Achmea Bank N.V.
Interim Report
2018

achmea

Executive Board Report

STATEMENT OF THE EXECUTIVE BOARD OF ACHMEA BANK N.V. (ACHMEA BANK)

The Executive Board reviewed the Achmea Bank Condensed Consolidated Interim Financial Statements and authorised them for submission to the Supervisory Board. The Achmea Bank Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2018 were authorised for issue in accordance with the resolution of the Executive Board on 8 August 2018.

The Executive Board of Achmea Bank declares that, to the best of its knowledge, the Achmea Bank Condensed Consolidated Interim Financial Statements 2018 give a true and fair view of the assets, liabilities, financial position and net profit of Achmea Bank. These Condensed Consolidated Interim Financial Statements have been prepared in accordance with the International Financial Reporting Standards, including International Accounting Standards (IAS) and Interpretations as adopted by the European Union, specifically IAS 34 'Interim Financial Reporting'. The Executive Board of Achmea Bank is of the opinion that the information contained in these Condensed Consolidated Interim Financial Statements has no omissions likely to modify significantly the scope of any statements made. Furthermore, the Executive Board of Achmea Bank declares that the Board Report includes a fair view of the information required pursuant to section 5:25d, subsection 8 and 9 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht).

Tilburg, 8 August 2018

The Executive Board

P.J. Huurman,	Chief Executive Officer
P.C.A.M. Emmen,	Director Finance & Risk

Executive Board Report

- Achmea Bank N.V. reports a profit before tax of EUR 18 million, EUR 14 million after tax for the first half-year 2018.
- The Common Equity Tier 1 Capital Ratio remained stable at 20.3% (2017: 20.4%).
- Cost saving initiatives resulted in lower operating expenses of EUR 8 million.
- Introduction of new niche propositions for the Woonfonds brand.

Achmea Bank reported a profit before tax of EUR 18 million for the first half-year 2018 (first half-year 2017 EUR 13 million).

The operating result, excluding exceptional items, increased from EUR 6 million HY 2017 to EUR 18 million HY 2018. The growth in the operational result is mainly due to a higher interest margin of EUR 4 million and lower operational costs of EUR 8 million. The HY 2017 result included the following exceptional items: release of the Acier loan loss provision of EUR 7 million, addition to the provision compensation for income related to early redemptions of EUR 4 million and a positive fair value result of EUR 4 million.

In HY 2018 both the implementation of a new system for the administration of savings products and payments and the implementation of the new reporting standard IFRS 9 were finalized. In addition, the organization has been further optimized by the integration of the client services desks of our two brands at Centraal Beheer. In line with the Bank's strategy, Woonfonds introduced several new niche propositions, among which a buy-to-let mortgage and a mortgage product for self-employed persons. Centraal Beheer has also introduced a self-employed proposition and continues to focuse on an excellent digital customer experience.

Production of new mortgages amounted to EUR 0.4 billion and was lower than HY 2017 (EUR 0.8 billion) as Achmea Bank concentrates on niche propositions with better interest margins alongside mainstream mortgages. In a strong competitive market the production for Achmea Pensioen & Leven N.V. decreased to EUR 0.1 billion (HY 2017 EUR 0.3 billion). The regular mortgage portfolio of Achmea Bank decreased EUR 0.2 billion to EUR 10.2 billion with total prepayments stabilizing at EUR 0.6 billion.
The savings portfolio remained stable at EUR 6 billion. In January the Bank redeemed EUR 500 million senior unsecured notes and made the preparations to futher optimize the liquidity position. Achmea Bank retained a sound liquidity position with liquidity ratios well above internal limits.

As of 1 January 2018, Achmea Bank applies the IFRS 9 reporting standards for financial instruments. The impact of IFRS 9 on equity amounts to EUR 13 million negative after tax, mainly related to a change in the classification and measurement of a small part of the mortgage portfolio. The initial impact of IFRS 9 on the loan loss provision was largely compensated by the capped guarantee Achmea B.V. issued to Achmea Bank to cover credit risk and legal claims related to the Acier portfolio.

In line with Achmea Group's policy to manage excess capital at group level and our dividend policy Achmea Bank paid out dividend of EUR 50 million in May 2018. The Total Capital ratio (20.4%) and Common Equity Tier 1 (CET1) Capital ratio (20.3%) remained stable. The negative impact on capital ratios of the dividend paid and IFRS 9 was compensated by the positive result of 2017 and the decrease of risk weighted assets. The new Basel IV guidelines will come into force in 2022 and are expected to have no material impact on the capital ratios.

