accounting result that is compensated in other reporting periods, generally reflecting a pull to par as the underlying derivatives (used for hedging interest rate exposure) approach maturity.

The operating expenses of EUR 95 million remain unchanged compared to 2016. In 2017 Achmea Bank finalized the outsourcing of the mortgage portfolio to Quion. In H2 2017 the related structural cost savings were partially offset by the implementation costs and by project costs related to the implementation of the new savings- and payment system and IFRS9. The number of employees decreased from 354 FTE at the end of 2016 to 268 FTE at the end of 2017, which resulted in a decrease of staff costs of EUR 4 million. The operating expenses in 2017 includes an amount of EUR 9 million (2016: EUR 8 million) for bank-related levies for the resolution fund and the deposit guarantee scheme.

The result of the Acier portfolio, excluding releases of the loan loss provision, amounted to a profit of EUR 0.2 million. The interest margin of this portfolio amounted to EUR 3 million which was almost equal to the total operating expenses which mainly consisted of personnel expenses. Achmea B.V. issued a capped guarantee to cover credit risk and legal claims related to this portfolio. Based on this contract Achmea Bank can claim a part of the credit losses and legal claims on the Acier portfolio from Achmea B.V. The releases of the loan loss provision were related to a limited number of individual loans and are not expected to be structural.

The net release of the loan loss provision amounted to EUR 7 million (2016: EUR 2 million net addition), almost completely related to the Acier portfolio. The provision for the regular mortgage portfolio decreased from 11 basis points as per year-end 2016 to 7 basis points as per December 2017 reflecting better economic circumstances and increased housing prices. These better circumstances also led to a decrease in the amount of write-offs to 4 basis points on an annual basis (2016: 7.7 basis points).

RATING

Since year-end 2016 Achmea Bank has retained its long-term rating of A/stable (Fitch). Standard and Poor’s revised the rating per 31 March 2017 from A-/ Stable to A-/Negative.

Executive Board Report

OUTLOOK

In the current low interest environment, pressure on interest income is expected to continue. Funding expenses which are at historical low levels are not expected to increase much. Operating expenses, excluding regulatory levies, are expected to decline in 2018 due to the outsourcing to Quion and the implementation of the new savings- and payment system. We expect the number of defaults in the regular portfolio to continue to be low. Given the specific character and macro-economic uncertainty we do not make predictions regarding loan impairments in the Acier portfolio and fair value effects. As a result of the implementation of IFRS9, we also expect impairment charges to show a more volatile picture for both portfolios.

Tilburg, 20 March 2018

The Executive Board,

Mr. P.J. (Pierre) Huurman	Chief Executive Officer
Mr. P.C.A.M. (Pieter) Emmen	Director Finance & Risk (as of 1 April 2017)
Mr. V.J. (Vincent) Teekens	Director Operations

Supervisory Board Report

The agenda and the activities of the Supervisory Board have reflected that 2017 was an important year for Achmea Bank in its transition to a network bank (“Regiebank”), as part of the Achmea retirement services strategy. Achmea Bank saw challenges in respect of commercial production, efficiency and results, outsourcing of the primary servicing of the mortgage portfolio, product development and a strengthening of the organisation in light of the strategy. The Supervisory Board noticed a good and constructive cooperation between the Executive Board members of Achmea Bank and the Supervisory Board as well as the other relevant bodies within Achmea.

The Supervisory Board met the Executive Board seven times during the year. Important items on the agenda included the full-year and half year figures, progress on realising the strategy, the status of strategic projects such as outsourcing primary servicing mortgages, implementation of a new savings and payment system, Demand & Supply, business goals, rolling forecast, funding plan, governance, risk appetite, IFRS 9, staffing and the strengthening of the internal organization. In 2017 the Supervisory Board invited relevant staff members and managers of the Bank to inform the Supervisory Board about relevant developments within the bank and the markets Achmea Bank is active in.

In 2017 the Supervisory Board executed an internal evaluation of its performance. The overall experience of the Supervisory Board is positive with some opportunities for improvement. These relate to the role and responsibilities of the Supervisory Board in the areas of succession planning, management development and the remuneration policy of Achmea. Furthermore, the Supervisory Board intends to increase their interactions in the bank, in particular with managers and visit critical outsourcing partners.

The Audit & Risk Committee had six meetings during 2017. The Audit & Risk Committee is composed of the members of the Supervisory Board, chaired by Mr Henny te Beest and attended by the Executive Board, Internal Audit and the independent auditor.
At the meetings the following subjects were discussed: integrated risk analysis, risk policies, risk appetite dashboard and analyses with focus on credit risk, market risk, capital and liquidity adequacy, operational risk, compliance risk and strategic risk, governance, approval and monitoring of the internal and external audit plan, progress in the resolution of audit issues including IT and compliance related issues, monitoring of the implementation of IFRS 9 and of the General Data Protection Regulation, and key financials. Furthermore, the Audit & Risk Committee discussed the reports of the specific audits of the internal auditors and the independent auditor and reports of DNB and AFM.

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. Every year the members of the Supervisory Board and Executive Board attend a number of permanent education (PE) meetings. The main topics covered in 2017 in these meetings were cybersecurity & IT, the Recovery plan and scenario’s and IFRS 9.

On 1 August 2017, Bianca Tetteroo and Huub Arendse have been appointed as members of the Supervisory Board of Achmea Bank. Per 1 October Jan Molenaar has been reappointed as member of the Supervisory Board. Per 1 January 2018 Petri Hofsté stepped down as Chairman of the Supervisory Board. She has been succeeded in that role by Huub Arendse. In February 2017 Ronald Buwalda stepped down as Director of Finance and Risk. Pieter Emmen has been appointed as Director of Finance and Risk as of 1 April 2017. The Supervisory Board takes this opportunity to thank Petri and Ronald for their important contribution to the Bank during their membership of the Board in the past years.

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

The Supervisory Board would like to thank the Executive Board and the staff of Achmea Bank for their commitment and the results achieved in 2017.

Tilburg, 20 March 2018

The Supervisory Board

Mr. H. (Huub) Arendse, Chairman (as of 1 January 2018)
Mr. J.B.J.M. (Jan) Molenaar
Mr. H.W. (Henny) te Beest
Mrs. B.E.M. (Bianca) Tetteroo (as of 1 August 2017)

Implementation of and Compliance with the Banking code

The Banking Code, Het Maatschappelijk Statuut (the Social Charter) and the rules of conduct associated with the Bankers' Oath together make up the Future-Oriented Banking (Toekomstgericht Bankieren) package. The purpose of this package is to play a key role in restoring trust in society in relation to banks and their roles in the community

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

Achmea Bank fully applies the Banking Code. The Code helps to increase awareness of the role of banks and their responsibilities towards society. Achmea Bank devotes a great deal of attention to the Code in its operations, risk management and in the contact with customers and other stakeholders.

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

Corporate Social Responsibility

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

ACHMEA BANK AND A SUSTAINABLE SOCIETY

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

THE THREE PILLARS OF OUR CSR POLICY

We view social responsibility as being a key factor for realising our ambition of being a strong trusted bank. Achmea Bank strives to be transparent and accountable for its activities, products and services, as well as for its financial solidity. Our employees are trustworthy, knowledgeable and professional, and treat customers and other stakeholders with due care and consideration. If we are to realise our ambitions, it is imperative that we continue to critically examine the way we do business. That is why we have outlined our ambitions and preferred methods of working in a social covenant. The Bank's CSR policy is based on three pillars, each with its own set of objectives that focus on areas in which we want to excel. The fundament of this framework is good governance. All our decisions are taken with careful consideration for the interests of all of our stakeholders.

OUR WORK

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. The way we put CSR into practice is demonstrated by our products and services. Our business model is very straightforward: We develop and market simple and transparent savings and mortgage products that are easy to use. In everything we do we put the customers' interests first; that defines us. We excel by professionalism. Our employees are trustworthy, knowledgeable and professional and treat our customers and other stakeholders with consideration and care. The obligation of care is embedded in our culture. Our social responsibility and the legislation and regulations applicable to the Bank are taken into careful consideration in all decisions we make. We fully endorse the Dutch Banking code and annually report on its application.

OUR COMPANY

We are an organisation focused on development; we improve ourselves continuously. We respond to social trends, financial industry developments and customer needs. Achmea Bank is people minded. This is reflected in our attitude and response towards our customers, our employees and our environment. We want our employees to make a difference for our customers. Sustainable employability and personal as well as professional development have our primary focus. We attract talented and ambitious employees and make every effort to their development and maintain their employability. Achmea provides its employees with a solid safety net and good alternative facilities in case of unemployment. By enabling our employees to work flexible hours and to work from other places, including home, we help them to balance their work and personal lives. We strive to contain absenteeism and invest in the vitality of our employees by offering them programmes in which there is room for exercise and relaxation.

OUR WORLD

Financial education has not yet been integrated into Dutch schooling. Banks therefore play an important role to fill this gap. Achmea Bank is committed to financial education and strives to increase the general level of knowledge about financial matters in society. As part of this commitment, our employees give guest lectures to primary school pupils during the Dutch ´Week van het geld´. We also use our knowledge of financial affairs to contribute to the financial well-being of our customers. Our professionals use their expertise to prevent customers from getting into financial difficulties, but if they do, we will do our best to find a solution. We have a dedicated team for that purpose. As part of this service we can offer customers professional budget coaching or job coaching.

We facilitate Achmea Bank's employees in offering their expertise and services as volunteers, for example by participation in projects such as 'Woonfonds Doet'. 'Woonfonds Doet' is an initiative in which our employees help customers with financial problems for necessary home repairs and improvements. Every year we also encourage our employees to volunteer for a social cause.

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

Consolidated Financial Statements

Achmea Bank N.V.
Financial Statements

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

BEFORE APPROPRIATION OF RESULT AS AT YEAR ENDED 31 DECEMBER IN THOUSANDS OF EUROS	Note	2017	2016
Assets			
Cash and balances with Central Banks	6	890,063	658,325
Derivative assets held for risk management	7	118,635	255,510
Loans and advances to banks	8	993,221	1,117,344
Loans and advances to public sector	9	722	15,820
Loans and advances to customers	10	11,730,641	12,503,018
Interest-bearing securities	11	403,561	401,182
Current tax assets	20	–	2,182
Prepayments and other receivables	12	62,512	31,849
Total Assets		**14,199,355**	**14,985,230**
Liabilities			
Derivative liabilities held for risk management	7	573,427	764,533
Deposits from banks	13	144,635	97,411
Funds entrusted	14	6,171,584	6,388,454
Debt securities issued	15	6,362,719	6,825,449
Provisions	16	1,600	1,065
Current tax liabilities	20	25,857	4,678
Deferred tax liabilities	19	9,519	25,401
Accruals and other liabilities	18	61,203	46,762
Subordinated liabilities	17	8,336	8,336
Total Liabilities		**13,358,880**	**14,162,089**
Share Capital		18,152	18,152
Share premium		505,609	505,609
Reserves		298,990	286,404
Net profit		17,724	12,976
Total Equity	**21**	**840,475**	**823,141**
Total Equity and Liabilities		**14,199,355**	**14,985,230**

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER			
IN THOUSANDS OF EUROS		2017	2016
	Note(s)		
Interest income	22	426,177	489,045
Interest expenses	22	322,458	379,381
Interest margin	**22**	**103,719**	**109,664**
Changes in fair value of financial instruments	22	1,552	601
Interest margin and changes in fair value of financial instruments		**105,271**	**110,265**
Other income	23	2,105	2,357
Fees and commission income and expense	24	5,094	2,019
Operating income		**112,470**	**114,641**
Impairment of financial instruments and other assets	10/16	−6,769	2,090
Operating expenses	25	95,605	95,250
Operating profit before taxes		**23,634**	**17,301**
Income tax expense	28	5,910	4,325
Net profit		**17,724**	**12,976**
Operating profit/loss before taxes regular Achmea Bank portfolio	5	17,002	18,809
Operating profit/loss before taxes Acier portfolio	5	6,632	−1,508
Operating profit before taxes	**5**	**23,634**	**17,301**
Other comprehensive income/expense net of income tax (non-permanent part of Equity)			
Net fair value adjustments on available-for-sale financial assets	21	−390	333
Other comprehensive income/expense net of income tax (non-permanent part of Equity)		**−390**	**333**
Total comprehensive income for the period		**17,334**	**13,309**
Net profit:			
Attributable to owners of the parent		17,724	12,976
Net profit for the period		**17,724**	**12,976**
Total comprehensive income:			
Attributable to owners of the parent		17,334	13,309
Total comprehensive income for the period		**17,334**	**13,309**

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017	SHARE CAPITAL	SHARE PREMIUM	FAIR VALUE RESERVE	PROFIT FOR THE YEAR	OTHER RESERVES	TOTAL EQUITY
IN THOUSANDS OF EUROS						
Balance at 1 January 2017	**18,152**	**505,609**	**1,399**	**12,976**	**285,005**	**823,141**
Total comprehensive income for the period						
Net profit	–	–	–	17,724	–	17,724
Other comprehensive income/expense, net of income tax						
Fair value reserve (available-for-sale financial assets):	–	–	–	–	–	–
Change in fair value net of income tax (will be fully recycled through P&L) (note 10)	–	–	−390	–	–	−390
Total comprehensive income for the period	**–**	**–**	**−390**	**17,724**	**–**	**17,334**
Transaction with owners, recognised directly in equity						
Appropriation of profit 2016	–	–	–	−12,976	12,976	–
Capital contribution	–	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**−12,976**	**12,976**	**–**
Balance at 31 December 2017 (note 21)	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**
Balance at 1 January 2016	**18,152**	**472,109**	**1,066**	**4,467**	**280,538**	**776,332**
Total comprehensive income for the period						
Net profit	–	–	–	12,976	–	12,976
Other comprehensive income/expense, net of income tax						
Fair value reserve (available-for-sale financial assets):	–	–	–	–	–	–
Change in fair value net of income tax (will be fully recycled through P&L) (note 10)	–	–	333	–	–	333
Total comprehensive income for the period	**–**	**–**	**333**	**12,976**	**–**	**13,309**
Transaction with owners, recognised directly in equity						
Appropriation of profit 2015	–	–	–	−4,467	4,467	–
Capital contribution	–	33,500	–	–	–	33,500
Balance at 31 December 2016 (note 21)	**18,152**	**505,609**	**1,399**	**12,976**	**285,005**	**823,141**

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER			
IN THOUSANDS OF EUROS		2017	2016
Cash flow generated from operating activities	**Note(s)**		
Net profit		**17,724**	**12,976**
Adjustments for non-cash items in the result:			
Impairment on financial instruments and other assets	10/16	−6,769	2,090
Net interest and other income		−105,825	−112,021
Changes in derivatives held for risk management		−48,521	−68,888
Changes in fair value of financial instruments	22	−1,552	−601
Other non-cash items		92,435	92,513
Income tax expense	28	5,908	4,325
		−46,600	**−69,606**
Changes in operating assets and liabilities:			
Loans and advances to banks	8	153,717	129,542
Loans and advances to public sector	9	15,023	116,023
Loans and advances to customers	10	624,701	585,933
Prepayments and other receivables	12	−35,852	−30,062
Deposits from banks	13	47,250	−20,538
Funds entrusted	14	−187,203	−172,088
Accruals and other liabilities	18	20,072	5,536
Changes in tax assets and liabilities	19	−130	111
Interest received	22	442,993	472,266
Interest paid	22	−335,372	−390,402
Income tax received	28	1,700	–
Income tax paid	28	–	−33,334
		746,899	**662,987**
Net cash flow from operating activities (1)		**700,299**	**593,381**
Cash flow generated from investing activities			
Interest-bearing securities purchased	11	−214,588	−196,001
Interest-bearing securities sales	11	212,252	269,993
Net cash flow generated from investing activities (2)		**−2,336**	**73,992**
Cash flow generated from financing activities			
Repayments of Debt securities issued	15	−1,450,015	−1,727,766
Issues of Debt securites issued	15	1,013,366	952,945
Debt securities issued	**15**	**−436,649**	**−774,821**
Capital Addition		–	33,500
Net cash flow generated from financing activities (3)		**−436,649**	**−741,321**
Net cash flow (1) + (2) + (3)		**261,314**	**−73,948**
Cash and cash equivalents as at 1 January		683,084	757,032
Cash and cash equivalents as at 31 December		944,398	683,084
Movements in cash and cash equivalents		**261,314**	**−73,948**
Reconciliation of movement in Cash and cash equivalents			
Cash and balances with Central Banks	6	231,738	−73,035
Loans and advances to banks on demand	8	29,576	−913
		261,314	**−73,948**

Notes To The Consolidated Financial Statements

1. GENERAL INFORMATION

Achmea Bank N.V. is located at Spoorlaan 298, Tilburg (the Netherlands) with its registered office in The Hague (the Netherlands). It is registered at the Chamber of Commerce under number 27154399. The number of employees was 268 FTEs on 31 December 2017 (2016: 354 FTEs). The core products of Achmea Bank N.V. ('the Bank') consist of savings products for private individuals and owner-occupied residential mortgage loans for properties in the Netherlands. The shares in the Bank are held by Achmea B.V. At year-end 2017 the main shareholders of Achmea B.V. (the ultimate parent company) were Vereniging Achmea (62%) and Coöperatieve Rabobank U.A. (28%).

The Bank's consolidated financial statements for 2017 consist of the financial statements of all group companies in which the Bank has a controlling interest. Reference is made to paragraph 2B Basis of consolidation for an overview of the group companies.

Notes To The Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A AUTHORIZATION FINANCIAL STATEMENTS

The Bank´s consolidated financial statements for the year ended 31 December 2017 were authorized for issue in accordance with a resolution of the Executive Board on 20 March 2018. At the same date, the Supervisory Board gave its advice to the General Meeting of Shareholders to adopt the financial statements. The Executive Board may decide to amend the financial statements as long as these have not been adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the financial statements, but may not amend these.

B BASIS OF PRESENTATION

The Bank´s consolidated financial statements, including the 2016 comparative figures, have been prepared in accordance with the International Financial Reporting Standards - including International Accounting Standards (IAS) and Interpretations - as at 31 December 2017 and as adopted by the European Union (hereafter EU and EU-IFRS). Furthermore, the Bank's Consolidated Financial Statements comply with the requirements of article 2:362, part 9 of the Dutch Civil Code.

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

Notes To The Consolidated Financial Statements

INITIAL APPLICATION OF ACCOUNTING POLICIES

In 2017 the following amendments to Standards and Interpretations issued by the International Accounting Standard Board (IASB) were adopted:

- Amendments to IAS 7: Disclosure initiative (initiative aimed at improving the effectiveness of the explanations in the financial reports).
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (clarification of the requirements for including deferred tax assets for unrealized losses on fixed-income securities that are valued at fair value).
- Annual improvements to IFRS's 2014-2016 cycle: annual improvements consisting of a number of changes with limited impact.

These changes have no impact on Achmea Bank's Total equity and Net result.

Notes To The Consolidated Financial Statements

CHANGES IN STANDARDS AND AMENDMENTS WITH FUTURE APPLICATION DATE

Description

IFRS 9 introduces an approach for the classification of financial assets, a new impairment model and a new approach to hedge accounting. The new classification model is driven by cash flow characteristics and the business model in which an asset is held. The new model for impairment results in a single impairment methodology being applied to all financial instruments. IFRS 9 introduces an expected-loss impairment model that will require entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses in case of a significant credit deterioration. IFRS9 also 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.

Implementation Achmea Bank

Achmea Bank has 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 the work streams for classification and measurement, impairment, hedge accounting and disclosure. The implementation consists of three phases; assessment phase, design phase and implementation phase.

- During the assessment phase, an assessment of the current working methods, policies & processes and data & IT systems has been performed and gaps with IFRS 9 requirements have been identified.
- During the design phase solutions has been designed to bridge the gaps identified. 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 has been 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 has to 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.

Classification and measurement of financial instruments

Financial assets should be classified and measured in accordance with the business models of Achmea Bank as well as by the type of contractual cash flows of the underlying financial assets. Both elements determine whether they will be measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss account (FVtPL). As at 31 December 2017, Achmea Bank reviewed their financial assets based on the new IFRS 9 guidelines. The classification and measurement of the financial assets and liabilities of Achmea Bank will be in most cases equal to the classification and measurement under IAS 39. The only exception is a small part of the total mortgage portfolio which is currently measured at fair value through profit and loss and under IFRS 9 it can be reclassified to amortised cost, in line with the related business model of this portfolio. The outstanding amount of this portfolio as at 1 January 2018 amounts to EUR 226 million. As per 1 January, this portfolio will be measured at amortised cost. For the financial liabilities of Achmea Bank, the existing amortised cost measurement will be maintained under IFRS 9.

Hedge accounting

IFRS 9 allows entities to continue with hedge accounting as applied under IAS 39 even when other elements of IFRS 9 become mandatory on 1 January 2018. Achmea Bank has decided to continue hedge accounting as applied under IAS 39.

Impairment

The new IFRS 9 impairment requirements replace the IAS 39 criteria for the recognition of credit losses and change the impairment model from an incurred loss model to an expected loss model. Fundamental elements of IFRS 9 impairments are a) the calculation methodology of 12 Month and life time expected credit losses and b) the breakdown of all financial assets in three stages: 12 Month expected credit losses for performing loans (stage 1), life time expected credit losses for under-performing financial assets (stage 2) and life time expected credit losses for credit impaired financial assets (stage 3).

The interest for credit impaired financial assets (stage 3) is based on the net carrying amount, while for the other stages the interest is based on the gross carrying amount. Whether to use the 12 Month or Life time expected credit losses depends on the credit risk

Notes To The Consolidated Financial Statements

classification in the above mentioned stages. The staging is based on the increase in credit risk since origination of the instrument. Moreover the ECL is based on an unbiased probability-weighted amount that is determined by evaluating a range of possible and reasonable outcomes and reflect information available on current conditions and forecasts of future economic conditions, such as e.g. unemployment, interest rate and house price index.

The Bank is in the process of aligning the default definition on the EBA guidelines (which are applicable as from 2021) which result in more items that are impaired and therefore less items are past due but not impaired. All loans which are more than 90 days past due or unlikely to pay are credit impaired (stage 3).

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Description
The standard replaces IAS 18 Revenue and IAS 11 Construction Contracts and related Interpretations. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide accounting principles for transactions that were not previously addressed comprehensively (for example service revenue and contract modifications) and provide principles for multiple-element arrangements. IFRS 15 Revenue from Contracts with Customers is effective for reporting periods beginning on or after 1 January 2017, with early application permitted. In 2015, the IASB decided to defer the effective date from 1 January 2017 to 1 January 2018. In 2016 the IASB issued amendments to clarify a number of requirements in IFRS 15 with regard to the application of the standard. The IASB also issued amendments to ease the first application of the standard. This standard, without the changes in 2016, has been endorsed by the EU in 2016.

Implementation Achmea Bank
The main part of the revenues of the Bank consists of interest income, which are not in scope of IFRS 15. Furthermore, Achmea Bank receives fees for originating mortgages for the balance sheet of Achmea Pensioen & Leven N.V. These fees are recognised in the income statement in the same period as the mortgages are originated. The related servicing fee is recognised on monthly basis. There are no commission fees for mortgages. Therefore IFRS 15 has no impact.

OTHER IFRS GUIDELINES

The following standards were issued in 2017 or prior years and are not applied by Achmea Bank as these standards are not relevant for Achmea Bank in preparing its Consolidated Financial Statements 2017:

- IFRS 16 Leases
- IFRS 17 Insurance contracts
- Amendments to IAS 40: Transfers of investment property
- IFRIC Interpretation 22 Foreign currency transactions and advance consideration (applicable from 1 January 2018)
- IFRIC Interpretation 23 Uncertainty over income tax treatment (applicable as from 1 January 2019)
- IFRS 2 Classification and Measurement of Share-based Payment Transactions (amendments, applicable from 1 January 2018)

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

AMENDMENTS RELATED TO PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

There are no prior period corrections or changes in presentation.

Notes To The Consolidated Financial Statements

BASIS OF CONSOLIDATION

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

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

- DMPL 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

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 in the boards of these entities.

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 of and funds entrusted to the Bank.

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

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

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

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

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

Notes To The Consolidated Financial Statements

ELIMINATION OF INTERGROUP TRANSACTIONS AND ACCOUNTS

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

C SEGMENT INFORMATION

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

D CONSOLIDATED STATEMENT OF CASH FLOWS

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

E RECOGNITION AND DERECOGNITION

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

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

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

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

F USE OF ESTIMATES AND ASSUMPTIONS

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

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

Notes To The Consolidated Financial Statements

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

G OFFSETTING OF FINANCIAL INSTRUMENTS

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

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

H FOREIGN CURRENCY

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

I AMORTISED COST AND FAIR VALUE MEASUREMENT

Amortised cost measurement

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

Fair value measurement

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

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

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

J FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

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

Notes To The Consolidated Financial Statements

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

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

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

Consumer loans are included in the 'Loans and receivables' and are predominantly mortgages. The value of the mortgage portfolio is initially recognized at fair value and subsequently measured at amortised cost using the effective interest method, except for a small mortgage portfolio, which is carried at fair value (note 10). The 'Loans and advances' also include loans to real estate management companies and loans which are secured by commercial real estate.