In line with the simplified and more efficient organization, the responsibilities of the Director of Operations decreased and have been transferred to the other Board members. The position of Director of Operations, which has been held by Mr. Vincent Teekens, is no longer filled in as of April 1, 2018. As of April 1, the Board of Directors consists of Mr. Pierre Huurman and Mr. Pieter Emmen.

Since year-end 2017 Achmea Bank has retained its Issuer Default Rating of A/stable (Fitch) and its A-/Negative Issuer Credit Rating from Standard and Poor's.

INTEREST MARGIN

In HY 2018 the interest margin increased by EUR 8 million compared to the same period of last year due to the one off addition of EUR 4 million to the provision compensation for income related to early redemptions in HY 2017. Furthermore the impact of lower funding costs for both the wholesale funding and the retail savings portfolio exceeded the lower interest income on the mortgage portfolio for an amount of EUR 6 million. Finally, the interest margin was negatively affected by the early redemption of debt securities (EUR 2 million) to compensate for the negative impact on interest margin in coming years due to early redemptions of mortgage loans and related compensation interest received.

FAIR VALUE EFFECTS

The fair value result amounted to a profit of EUR 0.3 million (HY 2017: EUR 4 million profit). The fair value result is an accounting result that is compensated for in other reporting periods, generally reflecting a pull to par as the underlying derivatives (used for hedging interest rate exposure) approach maturity.

OPERATING EXPENSES

Compared to the same period last year, the operating expenses decreased by EUR 8 million. The number of employees decreased from 279 FTE to 203 FTE resulting in lower staff costs of EUR 6 million, partly mitigated by an increase in outsourcing costs of EUR 2 million. The reduction is the result of structural cost savings achieved through the outsourcing of our primary servicing of mortgages (2017), implementation of a new system for the administration of savings products and payments (2018), a new system for arrears handling (2017) and ceasing to offer mortgage advisory services (2017). Furthermore, the project costs in HY 2018 decreased by EUR 2 million and Achmea Bank paid a lower contribution to Achmea B.V for the implementation of the retirement benefit strategy (EUR 2 million). The operating expenses include an amount of EUR 6 million (HY 2017: EUR 6 million) for bank-related levies for the resolution fund and the deposit guarantee scheme.

RESULT OF THE ACIER PORTFOLIO

The result of the Acier portfolio amounted to a profit of EUR 0.6 million. The interest margin of this portfolio amounted to EUR 2 million which was almost equal to the total operating expenses mainly consisting 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 of the Acier portfolio on Achmea B.V.

PORTFOLIO PERFORMANCE

As from 2018 onwards impairment charges are based on the IFRS 9 reporting standards. The negative impact on equity of the implementation of IFRS 9 per 1 January 2018 for the regular portfolio amounted to EUR 3 million (3 basis points). The net release in HY 2018 of the loan loss provision amounted to EUR 0.3 million. The provision for the regular mortgage portfolio, decreased from 11 basis points as per 1 January 2018 to 9 basis points as per June 2018. The number of defaults in the regular portfolio continues to be low.
The net release in HY 2018 of the loan loss provision of Acier amounted to EUR 6 million, which was deducted from the outstanding receivable on Achmea B.V. related to the implementation of IFRS 9. Therefore there was no impact on net profit.

UNCERTAINTIES IN THE SECOND HALF YEAR OF 2018

The risks and uncertainties to which Achmea Bank is exposed are described in detail in the Risk Management paragraph of the Consolidated Financial Statements 2017. The Risk Management paragraph also describes the bank's risk management and control system on the basis of strategic risk analysis and the identified significant risks.

There are no other material risks and uncertainties that need to be discussed in this respect.

OUTLOOK

In the current low interest environment, pressure on interest margin is expected to continue. Operating expenses, excluding regulatory levies, are expected to stabilize at the level of the first half year. We expect the number of defaults in the regular portfolio to continue to be low in 2018. Given the specific character and macro-economic uncertainty we do not make any predictions regarding loan impairments in the Acier portfolio and fair value effects.