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

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

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

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

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

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

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

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

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

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value net of transaction costs. Subsequently financial liabilities are valued at amortised cost using the effective interest method. Any differences between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. The Bank initially recognises Debt securities issued and Subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument. The Bank derecognises a financial liability when its contractual obligations are discharged,

Notes To The Consolidated Financial Statements

cancelled or when they expire. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid is recognized in profit or loss.

K IMPAIRMENT OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

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

SPECIFIC IMPAIRMENT

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

A loss event is defined as an arrear exceeding an amount of EUR 100 for more than 3 months in a row or an indication of fraud or any other contract violation.

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

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

INCURRED BUT NOT REPORTED (IBNR)

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

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

TREATMENT OF UNCOLLECTIBLE LOANS AND ADVANCES IN THE ACCOUNTS

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

L DERIVATIVES AND HEDGE ACCOUNTING

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

INITIAL RECOGNITION

Initial recognition of derivatives is at fair value on the date on which a derivative contract is signed. The fair values are derived from market prices quoted on active markets, including recent market transactions or, where applicable, determined on the basis of valuation methods, including present value models. Derivatives are recognised as assets if their fair value is positive and as liabilities if their fair value is negative.

Notes To The Consolidated Financial Statements

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

HEDGE ACCOUNTING

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

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

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

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

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

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

M CASH AND CASH EQUIVALENTS

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

N INTEREST-BEARING DEBT SECURITIES

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

O EMPLOYEE BENEFITS

Notes To The Consolidated Financial Statements

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

P TAX

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

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

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

Q PREPAYMENTS AND OTHER RECEIVABLES

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

R PROVISIONS

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

S INTEREST MARGIN AND CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

T FEES AND COMMISSION EXPENSES AND INCOME

Notes To The Consolidated Financial Statements

Fees and Commission includes commission paid and received related to mortgages and saving products and the fees received from Achmea Pensioen & Leven N.V. with regarding to mortgages originated on their balance sheet.

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3. CAPITAL AND FINANCIAL RISK MANAGEMENT

A INTRODUCTION

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

B RISK APPETITE

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

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

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

C RISK GOVERNANCE

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

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

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

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

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

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

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

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D FUNDING AND PLEDGED MORTGAGE RECEIVABLES

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

Funding

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

FUNDING MIX

IN MILLIONS OF EUROS	2017	2016
Retail funding	5,939	5,922
Secured wholesale funding	2,891	3,452
Unsecured wholesale funding	3,690	3,693
Deposits from banks (excluding Central Bank)	67	68
Other funding	25	76
Total funding	**12,612**	**13,211**

Retail funding

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.

Secured wholesale funding

Securitisations
One of the Bank's funding sources is securitisation of residential mortgages (RMBS). 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).

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.

Trustee
The Bank has entered into a Trust Agreement under which it periodically pledges mortgage receivables to Stichting Trustee Achmea Hypotheekbank as collateral for some of its banking liabilities, such as private placements 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 placements 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.

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.

Conditional pass-through covered bond programme
Achmea Bank has set up a EUR 5 billion conditional pass-through covered bond (CPTCB) programme in November 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

Notes To The Consolidated Financial Statements

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 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.

Unsecured wholesale funding

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.

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

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 replaced by loans issued under the Unsecured EMTN programme.

Pledged mortgages
The pledges are as follows:

ANALYSIS OF PLEDGES:

IN THOUSANDS OF EUROS	2017	2016
Securitisations	2,911,580	3,931,382
Asset switch	1,102,842	1,062,508
Trustee	210,632	229,755
Covered bond (soft bullet)	–	228,223
Covered bond (conditional pass through)	754,269	–
Total pledged mortgage receivables	**4,979,323**	**5,451,868**

Reference is made to notes 10 and 15 for more details on pledged assets and related liabilities.

Asset switch
Achmea Bank has a liquidity facility at its disposal in the form of an asset switch for a maximum amount of EUR 1 billion. With the asset switch the Bank transfers the legal ownership of a portfolio of mortgages to AP&L in exchange for a portfolio of government bonds. The government bonds are recognized as part of Achmea Bank's liquidity buffer. Important advantages of the asset switch are the enhanced flexibility in the timing of attracting new funding and the relatively low charge compared to alternative forms of (on-balance) liquidity.

E CREDIT RISK

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

RETAIL CREDIT RISK

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

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Stringent procedures are in place to monitor payment arrears. Borrowers that are in arrears for more than three months or with an indication for unlikely to pay are transferred to Achmea Bank's Special Asset Management Department. This department is responsible for account management and debt collection.

Forbearance

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

Credit quality by financial asset class

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

AS AT 31 DECEMBER	2017	2016
in millions of euros		
Regular Achmea Bank portfolio		
NHG	2,716	2,731
< 75%	3,845	3,690
< 90%	1,317	1,284
< 110%	1,720	2,326
< 125 %	592	666
>= 125%	219	59
	10,409	**10,756**
Acier loan portfolio (Residential part)		
< 75%	325	335
< 90%	170	79
< 110%	140	161
< 125 %	85	65
>= 125%	168	293
	888	**933**

The tables above are based on notional values of the mortgages. The carrying amount of loans and advances to customers is disclosed in note 10. In 2017 Achmea Bank has decided to start using Calcasa for the valuation of the underlying collateral in the residential mortgage portfolio. This refinement in valuation methodology results in improved insights in the underlying collateral.

Of the total amount of loans and advances to customers, an amount of EUR 89 million (2016: EUR 117 million) is past due but not impaired, which is less than 1% of the total portfolio.

COUNTERPARTY CREDIT RISK

The counterparty risk on exposures to governments and financial institutions is primarily associated with investment activities and the Bank's cash management. When determining country limits and limits for financial institutions, Achmea Bank applies a risk mitigation policy that complies with the relevant Achmea group policy. To manage counterparty risk, the Bank imposes individual counterparty limits

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on both exposure and maturity. These limits are approved by the ALCo. Positions are monitored on a daily basis by the Treasury department (1st line) and Balance Sheet Management & Financial Risk (2nd line). The credit risk exposure to professional counterparties is managed and monitored by the ALCo.

The Bank uses Credit Support Annexes (CSA) to reduce counterparty risk exposure on derivatives by means of (cash) collateral; for new over-the-counter derivatives -e.g. plain vanilla interest rate swaps- the European Market Infrastructure Regulation (EMIR) applies. No impairments on counterparty positions occurred in 2017. Furthermore, as at 31 December there are no concentrations of credit risk above the internally applied target for the concentration of credit risks.

The total net exposure mainly consists of the exposures on the top 10 professional counterparties (financial institutions). As at year-end the total net exposure for the top10 amounted to EUR 518 million (2016: EUR 572 million) and is comprised of the total fair value of the derivatives versus the collateral positions and SPV related exposures. As at year-end of 2017 the net exposure for the derivative exposures 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 means of the external credit ratings of the counterparties (Middle rating: Standard & Poor's, Moody's and Fitch):

CREDIT RISK ON OTHER FINANCIAL ASSETS

As at 31 December 2017

IN THOUSANDS OF EUROS

FINANCIAL ASSETS CATEGORISED PER MIDDLE RATING	→ A	< A	NOT RATED	TOTAL
Cash and balances with Central Banks	890,063	–	–	890,063
Derivative assets held for risk management	14,127	104,508	–	118,635
Loans and advances to banks	164,394	828,827	–	993,221
Loans and advances to public sector	–	722	–	722
Interest-bearing securities	403,561	–	–	403,561
	1,472,145	**934,057**	**–**	**2,406,202**

AS AT 31 DECEMBER 2016

IN THOUSANDS OF EUROS

FINANCIAL ASSETS CATEGORISED PER MIDDLE RATING	→ A	< A	NOT RATED	TOTAL
Cash and balances with Central Banks	658,325	–	–	658,325
Derivative assets held for risk management	30,459	225,051	–	255,510
Loans and advances to banks	276,178	830,404	10,762	1,117,344
Loans and advances to public sector	–	820	15,000	15,820
Interest-bearing securities	401,182	–	–	401,182
	1,366,144	**1,056,275**	**25,762**	**2,448,180**

The lowest rating 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 position (EUR 67 million (2016: EUR 67 million)) is reported as liability and recognised under deposits from banks (credit rating A and BBB).

F MARKET RISK

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

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

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

Interest rate risk

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

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

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

Effects of a change in the interest rate on total equity

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

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

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

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

DURATION

IN YEARS	2017	2016
Equity Duration	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 CPTCB-funding in November 2017, which is only partly hedged.

SENSITIVITY ANALYSIS

IN THOUSANDS OF EUROS	2017	2016
Change in the interest rate of 200 basis points negative	−63,865	−66,873
Change in the interest rate of 200 basis points positive	−35,372	−58,517

The effect of a 200 basis point upward shift of the yield curve on total equity value 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 change in the interest rate of 200 basis points downward shows only a small 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 the interest rate on income statement

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

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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 larger interest rate gaps in the first year.

Foreign currency

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

Part of the Acier loan portfolio that has been transferred to the Bank is denominated in CHF (EUR 434 million at year-end 2017). This position is partly hedged by CHF 300 million loans. The remaining CHF exposure is fully hedged on a monthly basis via foreign exchange derivatives (forward contracts).

FOREIGN CURRENCY EXPOSURE

	2017			2016		
In thousands of euros	**Total exposure**	**hedging instruments**	**Net exposure**	**Total exposure**	**hedging instruments**	**Net exposure**
Assets						
Swiss Franc	434,181	−432,105	2,076	487,391	−485,275	2,116
	434,181	**−432,105**	**2,076**	**487,391**	**−485,275**	**2,116**
Liabilities						
Swiss Franc	–	–	–	−186,237	186,237	–
	–	**–**	**–**	**−186,237**	**186,237**	**–**
Net						
Swiss Franc	434,181	−432,105	2,076	301,154	−299,038	2,116
	434,181	**−432,105**	**2,076**	**301,154**	**−299,038**	**2,116**

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

The following exchange rates have been used:

	CLOSING RATE		AVERAGE RATE	
	2017	2016	2017	2016
Swiss Franc	1.1702	1.0739	1.1221	1.0787

G LIQUIDITY RISK

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

Liquidity risk consists of two basic types of risk:

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

The day-to-day cash management is the responsibility of Achmea B.V.’s central Treasury department, which monitors the daily minimum cash position of EUR 75 million. Liquidity risk monitoring and reporting, which includes actual and forecasted figures, is the responsibility of the Balance Sheet Management & Financial Risk department (2nd line of defence). Furthermore, the ALCo monitors Achmea Bank’s liquidity risks on a monthly basis. Achmea Bank applies a minimum liquidity position that ensures the bank’s survival for at least six months in case of combined market liquidity and funding liquidity stress conditions. The actual ‘survival period’ at year-end was 9.1 months (2016: 10.4 months).

Liquidity buffer

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

- A strong withdrawal or bank run on retail savings (on demand);
- 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 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 can be 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 but the Bank has the right to extend the facility in 2019 for a maximum period of two years.

Liquidity Contingency Plan

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

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

UNDISCOUNTED CONTRACTUAL CASH FLOWS OF THE LIABILITIES

AS AT 31 DECEMBER 2017	← 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	→ 5 YEARS	TOTAL	TOTAL CARRYING AMOUNT
IN THOUSANDS OF EUROS						
Deposits from banks	18,997	28,073	97,542	–	144,612	144,635
Funds entrusted	2,936,577	742,508	1,244,326	2,061,250	6,984,661	6,171,584
Debt securities issued	824,373	1,184,157	3,419,351	1,175,902	6,603,783	6,362,719
Subordinated liabilities	837	–	7,821	1,263	9,921	8,336
Derivative liabilities held for risk management	4,372	24,761	183,937	369,661	582,731	573,427
Total cashflows	**3,785,156**	**1,979,499**	**4,952,977**	**3,608,076**	**14,325,708**	**13,260,701**

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

The market value and interest of the derivatives are reported in the bucket of the final maturity.

Notes To The Consolidated Financial Statements

H CAPITAL MANAGEMENT

The Bank must hold sufficient buffer capital to cover the 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, according to the regulators, 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. The Bank uses the standardized approach to calculate the risk weightings of its assets. The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence in order to sustain the future development of the business.

The Dutch Central Bank (DNB) sets overall (capital) limits under the 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 is well above the internally applied target for the minimum capital ratio level.

QUALIFYING CAPITAL AND CAPITAL RATIO

Risk weighted assets

The Bank reports the risk weighted exposure amounts in line with the CRR regulation and CRD IV guidelines. 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).

Common Equity Tier 1 Capital

In 2017 the Tier 1 capital increased by EUR 12 million from EUR 808 million to EUR 820 million, mainly as a result of the positive result of 2016. As the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its core tier 1 capital. The deductions in the table below mainly relate to the revaluation reserve and prudent valuation.

Tier 2 capital

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

QUALIFYING CAPITAL AND CAPITAL RATIO

IN MILLIONS OF EUROS

	2017	**2016**
Share capital	18	18
Share premium reserve	506	506
Reserves	298	286
Deductions	−2	−2
Common Equity Tier 1 Capital	**820**	**808**
Lower Tier 2	4	5
Total own funds	**824**	**813**
Total risk exposure amount	**4,024**	**4,237**
Common Equity Tier 1 Capital Ratio	**20.4%**	**19.1%**
Total Capital Ratio	**20.5%**	**19.2%**
Total Capital Ratio excl. Acier loan portfolio	**17.6%**	**16.8%**

Internal capital adequacy requirements

Notes To The Consolidated Financial Statements

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

Capital contingency

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

I OPERATIONAL RISK

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

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

This framework comprises the following processes:

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

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

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

J FAIR VALUE FINANCIAL ASSETS AND LIABILITIES

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

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

FAIR VALUE FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COSTS

IN THOUSANDS OF EUROS	CARRYING AMOUNT 2017	FAIR VALUE 2017	CARRYING AMOUNT 2016	FAIR VALUE 2016
Financial assets				
Loans and advances to banks and public sector	993,943	993,776	1,133,164	1,133,248
Loans and advances to customers	11,491,588	11,780,622	12,242,463	12,512,422
Financial liabilities				
Deposits from banks	144,635	144,794	97,411	97,434
Funds entrusted	6,171,584	6,268,769	6,388,454	6,507,622

Notes To The Consolidated Financial Statements

Debt securities issued	6,362,719	6,453,700	6,825,449	6,947,899
Subordinated liabilities	8,336	9,515	8,336	9,967

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

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

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

Principles for determining fair value:

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

NOTES TO ESTIMATION OF THE FAIR VALUES

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

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

Loans and advances to customers (Level 3)

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

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

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

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

Subordinated liabilities (level 2)

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

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

K FAIR VALUE HIERARCHY

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

AS AT 31 DECEMBER 2017				
IN THOUSANDS OF EUROS				
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				

Notes To The Consolidated Financial Statements

Derivative assets held for risk management				
Interest rate swaps	–	58,976	–	58,976
Cross Currency swaps	–	–	–	–
Foreign exchange derivatives	–	73	–	73
Back-to-back swaps and interest caps	–	59,586	–	59,586
	–	**118,635**	**–**	**118,635**
Financial assets designated at fair value				
through profit or loss				
Loans and advances to customers	–	–	239,053	239,053
	–	**–**	**239,053**	**239,053**
Financial assets held for sale				
Interest-bearing securities	403,561	–	–	403,561
	403,561	**118,635**	**239,053**	**761,249**
Financial liabilities				
Derivative liabilities held for risk management				
Interest rate swaps	–	513,840	–	513,840
Cross Currency swaps	–	–	–	–
Foreign exchange derivatives	–	1	–	1
Back-to-back swaps and interest caps	–	59,586	–	59,586
	–	**573,427**	**–**	**573,427**

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

- Level 1:

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

- Level 2:

Notes To The Consolidated Financial Statements

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

- Level 3:

Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation. The total amount of gains and losses accounted for financial instruments with a level 3 fair value amounted to a loss of EUR 1.3 million (2016: loss of EUR 0.1 million), which was included in the statement of comprehensive income. The movement schedule for the financial instruments with a level 3 fair value is included in note 10 Loans and advances to customers.

Changes in the fair value hierarchy in 2017

During 2017 no changes were made in classification of fair value hierarchy.

NOTES TO THE FAIR VALUE HIERARCHY

Interest-bearing securities (level 1)

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

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

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

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

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

Foreign exchange derivatives (level 2)

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

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

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

Loans and advances to customers (level 3)

A part of the total Loans and advances to customers is measured at fair value. These loans are valued using pricing models based on the net present value of estimated future cash flows. The pricing models are based on current market data, such as the euro swap curve. In addition to the euro swap curve, there are unobservable market inputs. The unobservable market inputs may include spreads which are embedded in the discount curve. The total spread is based on the pricing of comparable mortgages within the market, and varies from 94 to 256 basis points (2016: 116 to 260 basis points).

The impact of a 10 basis point spread increase on the fair value of Loans and advances to customers results in a lower fair value of EUR 0.8 million (2016: EUR 0.9 million lower fair value).

Notes To The Consolidated Financial Statements

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

4. CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING THE ACCOUNTING POLICIES

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

IMPAIRMENT OF LOANS AND ADVANCES TO CUSTOMERS

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

Regular Achmea Bank portfolio
An increase of 100 basis points of the value of the underlying collateral of the impaired asset results in a reduction in the addition to impairment losses on receivables of EUR 0.1 million (2016: EUR 0.1 million). Another significant element in the impairment of loans and advances to customers is the Loss Incubation Period (LIP). In December 2017 this period was 8 months (2016: 9 months). An increase of one month in the LIP results in an increase in the addition to impairment losses on receivables of EUR 0.5 million (2016: 0.5 million).

Acier loan portfolio
An increase of 100 basis points of the value of the underlying collateral of the impaired asset results in a reduction in the addition to impairment losses on receivables of EUR 0.5 million (2016: EUR 1.1 million). Another significant element in the impairment of loans and advances to customers is the Loss Incubation Period (LIP). In December 2017 this period was 8 months (2016: 6 months). An increase of one month in the LIP results in an increase in the addition to impairment losses on receivables of EUR 0.4 million.

Both calculations are based on actual cash flows.

LOANS AND ADVANCES TO CUSTOMERS AT FAIR VALUE

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

RECOGNITION OF DEFERRED TAX ASSETS

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

FAIR VALUE DERIVATIVES

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

Notes To The Consolidated Financial Statements

5. RESULT ACIER LOAN PORTFOLIO

In 2015 and 2016 Achmea Bank acquired the loan portfolio of Staalbankiers N.V., the previous private banking entity of Achmea B.V. The transfer of 2016 was effected in stages and was completed in 2017.

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

FOR THE YEAR ENDED 31 DECEMBER 2017

IN THOUSANDS OF EUROS	REGULAR ACHMEA BANK PORTFOLIO	ACIER LOAN PORTFOLIO	TOTAL ACHMEA BANK
Interest margin	100,254	3,465	103,719
Changes in fair value of financial instruments	1,217	335	1,552
Interest margin and changes in fair value of financial instruments	**101,471**	**3,800**	**105,271**
Other income	2,105	–	2,105
Fees and commission income and expense	5,094	–	5,094
Operating income	**108,670**	**3,800**	**112,470**
Impairment on financial instruments and other assets	−295	−6,474	−6,769
Operating expenses	91,963	3,642	95,605
Operating profit before taxes	**17,002**	**6,632**	**23,634**

FOR THE YEAR ENDED 31 DECEMBER 2016

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

Notes To The Consolidated Financial Statements

6. CASH AND BALANCES WITH CENTRAL BANKS

IN THOUSANDS OF EUROS	2017	2016
Cash and balances with Central Banks	890,063	658,325

This item includes all cash and deposits held at DNB. At the end of 2017 the minimum cash reserve to be maintained at DNB, which is not at the Bank's free disposal amounted to EUR 45.3 million (2016: EUR 43.1 million).

7. DERIVATIVES HELD FOR RISK MANAGEMENT

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

INTEREST RATE SWAPS AND CROSS CURRENCY SWAPS

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

FOREIGN EXCHANGE DERIVATIVES

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

BACK-TO-BACK SWAPS AND INTEREST CAPS

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

DERIVATIVES

AS AT 31 DECEMBER 2017					
	NOTIONAL	FAIR VALUE			
IN THOUSANDS OF EUROS	AMOUNT	ASSETS		LIABILITIES	
		CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
Interest rate swaps	5,876,071	4,832	54,144	29,183	484,657
Foreign exchange derivatives	175,235	73	–	1	–
Back-to-back swaps and interest caps		–	59,586	–	59,586
Total derivative assets/liabilities		**4,905**	**113,730**	**29,184**	**544,243**

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

Notes To The Consolidated Financial Statements

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

8. LOANS AND ADVANCES TO BANKS

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

IN THOUSANDS OF EUROS	2017	2016
Loans and advances to banks	993,221	1,117,344

IN THOUSANDS OF EUROS	2017	2016
* Not available on demand	938,887	1,092,585
* On demand	54,334	24,759
	993,221	**1,117,344**

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

9. LOANS AND ADVANCES TO PUBLIC SECTOR

This item comprises funds lent to public authorities.

IN THOUSANDS OF EUROS	2017	2016
Loans and advances to public sector	722	15,820

At December 2017 the total outstanding amount is non-current (2016: EUR 15.0 million current).

10. LOANS AND ADVANCES TO CUSTOMERS

This includes all receivables from the private sector.

LOANS AND ADVANCES TO CUSTOMERS

IN THOUSANDS OF EUROS	2017	2016
Mortgage loans at fair value	**239,053**	**260,555**
Loans and advances to customers at amortised cost	10,604,316	11,204,334
Less: Provisions for impairment	7,026	11,488
Total loans and advances to customers regular Achmea Bank portfolio	**10,836,343**	**11,453,401**
Loans and advances to customers Acier loan portfolio at amortised cost	926,123	1,111,505
Less: Provisions for impairment Acier loan portfolio	31,825	61,888
Total loans and advances to customers	**11,730,641**	**12,503,018**

The remaining contractual term to maturity of the Loans and advances to customers net of provision, including a prepayment rate of 7.7% for the regular portfolio and 10.6% for the Acier portfolio, are:

IN THOUSANDS OF EUROS	2017	2016
* < or equal to 3 months	238,308	795,019
* 3 months < x < or equal to 1 year	676,069	593,173

Notes To The Consolidated Financial Statements

* 1 year < x < or equal to 5 years	2,997,425	1,813,174
* > 5 years	7,818,839	9,301,652
	11,730,641	**12,503,018**

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

ALLOWANCE FOR LOSSES ON LOANS AND ADVANCES

IN THOUSANDS OF EUROS		2017		2016
Balance as at 1 January		**73,376**		**89,121**
Acquisitions Acier loan portfolio	3,076		1,272	
Additions	1,178		11,764	
Releases	−8,239		−937	
		−3,985		**12,099**
Write-offs		−30,540		−27,844
Balance as at 31 December		**38,851**		**73,376**
Specific allowances for impairment		32,533		66,615
IBNR		6,318		6,761
Balance as at 31 December		**38,851**		**73,376**
Regular Achmea Bank portfolio		7,026		11,488
Acier loan portfolio		31,825		61,888
Balance as at 31 December		**38,851**		**73,376**

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. In 2015 and 2016 Achmea Bank acquired the loan portfolio of Staalbankiers N.V. The transfer of 2016 was effected in stages and was completed in 2017.

MORTGAGES AT FAIR VALUE

IN THOUSANDS OF EUROS	2017	2016
Balance as at 1 January	**260,555**	**288,955**
Repayments	−20,837	−28,331
Fair value movement	−665	−69
Balance as at 31 December	**239,053**	**260,555**

The movement of the fair value is mainly caused by the fluctuation in the euro swap curve and an update of the spread which is based on the pricing of mortgages within the market and includes a spread for liquidity and credit risk. The calculation of the fair value of these mortgages includes an amount of EUR 0.2 million (2016: EUR 0.2 million) for the past due loans.

LOANS AND ADVANCES TO CUSTOMERS AT AMORTISED COST

IN THOUSANDS OF EUROS	2017	2016
Balance as at 1 January	**12,242,463**	**12,884,129**
Acquired Acier loan portfolio	18,013	209,544
Changes in the nominal portfolio	−628,311	−799,234
Changes in basis adjustment	−139,874	−64,970
Allowances for losses on loans and advances	37,601	17,019
Other movements	−38,304	−4,025
Balance as at 31 December	**11,491,588**	**12,242,463**

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

IN THOUSANDS OF EUROS			2017		2016
Balance as at 1 January			**11,192,847**		**11,950,503**
Changes nominal portfolio	Loans granted	687,399		392,575	
	Repayments	−1,109,945		−1,087,855	
			−422,546		**−695,280**
Fair value hedge accounting	Revaluation basis adjustment mortgages	−138,007		−80,730	
	Amortisation basis adjustment mortgages	−1,867		15,760	
			−139,874		**−64,970**
Allowances for losses on loans and advances	Additions	−604		−2,274	
	Releases	1,163		726	
	Write-offs	3,903		8,442	
			4,462		**6,894**
Other movements			**−37,598**		**−4,300**
Balance as at 31 December			**10,597,291**		**11,192,847**

The decrease in other movements is mainly caused by the fact that since the migration to Quion the interest is settled within the month.