Tilburg, 8 August 2018

The Executive Board

P.J. Huurman, Chief Executive Officer
P.C.A.M. Emmen, Director Finance & Risk

Condensed Consolidated Interim Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 30 JUNE IN THOUSANDS OF EUROS	2018 REVIEWED	2017 REVIEWED
Interest income	196,998	219,064
Interest expenses	141,305	171,209
Interest margin	**55,693**	**47,855**
Changes in fair value of financial instruments	311	3,672
Interest margin and changes in fair value of financial instruments	**56,004**	**51,527**
Other income	1,193	1,027
Fees and commission income and expenses	1,680	2,014
Operating income	**58,877**	**54,568**
Impairment on financial instruments and other assets	−237	−7,860
Operating expenses	40,872	49,198
Operating profit before income taxes	**18,241**	**13,230**
Income tax expenses	4,560	3,308
Net profit	**13,681**	**9,922**
Operating profit before income taxes regular Achmea Bank portfolio	17,592	5,325
Operating profit before income taxes Acier portfolio	649	7.905
Operating profit before income taxes Achmea Bank	**18,241**	**13,230**
Net fair value adjustments on available-for-sale financial assets	−425	−231
Other comprehensive income for the period (will be fully recycled through P&L)	−425	−231
Total comprehensive income for the period	**13,256**	**9,691**
Net profit:		
Attributable to owners of the parent	13,681	9,922
Net profit for the period	**13,681**	**9,922**
Total comprehensive income:		
Attributable to owners of the parent	13,256	9,691
Total comprehensive income for the period	**13,256**	**9,691**

Condensed Consolidated Interim Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

IN THOUSANDS OF EUROS			
	30 JUNE 2018	1 JANUARY 2018	31 DECEMBER 2017
	REVIEWED	REVIEWED	AUDITED
Assets			
Cash and balances with Central Banks	311,786	890,063	890,063
Derivative assets held for risk management	93,634	118,635	118,635
Loans and advances to banks	772,306	993,056	993,221
Loans and advances to public sector	710	722	722
Loans and advances to customers	11,424,216	11,700,018	11,730,641
Interest-bearing securities	404,661	403,561	403,561
Prepayments and other receivables	55,550	75,785	62,512
Total assets	**13,062,863**	**14,181,840**	**14,199,355**
Liabilities			
Derivative liabilities held for risk management	529,581	573,427	573,427
Deposits from banks	166,401	144,635	144,635
Funds entrusted	6,051,108	6,171,584	6,171,584
Debt securities issued	5,433,113	6,362,719	6,362,719
Provisions	–	1,600	1,600
Current tax liabilities	33,522	26,004	25,857
Deferred tax liabilities	1,894	4,994	9,519
Accruals and other liabilities	48,535	61,203	61,203
Subordinated liabilities	8,114	8,336	8,336
Total liabilities	**12,272,268**	**13,354,502**	**13,358,880**
Share capital	18,152	18,152	18,152
Share premium	505,609	505,609	505,609
Reserves	253,153	298,990	298,990
Impact of adopting IFRS 9 at 1 January 2018	–	−13,136	–
Net profit	13,681	17,724	17,724
Total Equity	**790,595**	**827,338**	**840,475**
Total Equity and liabilities	**13,062,863**	**14,181,840**	**14,199,355**

Condensed Consolidated Interim Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

IN THOUSANDS OF EUROS

	Share capital	Share premium	Fair value reserve	Profit for the year	Other reserves	Total equity
Balance as at 1 January 2018	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**
Impact of adopting IFRS 9 at 1 January 2018	–	–	61	–	−13,197	−13,136
Restated balance as at 1 January 2018	**18,152**	**505,609**	**1,070**	**17,724**	**284,784**	**827,339**
Total comprehensive income for the period						
Profit or loss	–	–	–	13,681	–	13,681
						–
Other comprehensive income, net of income tax						**–**
						–
Change in fair value net of income tax (will be fully recycled through income statement)	–	–	−425	–	–	−425
Total comprehensive income for the period	**–**	**–**	**−425**	**13,681**	**–**	**13,256**
Transaction with owners, recognised directly in equity						
Dividends to equity holders	–	–	–	–	−50,000	−50,000
Appropriation of profit 2017	–	–	–	−17,724	17,724	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**−17,724**	**−32,276**	**−50,000**
Balance as at 30 June 2018	**18,152**	**505,609**	**645**	**13,681**	**252,508**	**790,595**
Balance as at 1 January 2017	**18,152**	**505,609**	**1,399**	**12,976**	**285,005**	**823,141**
Total comprehensive income for the period						
Profit or loss	–	–	–	9,922	–	9,922
						–
Other comprehensive income, net of income tax						**–**
						–
Change in fair value net of income tax (will be fully recycled through income statement)	–	–	−231	–	–	−231
Total comprehensive income for the period	**–**	**–**	**−231**	**9,922**	**–**	**9,691**
Transaction with owners, recognised directly in equity						
Appropriation of profit 2016	–	–	–	−12,976	12,976	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**−12,976**	**12,976**	**–**
Balance as at 30 June 2017	**18,152**	**505,609**	**1,168**	**9,922**	**297,981**	**832,832**

Condensed Consolidated Interim Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 30 JUNE