The carrying amount of the fair value hedge adjustment is EUR 405 million (2016: EUR 543 million).

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

IN THOUSANDS OF EUROS			2017		2016
Balance as at 1 January			1,049,616		933,626
Changes nominal portfolio	Acquired portfolio	21,089		210,816	
	Repayments	−205,765		−103,954	
			−184,676		**106,862**
Allowances for losses on loans and advances	at acquisition date	−3,076		−1,272	
	Additions	−574		−9,488	
	Releases	7,076		211	
	Write-offs	26,637		19,402	
			30,063		**8,853**
Other movements			**−706**		**275**
Balance as at 31 December			**894,298**		**1,049,616**

TRANSFERRED ASSETS

As at 31 December 2017 EUR 3.9 billion (2016: EUR 4.4 billion) of the Loans and advances to customers was pledged in connection with money and capital market transactions for funding purposes. A further EUR 1.1 billion (2016: EUR 1.1 billion) of the Loans and advances to customers was pledged as part of the Asset Switch for liquidity purposes.

OVERVIEW OF PLEDGED MORTGAGE TRANSACTIONS (AGAINST NOMINAL VALUE)

Notes To The Consolidated Financial Statements

IN THOUSANDS OF EUROS	2017	2016
* Stichting Trustee Achmea Hypotheekbank	210,632	229,755
* Dutch Mortgage Portfolio Loans X B.V.	–	640,784
* Dutch Mortgage Portfolio Loans XI B.V.	585,639	647,386
* Dutch Mortgage Portfolio Loans XII B.V.	637,930	719,652
* Dutch Residential Mortgage Portfolio I B.V.	780,211	885,059
* Dutch Residential Mortgage Portfolio II B.V.	606,338	680,150
* Asset Switch	1,102,842	1,062,508
* Securitised Guaranteed Mortgage Loans II B.V.	301,462	358,351
* Achmea Covered Bond Programme (soft bullet)	–	228,223
* Achmea Conditional Pass Through Covered Bond Programme	754,269	–
	4,979,323	**5,451,868**

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

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

The liabilities related to these securitisations are included in note 15 Debt securities issued. The following table provides an overview of both the outstanding amount and the fair value of the Loans and advances to customers and the related debt securities part of Debt securities issued. The assets transferred to the SPVs are classified as transferred assets that are not derecognised in their entirety assets as per IFRS paragraph 7.42d.

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

OVERVIEW TRANSFERED ASSETS AND LIABILITIES AS AT 31 DECEMBER 2017 IN THOUSANDS OF EUROS	CARRYING AMOUNT	FAIR VALUE
Loans and advances to customers included in securitisation transactions	2,911,579	3,187,620
Related debt securities part of debt securities issued	2,172,211	2,192,433
Net position	**739,368**	**995,187**

OVERVIEW TRANSFERED ASSETS AND LIABILITIES AS AT 31 DECEMBER 2016 IN THOUSANDS OF EUROS	CARRYING AMOUNT	FAIR VALUE
Loans and advances to customers included in securitisation transactions	3,931,382	4,305,302
Related debt securities part of debt securities issued	3,075,453	3,105,939
Net position	**855,929**	**1,199,363**

The net position consists mainly of the notes of the SPVs which are held by the Bank. The total exposure for the Bank on the transferred assets and liabilities amounted to EUR 750 million (2016: EUR 873 million) and is defined as the total value of the notes of the SPVs which are held by the Bank and the receivables on subsidiaries (SPVs).

Third-party pledges on mortgage loans are also included in the conditional pass through covered bond programme. The Bank acts as originator, issuer and administrator in the conditional pass through covered bond programme. The payment of principal and interest on the bonds issued is guaranteed by a bankruptcy-remote SPV. The guarantee provided by this SPV is supported by mortgage receivables pledged by the Bank to the SPV. The outstanding amount of these pledged mortgage receivables will at all times be at least 6,5% higher than the bonds issued under the covered bond programme. For investors there is a so-called ‘double recourse’, which means that in the event of default of the Bank an investor has recourse on the bank and on the underlying mortgage portfolio. The liabilities related to these

Notes To The Consolidated Financial Statements

pledges are included in note 15 Debt securities issued. The pledges by trust arrangements and the covered bond programme are not classified as transferred assets per IFRS paragraph 7.42d.

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

11. INTEREST-BEARING SECURITIES

The Interest-bearing securities amounted to EUR 0.4 billion (2016: EUR 0.4 billion). The Interest-bearing securities are classified as available for sale (measured at fair value and with changes in fair value recorded in other comprehensive income). The changes in the value of investments in the interest-bearing securities mentioned below amounts to EUR 0.1 million positive (2016: EUR 0.4 million positive) of which an amount of EUR 0.4 million (2016: EUR 0.3 million) is recognised in Equity.

MOVEMENTS IN INTEREST-BEARING SECURITIES

	2017	2016
IN THOUSANDS OF EUROS		
Balance as at 1 January	**401,182**	**474,820**
Purchases	214,588	196,001
Sales/repayments	−212,252	−269,993
Value adjustments	54	445
Changes in accrued interest	−11	−91
Balance as at 31 December	**403,561**	**401,182**

12. PREPAYMENTS AND OTHER RECEIVABLES

IN THOUSANDS OF EUROS	2017	2016
Prepayments and other receivables	62,512	31,849
	62,512	**31,849**

Prepayments and other receivables include an amount of EUR 24 million (2016: EUR 22.7 million) relating to receivables to Achmea Group companies. For an analysis of receivables within Achmea, we refer to the separate related-parties disclosure (note 30). There are no non-current amounts in 2017 (2016: EUR 1.2 million). The increase of the prepayments and other receivable is due to the changed procedure of debt collection tape. Since the outsourcing of servicing of mortgages the debt collection tape of December (EUR 31 million) is reported in December instead of January.

13. DEPOSITS FROM BANKS

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

IN THOUSANDS OF EUROS	2017	2016
* < or equal to 3 months	18,997	25,942
* 3 months < x < or equal to 1 year	28,096	7,828
* 1 year < x < or equal to 5 years	97,542	42,374
* > 5 years	–	21,267
	144,635	**97,411**

Notes To The Consolidated Financial Statements

14. FUNDS ENTRUSTED

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

IN THOUSANDS OF EUROS	2017	2016
* < or equal to 3 months	2,926,781	2,891,466
* 3 months < x < or equal to 1 year	720,907	404,793
* 1 year < x < or equal to 5 years	1,122,008	1,695,435
* > 5 years	1,401,888	1,396,760
	6,171,584	**6,388,454**

Funds entrusted include an amount of EUR 0.8 billion (2016: EUR 1.0 billion) related to liabilities to saving deposits linked to mortgages. For an analysis of these liabilities, we refer to the separate related-parties disclosure (note 30).

15. DEBT SECURITIES ISSUED

This item includes bonds and other debt securities.

	2017	2016
IN THOUSANDS OF EUROS		
* Dutch Mortgage Portfolio Loans X B.V.	–	554,986
* Dutch Mortgage Portfolio Loans XI B.V.	507,384	587,374
* Dutch Mortgage Portfolio Loans XII B.V.	519,805	612,209
* Dutch Residential Mortgage Portfolio I B.V.	630,984	726,780
* Dutch Residential Mortgage Portfolio II B.V.	514,038	591,498
* Achmea Covered Bond Company B.V. (soft bullet)	–	186,237
* Achmea Conditional Pass Through Covered Bond Programme	497,444	–
* European Medium Term Notes Programme	61,186	61,183
* Senior Unsecured Loans	3,302,030	3,198,389
* Commercial paper	257,178	208,042
Total notional amounts	**6,290,049**	**6,726,699**
Accrued interest	40,168	42,492
FV hedge accounting	31,864	54,776
Amortised cost	638	1,483
Carrying amount	**6,362,719**	**6,825,449**

The notes held by the Bank are eliminated upon consolidation and as such not presented in the table above.
The fair value adjustment is the fair value of bonds which are included in a hedge relation as at 31 December 2017.

The weighted average interest rate for the year 2017 was 1.00% (2016: 1.10%).

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

IN THOUSANDS OF EUROS	2017	2016
* < or equal to 3 months	790,400	153,260
* 3 months < x < or equal to 1 year	1,156,143	1,245,892
* 1 year < x < or equal to 5 years	3,275,724	3,890,115
* > 5 years	1,140,452	1,536,182
	6,362,719	**6,825,449**

Notes To The Consolidated Financial Statements

16. PROVISIONS

IN THOUSANDS OF EUROS	2017	2016
Balance as at 1 January	1,065	–
Addition	5,363	1,065
Releases	−1,897	–
Amounts used	−2,931	–
Balance as at 31 December	**1,600**	**1,065**

The Provisions relates to legal claims and to the provision for compensation for early redemptions on mortgage loans. 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 this provision on the income statement is limited.

17. SUBORDINATED LIABILITIES

The Subordinated liabilities are as follows:

IN THOUSANDS OF EUROS	INTEREST RATE (%)	2017	2016
Loan 1999/2020	5.57	7,144	7,144
Loan 1999/2024	5.68	1,192	1,192
		8,336	**8,336**

The interest expenses for 2017 amounted to EUR 0.4 million (2016: EUR 0.4 million).

The total amount of the subordinated liabilities is non-current (2016: total non-current).

18. ACCRUALS AND OTHER LIABILITIES

IN THOUSANDS OF EUROS	2017	2016
Accruals	5,444	4,469
Other liabilities	55,759	42,293
	61,203	**46,762**

Accruals and other liabilities include an amount of EUR 43.7 million (2016: EUR 12.2 million), relating to liabilities to Achmea Group companies. For an analysis of these liabilities within Achmea Group, we refer to the separate related-parties disclosure (note 30). The total amount of Accruals and other liabilities is current.

19. DEFERRED TAX ASSETS AND LIABILITIES

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

DEFERRED TAX

	ASSETS		LIABILITIES		BALANCE	
IN THOUSANDS OF EUROS	2017	2016	2017	2016	2017	2016
Interest-bearing securities	–	–	1,059	1,573	− 1,059	− 1,573
Valuation differences due to differences in tax base	1,088	1,136	38,102	101,169	− 37,014	− 100,033
Tax position asset/liability	**1,088**	**1,136**	**39,161**	**102,742**	**− 38,073**	**− 101,606**
TAX RATE	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**271**	**284**	**9,790**	**25,686**	**− 9,519**	**− 25,401**

Notes To The Consolidated Financial Statements

SPECIFICATION VALUATION DIFFERENCES DUE TO APPLICATION OF IFRS

IN THOUSANDS OF EUROS	2017	2016	2017	2016	2017	2016
Derivative assets held for risk management	–	–	−416,279	−464,800	416,279	464,800
Debt securities issued	–	–	−31,864	−60,732	31,864	60,732
Accrued interest	–	–	−587	−672	587	672
Loans and advances to customers	1,088	1,136	486,832	627,373	−485,744	−626,237
Tax position asset/liability	**1,088**	**1,136**	**38,102**	**101,169**	**−37,014**	**−100,033**
TAX RATE	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**272**	**284**	**9,526**	**25,292**	**−9,254**	**−25,008**

From deferred tax assets and liabilities an amount of EUR 4.0 million is current (2016: EUR 10.5 million), the remainder is non-current.

CHANGES TO TEMPORARY DIFFERENCES

IN THOUSANDS OF EUROS	BALANCE AS AT 01-01-2017	RECOGNISED IN RESULT	RECOGNISED IN EQUITY	BALANCE AS AT 31-12-2017
2017				
Interest-bearing securities	−1,573	1,860	−1,346	−1,059
Valuation differences due to differences in tax base	−100,033	63,019	–	−37,014
Tax position asset/liability	**−101,606**	**64,879**	**−1,346**	**−38,073**
TAX RATE	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**−25,401**	**16,218**	**−336**	**−9,519**

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

20. CURRENT TAX ASSETS AND LIABILITIES

The net current corporate tax liabilities of EUR 25.9 million (2016: tax liabilities EUR 2.5 million) refers to the tax payable for the reporting period and for previous periods. The Bank is part of a fiscal unity with Achmea B.V., settlement of tax liabilities is handled centrally by Achmea B.V.

21. TOTAL EQUITY

As at 31 December 2017 the authorised share capital amounted to EUR 90 million (2016: 90 million), divided into 90 million shares (2016: 90 million) each with a nominal value of EUR 1 (2016: EUR 1). As at 31 December 2017 18,151,663 shares had been issued and paid up in full (2016: 18,151,663 shares).
The fair value reserve comprises the cumulative net gains and losses on the fair value of the financial assets that are classified as available for sale.

The profit for the year includes the 2017 net profit.

Addition of reserves comprises the addition of profit from prior years, including the addition of the legal reserve for financial assets at fair value through profit and loss. The fair value of the financial assets at fair value through profit and loss exceeded its amortised cost by EUR 7.0 million (2016: 7.7 million). The other reserves consist of retained earnings (EUR 290.9 million) and the legal reserve (EUR 7.0 million).

Notes To The Consolidated Financial Statements

22. INTEREST MARGIN AND CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

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

IN THOUSANDS OF EUROS	2017	2016
Interest income	426,177	489,045
Interest expenses	322,458	379,381
Changes in fair value of financial instruments	1,552	601
Interest margin and changes in fair value of financial instruments	**105,271**	**110,265**

Interest income

The total interest income can be specified as follows:

IN THOUSANDS OF EUROS	2017	2016
Loans and advances to customers	422,024	485,867
Loans and advances to banks and public sector	542	244
Other interest income	3,611	2,934
	426,177	**489,045**

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

Interest expenses

The total interest expenses can be specified as follows:

IN THOUSANDS OF EUROS	2017	2016
Deposits	1,356	691
Funds entrusted	111,606	133,720
Debt securities issued	82,806	98,606
Interest expenses related to derivatives	117,120	139,753
Other interest expenses	9,570	6,611
	322,458	**379,381**

Other interest expenses mainly include funding costs other than interest and negative interest on loans and advances to banks.

Changes in fair value of financial instruments

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

IN THOUSANDS OF EUROS	2017	2016
Effectiveness results of fair value hedge accounting	5,201	2,689
Amortisation effects	−2,863	−9,008
Other fair value effects	−786	6,920
	1,552	**601**

The change of the effectiveness of fair value accounting is in line with the fluctuation of the interest rates during 2017 in comparison with the fluctuation of the interest rates during 2016.

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

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

Notes To The Consolidated Financial Statements

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

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

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

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

FAIR VALUE CHANGES HEDGES

IN THOUSANDS OF EUROS	GAIN	LOSS	NET 2017	NET 2016
Macro hedge				
Fair value changes in hedged items	50,171	181,190	−131,019	−56,273
Fair value changes in hedging instruments	191,477	50,694	140,783	62,911
	241,648	**231,884**	**9,764**	**6,638**
Micro hedge				
Fair value changes in hedged items	34,001	16,356	17,645	−4,633
Fair value changes in hedging instruments	16,320	38,528	−22,208	684
	50,321	**54,884**	**−4,563**	**−3,949**
Total hedge				
Fair value changes in hedged items	84,172	197,546	−113,374	−60,906
Fair value changes in hedging instruments	207,797	89,222	118,576	63,595
	291,969	**286,768**	**5,201**	**2,689**

23. OTHER INCOME

Other income includes amounts received relating to receivables which have been written off in previous periods and an income related to the deposit guarantee scheme (DGS) of DNB for the bankruptcy of DSB.

IN THOUSANDS OF EUROS	2017	2016
Other Income	2,105	2,357

24. FEES AND COMMISSION INCOME AND EXPENSE

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

IN THOUSANDS OF EUROS	2017	2016
Fees and commission income	5,481	2,516
Fees and commission expense	387	497
	5,094	**2,019**

Fees and commission income increased by EUR 3 million, mainly as a result of fees for originating and servicing mortgages for the balance sheet of Achmea Pensioen & Leven N.V.

Notes To The Consolidated Financial Statements

25. OPERATING EXPENSES

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

IN THOUSANDS OF EUROS	2017	2016
Staff costs	32,448	36,437
Administrative expenses	63,157	58,813
	95,605	**95,250**

26. STAFF COSTS

IN THOUSANDS OF EUROS	2017	2016
Wages and salaries	15,909	17,729
Pension costs	3,584	4,120
Compulsory social security obligations	2,167	2,547
Other staff costs	10,788	12,041
	32,448	**36,437**

The average number of employees during 2017 was 303 FTEs (2016: 354 FTEs). All personnel including the Executive Board of Achmea Bank are employed by Achmea Interne Diensten N.V. The personnel costs and other operating expenses associated with the activities of Achmea Bank are passed on. Achmea Interne Diensten N.V. allocates the pension expenses to the various entities of Achmea Group. Allocation is effected on the basis of the pensionable salary of the current employees. For more information we refer to the section Related parties. In 2017 there were no adjustments or claw backs in connection with (past) remuneration to members of the Executive Board.

27. INDEPENDENT AUDITOR'S FEES

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

Our auditor, PwC NL, has rendered, for the period to which our statutory audit relates, in addition to the audit of the statutory financial statements the following services to the company and its controlled entities:

- Review interim report;
- Statutory audit of the SPVs;
- Audit of the regulatory reports to be submitted to De Nederlandse Bank;
- Agreed upon procedures DGS;
- Agreed upon procedures interest rate risk;
- Agreed upon procedures Stichting Trustee;
- Assurance engagement Credit Claims;
- Assurance engagement TLTRO.

28. INCOME TAX EXPENSES

RECONCILIATION OF THE EFFECTIVE TAX RATE

IN THOUSANDS OF EUROS	2017	2016
Operating profit before taxes	23,634	17,301
Nominal tax rate	25.0%	25.0%
Nominal tax expenses	5,910	4,325
Effective tax expenses	**5,910**	**4,325**
Effective tax rate	**25.0%**	**25.0%**

Notes To The Consolidated Financial Statements

The Bank is part of a fiscal unity with Achmea B.V. for company tax purposes and VAT. The effective tax expenses consist of EUR 22.1 million current tax and EUR 16.2 million deferred tax.

29. CONTINGENT LIABILITIES AND COMMITMENTS

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.

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 of Staalbankiers. The maximum amount for the duration of the financial guarantee is EUR 350 million. The contract for the financial guarantee will end in line with the maturity of the related loans. As at year-end 2017, the total amount claimed by Achmea Bank 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.

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).

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).

FISCAL UNITY

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

POST FORECLOSURE CLAIM

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

Notes To The Consolidated Financial Statements

30. RELATED PARTIES

IDENTITY OF RELATED PARTIES

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

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

A sum of EUR 0.8 billion (2016: EUR 1.0 billion) is included under Funds entrusted for liabilities to non-banking institutions within Achmea B.V., EUR 1.7 billion of the total liabilities (2016: EUR 2.1 billion) is related to Achmea Pensioen- en Levensverzekeringen N.V. and consists mainly of investments in the Bank's securitisation programmes.

Achmea B.V. has issued a capped guarantee to Achmea Bank to cover credit risk and legal claims in connection with the acquired loan activities of Staalbankiers. The maximum amount for the duration of the financial guarantee is EUR 350 million. The contract for the financial guarantee will end in line with the maturity of the related loans. As at year-end 2017, the total amount claimed by Achmea Bank is EUR 11.3 million (2016: EUR 9.4 million).
The Bank entered into an Asset Switch agreement with Achmea Pensioen- en Levensverzekeringen N.V. in order to improve its liquidity position. In addition, the Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V. The movements in Loans and advances from and to related parties are a result of repayments and additional borrowings.

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

IC POSITIONS

IN THOUSANDS OF EUROS	2017	2016
Assets		
Prepayments and other receivables	23,952	22,739
	23,952	**22,739**
Liabilities		
Funds entrusted	803,615	1,018,717
Secured bank loans	909,964	1,341,539
Accruals and other liabilities	43,653	12,831
	1,757,232	**2,373,087**

PREPAYMENTS AND OTHER RECEIVABLES FROM RELATED PARTIES

IN THOUSANDS OF EUROS	2017	2016
Achmea B.V.	1,849	8,772
Achmea Pensioen- en Levensverzekeringen N.V.	21,911	13,851
Achmea Interne Diensten N.V.	–	116
Staalbankiers N.V.	192	–
	23,952	**22,739**

INTEREST INCOME ON RECEIVABLES TO RELATED PARTIES

IN THOUSANDS OF EUROS	2017	2016
Friends First Finance Ltd	–	1
Interamerican Health General Insurance Company of Health and Assistance SA	23	17
Interamerican Hellenic Life Insurance Company SA	29	39
Interamerican Property and Casualty Insurance Company SA	102	41
Interassistance Road Assistance Services SA	1	1
Practice Medical Company SA	2	2
Athinaiki General Clinic SA	3	3
	160	**104**

Notes To The Consolidated Financial Statements

FUNDS ENTRUSTED AND SECURED BANK LOANS

IN THOUSANDS OF EUROS	2017	2016
Achmea B.V.	–	187,306
Achmea Pensioen- en Levensverzekeringen N.V.	1,666,760	2,095,917
Interamerican Health General Insurance Company of Health and Assistance SA	11,282	11,315
Interamerican Hellenic Life Insurance Company SA	7,968	7,996
Interamerican Property and Casualty Insurance Company SA	23,254	34,825
Interassistance Road Assistance Services SA	298	299
Modern Private Medical Group Practice Medical Company SA	–	898
Mentor Assessors Estimator, engineers SA	60	60
Achmea Schadeverzekeringen N.V.	–	18,030
Interamerican Assistance Gen Ins Company	2,994	3,004
Athinaiki General Clinic SA	964	606
	1,713,580	**2,360,256**

DEPOSITS FROM BANKS AND OTHER LIABILITIES

IN THOUSANDS OF EUROS	2017	2016
Achmea Interne Diensten N.V.	3,984	2,281
Achmea Pensioen- en Levensverzekeringen N.V.	39,669	9,966
	43,653	**12,247**

The increase relates to the construction depots (EUR 28 million) related to the mortgages originated for Achmea Pensioen- en Levensverzekeringen N.V.

INTEREST EXPENSES ON LOANS AND ADVANCES TO RELATED PARTIES

IN THOUSANDS OF EUROS	2017	2016
Achmea B.V.	1,249	3,087
Achmea Pensioen- en Levensverzekeringen N.V.	46,767	51,974
Achmea Schadeverzekeringen N.V.	102	250
FBI Zorg Vastrentende waarden	–	1
	48,118	**55,312**

COMMISSION INCOME AND EXPENSES RELATED PARTIES

IN THOUSANDS OF EUROS	2017	2016
Staal beheer N.V.	125	–
Achmea Pensioen- en Levensverzekeringen N.V.	4,609	1,342
	4,734	**1,342**

OTHER INCOME RELATED PARTIES

IN THOUSANDS OF EUROS	2017	2016
Staalbankiers N.V.	–	366
	–	**366**

OTHER EXPENSES RELATED PARTIES

IN THOUSANDS OF EUROS	2017	2016
Achmea Interne Diensten N.V.	5,392	16,705
	5,392	**16,705**

31. REMUNERATION EXECUTIVE BOARD AND SUPERVISORY BOARD

REMUNERATION OF SUPERVISORY BOARD MEMBERS

IN THOUSANDS OF EUROS	2017	2016
Short term remuneration	176	157

Notes To The Consolidated Financial Statements

	176	**157**

REMUNERATION OF EXECUTIVE BOARD MEMBERS

IN THOUSANDS OF EUROS	2017	2016
Short-term employee benefits	896	1,094
Post-employment benefits	89	90
	985	**1,184**

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

The members of Executive Board and Supervisory Board are classified as key management personnel. At year-end 2017 there were no outstanding loans to members of the Supervisory Board and Executive Board.

32. EVENTS AFTER REPORTING PERIOD

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

PROFIT APPROPRIATION ACCORDING TO THE ARTICLES OF ASSOCIATION

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

ARTICLE 18 PROFITS AND LOSSES
18.1. Profits shall be at the unrestricted disposal of the General Meeting;
18.2. The Bank shall only be entitled to make payments to the shareholders and other parties entitled to distributable profits if its total equity exceeds the amount of the issued capital plus the reserves to be maintained by law;
18.3. Profits shall only be distributed after the adoption of financial statements showing that such distribution is permissible;
18.4. The General Meeting may decide that an interim dividend shall be distributed, including an interim distribution from the reserves, subject to the provisions of article 2:105.4, of the Dutch Civil Code;
18.5. Dividends shall be made payable directly after their declaration, unless another date is determined by the General Meeting;
18.6. Dividends that have not been collected within five years of becoming payable shall accrue to the Bank.

PROPOSAL FOR PROFIT APPROPRIATION

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 proposes to pay out a total dividend of EUR 50 million. When the final Basel IV regulations are implemented in European legislation without change, our capital position remains strong enough to realize our growth strategy and pay out future dividends.

The General Meeting of Shareholders of 20 March 2017, approved the proposal to add the net profit after tax for 2016 to the other reserves. The profit after tax for 2016 has been recognised in total equity as part of other reserves.

Notes To The Consolidated Financial Statements

AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

Tilburg, 20 March 2018

The Executive Board,

Mr. P.J. (Pierre) Huurman	Chief Executive Officer
Mr. P.C.A.M. (Pieter) Emmen	Director Finance & Risk (as of 1 April 2017)
Mr. V.J. (Vincent) Teekens	Director Operations

The Supervisory Board

Mr. H. (Huub) Arendse, Chairman (as of 1 January 2018)
Mr. J.B.J.M. (Jan) Molenaar
Mr. H.W. (Henny) te Beest
Mrs. B.E.M. (Bianca) Tetteroo (as of 1 August 2017)

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

COMPANY STATEMENT OF FINANCIAL POSITION

BEFORE APPROPRIATION OF RESULT AS AT THE YEAR ENDED 31 DECEMBER IN THOUSANDS OF EUROS	2017	2016
Assets		
Cash and balances with Central Banks	890,063	658,325
Derivative assets held for risk management	116,453	252,884
Loans and advances to banks	654,022	784,084
Loans and advances to public sector	722	15,820
Loans and advances to customers	11,730,641	12,524,455
Interest-bearing securities	1,056,418	1,175,535
Current tax assets	–	2,185
Prepayments and other receivables	192,738	178,189
Receivables from subsidiaries	29,867	10,283
Total Assets	**14,670,924**	**15,601,760**
Liabilities		
Derivative liabilities held for risk management	573,427	764,533
Deposits from banks	91,843	46,899
Funds entrusted	5,959,616	6,188,357
Borrowings	7,099,049	7,692,593
Provisions	1,600	1,065
Current tax liabilities	25,857	4,674
Deferred tax liabilities	9,519	25,401
Accruals and other liabilities	61,202	46,761
Subordinated liabilities	8,336	8,336
Total Liabilities	**13,830,449**	**14,778,619**
Equity		
Share Capital	18,152	18,152
Share premium	505,609	505,609
Reserves	298,990	286,404
Net profit	17,724	12,976
Total Equity	**840,475**	**823,141**
Total Equity and Liabilities	**14,670,924**	**15,601,760**

Borrowings include deemed loans to SPV’s for an amount of EUR 2.9 billion (2016: EUR 3.9 billion), the other part are debt securities issued.

Company Statement of comprehensive income Achmea Bank N.V.

COMPANY STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER	2017	2016
IN THOUSANDS OF EUROS		
Interest income	426,177	489,045
Interest expenses	322,458	379,381
Interest margin	**103,719**	**109,664**
Changes in fair value of financial instruments	1,552	601
Interest margin and changes in fair value of financial instruments	**105,271**	**110,265**
Other income	2,105	2,357
Fees and commission income and expense	5,094	2,019
Operating income	**112,470**	**114,641**
Impairment on financial instruments and other assets	−6,769	2,090
Operating expenses	95,605	95,250
Operating profit before taxes	**23,634**	**17,301**
Income tax expenses	5,910	4,325
Net profit	**17,724**	**12,976**

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

STATEMENT OF CHANGES IN COMPANY EQUITY

FOR THE YEAR ENDED 31 DECEMBER	SHARE CAPITAL	SHARE PREMIUM	FAIR VALUE RESERVE	PROFIT FOR THE YEAR	OTHER RESERVES	TOTAL EQUITY
In thousands of euros						
Balance at 1 January 2017	**18,152**	**505,609**	**1,399**	**12,976**	**285,005**	**823,141**
Total comprehensive income for the period						
Net profit	–	–	–	17,724	–	17,724
Other comprehensive income/expense, net of income tax						
Change in fair value net of income tax (will be fully recycled through P&L) (note 10)	–	–	−390	–	–	−390
Total comprehensive income for the period	–	–	**−390**	**17,724**	–	**17,334**
Transaction with owners, recognised directly in equity						
Capital contribution	–	–	–	–	–	–
Appropriation of profit 2016	–	–	–	−12,976	12,976	–
Total contributions by and distributions to owners	–	–	–	**−12,976**	**12,976**	–
			–			
Balance at 31 December 2017	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**
Balance at 1 January 2016	**18,152**	**472,109**	**1,066**	**4,467**	**280,538**	**776,332**
Total comprehensive income for the period						
Net profit	–	–	–	–	–	–
Other comprehensive income/expense, net of income tax				**12,976**		**12,976**
Fair value reserve (available-for-sale financial assets):						
Change in fair value net of income tax (will be fully recycled through P&L) (note 10)	–	–	–	–	–	–
Total comprehensive income/expense for the period	–	–	**333**	–	–	**333**
	–	–	333	12,976	–	13,309
Transaction with owners, recognised directly in equity						
Appropriation of profit 2015	–	33,500	–	−4,467	4,467	33,500
Capital contribution	–	–	–	–	–	–
Total contributions by and distributions to owners	–	–	–	**−4,467**	**4,467**	–
	–	33,500	–	–	–	33,500
Balance at 31 December 2016	**18,152**	**505,609**	**1,399**	**12,976**	**285,005**	**823,141**

As at 31 December 2017, the authorised share capital amounted to EUR 90 million (2016: 90 million), divided into 90 million shares (2016: 90 million) each with a nominal value of EUR 1 (2016: EUR 1). As at 31 December 2017, 18.151.663 (2016: 18.151.663) had been issued and paid up in full.

The fair value reserve comprises the cumulative net gains and losses on the fair value of the financial assets that are classified as available for sale. The profit for the year includes the net profit of 2017.

The addition of the reserves comprise of the addition of profit of prior years including the addition of the legal reserve for the financial assets at fair value through profit and loss. The fair value of the financial assets at fair value through profit and loss exceeds its amortised cost by EUR 7.0 million (2016: 7.7 million). The other reserves consist of retained earnings (EUR 277.3 million) and the legal reserve (EUR 7.0 million).

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

Notes to the company financial statements

GENERAL

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

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

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

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

The legal ownership of the securitized mortgages has been transferred to the SPVs, the economic ownership of these mortgages remains with the Bank.

AMENDMENTS RELATED TO PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

Achmea Bank N.V. has changed the way some balances, transactions and cash flows are presented and narrated in the financial statements. None of these changes have any impact on previously reported levels of income after taxes, or on previously reported levels of shareholder's equity.

The change in presentation relates to the presentation of securitisation transactions. Previously, mortgages included under securitisation transactions used to be derecognised, but from 2017 these will be presented in the financial statements under Loans and advances to customers. In relation to these mortgages, a deemed loan to the securitisation entities has been presented under Borrowings. For comparative reasons, the 2016 figures are adjusted accordingly.

AUTHORIZATION OF COMPANY FINANCIAL STATEMENTS

Tilburg, 20 March 2018

The Executive Board,

Mr. P.J. (Pierre) Huurman	Chief Executive Officer
Mr. P.C.A.M. (Pieter) Emmen	Director Finance & Risk (as of 1 April 2017)
Mr. V.J. (Vincent) Teekens	Director Operations

The Supervisory Board

Mr. H. (Huub) Arendse, Chairman (as of 1 January 2018)
Mr. J.B.J.M. (Jan) Molenaar
Mr. H.W. (Henny) te Beest
Mrs. B.E.M. (Bianca) Tetteroo (as of 1 August 2017)

INDEPENDENT AUDITOR'S REPORT

To: the general meeting and supervisory board of Achmea Bank N.V.

Report on the financial statements 2017

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Achmea Bank N.V. as at 31 December 2017 and of its result and cash flows for the year ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code; and
- the accompanying company financial statements give a true and fair view of the financial position of Achmea Bank N.V. as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2017 of Achmea Bank N.V., the Hague ('the Company'). The financial statements include the consolidated financial statements of Achmea Bank N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the following statements for 2017: the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2017;
- the company statement comprehensive income for the year then ended; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

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

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Achmea Bank N.V. in accordance with the European Regulation on specific requirements regarding statutory audits of public interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Our audit approach

Overview and context

Achmea Bank N.V. is a bank that provides residential mortgage loans and saving products to private customers. Besides savings, the Group obtains a substantial part of its funding in the form of unsecured and secured notes issued on the capital markets. The Group comprises of several components. We considered our group audit scope and approach as set out in 'the scope of our group audit' section. We paid specific attention to the areas of focus driven by the operations of the Group, as set out below.

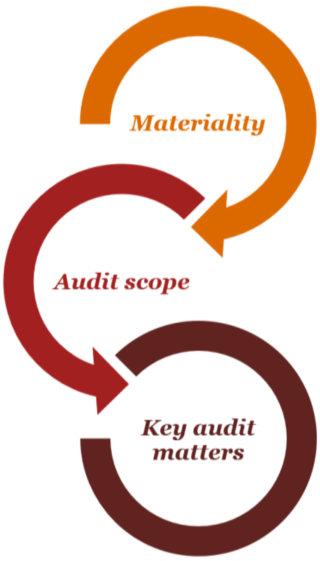
Other information

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In note 4 'Critical estimates and judgements used in applying the accounting policies' the Group describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in impairment of loans to customers and the fair value measurement of financial instruments, we considered these to be key audit matters as set out in the section 'Key audit matters' of this report. Furthermore, we identified hedge accounting as a key audit matter following its detailed, formal and technical requirements in relation to the application of hedge accounting. Inadequate application or documentation of these requirements may have a material impact on the financial statements. Lastly, we identified the IAS 8 disclosure related to the implementation of IFRS 9 as key audit matter given it is expected that IFRS 9 will have a considerable impact on the 2018 financial statements of financial institutions and its estimated impact as at 1 January 2018 will therefore likely be important to stakeholders.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We ensured that the audit team included the appropriate skills and competences which are needed for the audit of a bank. We therefore included specialists in the areas of *IT, accounting, valuation and credit modelling for financial instruments, valuation of real estate and taxation* in our team.

The outline of our audit approach was as follows:



Materiality
Overall materiality: €2.6 million.

Audit scope
We conducted audit work on Achmea Bank N.V. and all of its subsidiaries.

For ITGCs the Group makes use of several service organisations for which we gained comfort through other auditors.

For the testing of the Group's internal control framework, we made use of the work performed by internal audit in areas where we deemed that use is appropriate.

Key audit matters
Impairment of loans and advances to customers at amortised cost,

Valuation of derivatives and the application of hedge accounting,

Disclosure on estimated impact of IFRS9

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€2.6 million (2016: €2.5 million).
Basis for determining materiality	We used our professional judgment to determine overall materiality. As a basis for our judgment we used 2.5% of interest margin.

Rationale for benchmark applied	We consider, as a point of reference, that (average) profit before tax is the preferred materiality benchmark as it generally is seen as best representing the interests of the stakeholders. However, given the results trend of the Group including several one-off results in the last couple of years, this is not considered to be the most appropriate benchmark to be applied. In assessing other benchmarks we believe interest margin, being an important financial metric for the general performance of a bank including reflecting the link between return on assets and cost of funding, is an appropriate benchmark to use. We note that last year the materiality level was lower while the interest margin was higher, this was due to the lower allocated materiality level of the group auditor of Achmea B.V. which we applied consistently for the statutory audit.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €130,000 (2016: €250,000, for audit execution and documentation purposes we assessed all misstatements above €125,000) as well as misstatements below that amount that, in our view, warrant reporting for qualitative reasons.

The scope of our group audit

Achmea Bank N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Achmea Bank N.V. The group audit encompassed all components included in the consolidation of Achmea Bank N.V. as disclosed in note B on page 23 of the financial statements.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level. In our view, due to their significance and/or risk characteristics, each of these components required an audit of their complete financial information. In performing work on these components the Group engagement team did not make use of component auditors.

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

For the testing of the Group's internal control framework, we made use of the work performed by internal audit in areas where we deemed that use is appropriate. In making this assessment we have considered factors, in the context of audit standard 610 'Using the work of internal auditors', such as our assessment of the level of risk and the amount of judgement involved related to the associated financial statement line item. Where we deemed the risk associated with a financial statement line item to be significant, or where a considerable degree of judgement was required, we performed testing of internal controls.

In order to make use of the work performed by internal audit we evaluated their objectivity, level of competence and application of a systematic and disciplined approach. We also performed a review of the documentation of the work performed by internal audit that included re-performance for those areas where we made use of their work, which confirmed our initial assessment and reliance approach.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we describe the key audit matters and include a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

We note that the key audit matters related to 'Impairment of loans and advances to customers at amortised cost' and 'Fair value measurement of derivatives and application of hedge accounting' are recurring. These relate to the Group's primary business objectives and did not change significantly compared to prior year. New to prior year is the key audit matter related to the 'IAS 8 Disclosure on estimated impact of IFRS 9' as IFRS 9 is expected to have a significant impact on the 2018 financial statements of financial institutions and its estimated impact as at 1 January 2018 will therefore likely be important to stakeholders.

Key audit matter	*How our audit addressed the matter*
Impairment of loans and advances to customers at amortised cost *See note K on page 27 of the summary of significant accounting policies "impairment of financial assets measured at amortised cost", paragraph "impairments of loans and advances to customers" on page 44 of the critical estimates and judgments used in applying the accounting policies and note 10 on page 47 "loans and advances to customers".* We consider the impairment of loans and advances to customers a key audit matter as management applies considerable judgment in the determination and recognition of these impairments. As the loans and advances are significant to the financial statements, a change in assumptions may have a material effect on the financial statements. The impairment of loans and advances consists of two different components: • Specific impairment for loans and advances where an impairment trigger was identified; and • A model-based impairment for incurred but not reported losses ('IBNR'). The specific allowance for impairment amounts to €32.5 million and the IBNR amounts to €6.3 million (refer to note 10 "Loans and advances to customers" in the financial statements). A distinction is made between the regular Achmea Bank portfolio amounting to €10.6 billion with a provision for impairment of €7.0 million and the Acier loan portfolio amounting to €0.9 billion with a provision for impairment of €31.8 million. The nature and composition of the Acier loan portfolio is different compared to the regular Achmea Bank portfolio which results in a higher credit risk for example related to the nature of the financed object, collateral or currency (Swiss franc).	Our audit procedures over the impairment of loans and advances to costumers at amortised cost (both the regular portfolio as well as the Acier portfolio) consisted of gaining an understanding of the group's internal controls over their credit risk management and impairment process. Furthermore, we assessed the ISAE Type II reports of the service organisations with respect to the mortgage processing including dunning levels. We determined that we could rely on these controls for the purpose of our audit. Our substantive audit procedures on the regular portfolio included, amongst others: - a reconciliation of a selection of the data underlying the parameters used to historical loss information; - an assessment of the reliability of this historical loss information by reconciling the data to the underlying subsystems and information; - reconciling the exposure at risk and the interest rate (discount rate) applied to the underlying subsystems and validated the rates applied; - reconciling a selection of the collateral values used to the underlying valuation reports; and, - the inspection of legal agreements and supporting documentation to confirm the existence and legal rights to collateral. Based on our substantive procedures we found management's judgements to be supported by available evidence and in line with the underlying subsystems and source data. For the Acier loan portfolio we made a selection of individual loans whereby we reconciled the exposure and discount rate to the underlying source system. We assessed the revision proposals, reconciled the collateral value to underlying valuation reports and recalculated the impairment provision. We discussed individual items with management on which

Key audit matter	How our audit addressed the matter
The main judgmental elements included in the impairment for individual identifiable impaired loans and advances are: • timely identification of impairment triggers; • expected future cash flows; • the discount rate; and • the value and recoverability of the corresponding collateral. For the Acier loan portfolio the specific impairment provision is determined on an individual loan basis. For the regular Achmea Bank portfolio parameters are applied based on historical data. For loans and advances to customers that are individually not impaired, the Group determines, based on experience- and historical loss data, whether further impairment losses are present in the portfolio. Given the difference in nature this is done separately for the regular and the Acier portfolio. The key parameters used in this calculation are the probability of default ('PD'), the loss given default ('LGD'), the loss identification period ('LIP') and the exposure at default ('EAD').	significant judgement was applied and challenged the assumptions applied. We found the explanations provided by management to be reasonable and concluded on no unadjusted differences exceeding our threshold. To assess the completeness of the specific provision we reconciled the past due listing to the detailed listing of the provision, read minutes of meetings and inquired with management. We did not identify additional items that should have been provided for. Our audit procedures over the IBNR provision included an examination of the applied methodology, as well as the calculations used, by the Group for both the regular and the Acier portfolio respectively. We reconciled PD and LGD data to the underlying historical loss information. We assessed the sensitivity with respect to the LIP and compared the applied LIP to market practice. We recalculated the provision and reconciled the EAD to the underlying subsystems where we found no differences. We also assessed the completeness and accuracy of the disclosures relating to impairments of loans and advances to customers at amortised cost to assess compliance with disclosure requirements included in EU-IFRS.
Fair value measurement of derivatives and application of hedge accounting *See note I on page 25 of the summary of significant accounting policies "amortised cost and fair value measurement", note J on page 25 "financial assets and financial liabilities", note L on page 27 "derivatives and hedge accounting", note 7 on page 46 "derivatives held for risk management", note 10 on page 47 "loans and advances to customers", and note 22 on page 55 "interest margin and changes in fair value of financial instruments".* The Group has designated derivatives held for risk management in two hedging strategies. Fair value hedges on interest rate risk in its mortgage portfolio (macro hedge) and interest rate risk and currency risk related to debt securities issued (micro hedges). The derivatives are measured at fair value through profit or loss and amount to €118.6 million of assets and €573.4 million of liabilities.	Our audit included testing of the Group's internal controls over the valuation process and analysis of validation procedures performed by management over the relevant model inputs. We also tested the Group's internal controls with respect to their hedge accounting strategies and relevant hedge accounting documentation and calculation. We determined that we could rely on these controls for the purpose of our audit. We reconciled the source data used in the Group's valuation model that is critical in determining the fair value (e.g. cash flows, maturities and notional values) to the underlying source systems. No significant differences were noted. We challenged the assumptions applied with respect to the unobservable inputs and performed a sensitivity analysis. We, assisted by our valuation specialists, performed an independent valuation of the derivative position. Although our own valuation tools and techniques also provide inherently judgemental outcomes, we considered this to be an appropriate basis for challenging management's outcomes. We found that management's outcomes derived from the model used

Key audit matter	How our audit addressed the matter
The fair value of the derivatives may fluctuate significantly from time to time due to fluctuations in market rates. The Group applies a valuation model to fair value these positions. Although the valuation model makes maximum use of observable market inputs and limits there is still a considerable level of judgement to be made by management for unobservable inputs. Consequently, determining the fair value of these types of instruments is considered to be complex and subject to judgement and estimation uncertainty. As required by EU-IFRS, the Group has hedge accounting documentation in place describing the relationship between the hedging instrument(s) and the hedged item(s), as well as the risk management objective and strategy at the inception of the transaction. The Group formally records whether the derivatives used in the hedge relationships are effective in offsetting changes in the fair value of the hedged items, both at the start and for the duration of the hedge relationship. This is done via prospective and retrospective testing. Given the subjectivity around fair valuation, the size of the derivatives portfolio held for risk management and the complexity of the hedge accounting standards included in EU-IFRS, we considered this to be a significant element of our audit.	for the fair value of the derivatives, in the context of the estimation uncertainty concerned, fell within a reasonable and acceptable range of outcomes. We have considered the prospective and retrospective effectiveness testing to assess whether the hedge relationships are effective and for a selection that the hedge effectiveness has been calculated accurately. We found the outcome of the effectiveness testing to be consistent with our own calculations and the methodology applied in line with the technical requirements. Furthermore, we have reconciled the outcome of the retrospective effectiveness testing resulting in an ineffectiveness which has been recorded as hedge adjustment in the statement of comprehensive income. We tested, for a selection, whether the hedge documentation as prepared by the management met the requirements of IAS 39 and whether the interest rate swaps are eligible for hedge accounting. We determined the hedge relationships were correctly defined and calculated as being effective. We assessed the completeness and accuracy of the disclosures relating to derivatives and hedge accounting to assess compliance with disclosure requirements included in EU-IFRS.
Disclosure on estimated impact of IFRS 9 *See note B on page 21 of the summary of significant accounting policies "IFRS 9 financial instruments".* IFRS 9 'Financial Instruments' becomes effective for annual reporting periods beginning on or after 1 January 2018. The possible impact of the application of IFRS 9 is required to be disclosed as required by IAS 8. As it is expected that IFRS 9 will have a significant impact on the 2018 financial statements of financial institutions we believe that the disclosure will likely be important to stakeholders. Given the anticipated impact of this new accounting standard on the opening balance sheet as at 1 January 2018 and the accounting policy choices and assumptions to be made by management on the implementation of IFRS 9, we consider this a key audit matter in our audit. The Group has managed the IFRS9 implementation and assessment of impact through a project set-up involving specialists and using relevant historical information and data out of their respective databases and systems. Expected loss modelling has been performed in co-operation with internal modelling specialists and external advisors. The key judgements and estimation uncertainty specific to IFRS 9 is primarily linked to the following elements:	We reviewed the accounting policies to determine whether these have been set up in accordance with the requirements of IFRS 9. We challenged management on the judgement applied in their accounting policy choices and received reasonable explanations and evidence supporting those judgements. We obtained an understanding of the client's implementation process for determining the possible impact of adoption, including an understanding of the entity's systems, processes and controls. We note that the Group has to integrate the new models in the existing reporting systems, IT infrastructure and control framework. This includes model validation and finalization of model documentation. Our audit work comprised of the following substantive procedures: • For classification and measurement we evaluated management's business model assessments and the evidence supporting the business model decisions for every business model. With respect to the financial assets designated as hold to collect and hold to collect and sell we re-performed a selection of SPPI tests performed by management and in addition, performed an independent SPPI test on a selection of financial instruments. Our selection was risk based and covered a range of different type of financial assets taking the complexity into consideration. As part of our testing we analysed supporting documents to evaluate whether the SPPI requirements in IFRS 9 are met. No significant issues were noted in this respect.

Key audit matter	*How our audit addressed the matter*
• On classification and measurement of financial instruments, management has performed an assessment whether the cash-flows from financial instruments meet the criteria for the 'solely of payment of principal of interest'- criteria ('SPPI'). The estimated impact of €13 million in classification and measurement on the opening balance sheet as at 1 January 2018 based on IFRS 9 is related to a loan portfolio that has historically been valued at fair value (€239 million as per year-end 2017) and will under IFRS 9 be valued at amortised cost (€226 million on 1 January 2018). • With respect to hedge accounting there are no implications for macro hedge accounting as the Group elected to take advantage of the provision to allow it to keep applying IAS 39 until the new IFRS 9 hedge accounting rules for macro fair value hedges are finalised. Accordingly, although micro hedge accounting has changed under IFRS 9, management has decided to continue hedge accounting as applied under IAS 39. • The new impairment rules in IFRS 9 lead to an increase in complexity and in the degree of judgement required to calculate the expected credit losses. Amongst other aspects, this applies to the choices and judgements made in the impairment methodology, including the determination of the probability of default ('PD'), the loss given default ('LGD') and the exposure at default ('EAD'). Under IFRS 9, these calculations must also take into account forward-looking information ('FLI') of macro-economic factors with considering multiple scenario's. With respect to the PD and LGD used in the expected credit loss calculations, management used historical data to the extent possible and has applied significant judgement where needed. The estimated impact of impairments on the opening balance sheet as at 1 January 2018 based on IFRS 9 amounts to €4 million.	• We assessed, with the assistance of our modelling specialists, whether the impairment methodology and model applied by the Group are in accordance with the requirements of IFRS 9. We assessed, amongst other factors, model documentation, validation procedures performed, scenarios taken into account, the macro-economic factors and staging logic applied. We note the estimated impact of impairments is 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. We will therefore need to perform additional procedures during our 2018 audit. • Finally, we performed sensitivity analyses with respect to the most significant assumptions applied. We assessed that the disclosure meets the requirements of IAS 8 and discloses the expected impact, the status of the implementation effort to date and the extent to which the entity has evaluated the possible impact. We also evaluated that the disclosures adequately reflect the uncertainties that exist around the application and implementation of IFRS 9.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- profile
- the supervisory board report;
- the executive board report;
- implementation of and compliance with the banking code;
- corporate social responsibility; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

Other information

The executive board is responsible for the preparation of the other information, including the executive board report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Achmea Bank N.V. on 29 April 2011 by the supervisory board following the passing of a resolution by the shareholders at the annual meeting held on 6 April 2011 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 7 years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 27 to the financial statements.

Responsibilities for the financial statements and the audit

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

The executive board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the executive board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Group's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going-concern basis of accounting unless the executive board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Group's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Group's financial reporting process.

Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 20 March 2018
PricewaterhouseCoopers Accountants N.V.

Original has been signed by C.C.J. Segers RA

Appendix to our auditor's report on the financial statements 2017 of Achmea Bank N.V.

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

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

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

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
- Concluding on the appropriateness of the executive board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.