IN THOUSANDS OF EUROS

	2018 REVIEWED	2017 REVIEWED
Cash flow from operating activities		
Net profit	**13,681**	**9,922**
Adjustments for non-cash items in the result:		
Impairment on financial instruments and other assets	−237	−7,860
Net interest income and other income	−56,887	−48,882
Changes in derivatives held for risk management	−33,760	−76,253
Changes in fair value of financial instruments	−311	−3,672
Other non-cash items	43,559	93,855
Income tax expense	4,560	3,308
	−29,394	**−29,582**
Changes in operating assets and liabilities:		
Loans and advances to banks	186,772	150,377
Loans and advances to public sector	12	15,012
Loans and advances to customers	258,728	153,125
Prepayments and other receivables	3,247	−147,374
Deposits from banks	21,800	48,952
Funds entrusted	−113,659	−42,029
Changes in tax assets and liabilities	−4,520	−78
Accruals and other liabilities	−4,700	5,662
Interest received	187,162	241,705
Interest paid	−156,088	−189,470
	378,754	**235,882**
Net cash flow from operating activities (1)	**349,360**	**206,300**
Cash flow from investing activities		
Interest-bearing securities purchases	−126,375	−166,492
Interest-bearing securities sales	124,659	166,006
Net cash flow from investing activities (2)	**−1,716**	**−486**
Cash flow from financing activities		
Repayments Debt securities issued	−1,139,392	−930,326
Issues of Debt securities issued	229,500	319,159
Debt securities issued	−909,892	−611,167
Dividend payment	**−50,000**	**–**
Net cash flow from financing activities (3)	**−959,892**	**−611,167**
Net cash flow (1) + (2) + (3)	**−612,248**	**−405,353**
Cash and cash equivalents as at 1 January	944,398	683,084
Cash and cash equivalents as at 30 June	332,150	277,731
Movement in cash and cash equivalents	**−612,248**	**−405,353**
Reconciliation of movement in cash and cash equivalents		
Cash and balances with Central Banks	−578,277	−434,366
Loans and advances to banks on demand	−33,971	29,013
	−612,248	**−405,353**

Notes to The Condensed Consolidated Interim Financial Statements

1. GENERAL INFORMATION

GENERAL

Achmea Bank N.V. has its office in Tilburg (the Netherlands) with its registered office in The Hague (the Netherlands). The core products of Achmea Bank N.V. (Achmea Bank, 'the Bank') consist of savings products for private individuals and owner-occupied residential mortgage loans for properties in the Netherlands.

BASIS OF PRESENTATION

The Condensed Consolidated Interim Financial Statements of Achmea Bank have been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting'. The accounting policies used to prepare these Condensed Consolidated Interim Financial Statements are in accordance with the International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations as at 30 June 2018 as adopted by the European Union. The Condensed Consolidated Interim Financial Statements should be read in conjunction with the Achmea Bank N.V. Consolidated Financial Statements 2017. The Achmea Bank N.V. Consolidated Financial Statements 2017 are available on www.achmeamortgagebank.com. All amounts in the Condensed Consolidated Interim Financial Statements are in millions of euros unless stated otherwise.

CHANGES IN REPORTING

The accounting policies and methods of computation are the same as those applied in the 2017 Financial Statements, with the exception of IFRS 9 and IFRS 15.

The following Standards and Interpretations were issued in 2018 or prior years are applied by Achmea Bank in preparing its Condensed Consolidated Interim Financial Statements 2018.

IFRS 9 FINANCIAL INSTRUMENTS

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. IFRS 9 also introduces a model for hedge accounting that aligns the accounting treatment with risk management activities.

The implementation within Achmea Bank has been disclosed in the transition paragraph.

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 is 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 a monthly basis. There are no commission fees for mortgages. Therefore IFRS 15 has no impact.

Notes to The Condensed Consolidated Interim Financial Statements

CONSOLIDATION AND ACCOUNTING FRAMEWORK

The Condensed Consolidated Interim Financial Statements comprise Achmea Bank and its subsidiaries. For the preparation of the Condensed Consolidated Interim Financial Statements managerial judgments, estimates and assumptions are used (e.g. for some of the reported assets and liabilities and the reported amounts of revenues and expenses for the accounting period). The actual outcome may deviate from these assumptions. In preparing these Condensed Consolidated Interim Financial Statements, the significant judgments made by management in applying Achmea Bank's accounting policies and the key sources of estimation uncertainties were the same as those that were applied to the Consolidated Financial Statements of Achmea Bank for the year ended 31 December 2017.

RELATED PARTIES

Achmea Bank is a wholly-owned subsidiary of Achmea B.V. 'Related parties' refers to other companies in the group and members of the Supervisory Board and Executive Board of Achmea Bank. Banking transactions involve related parties as part of ordinary operations. Disclosures concerning the related parties are included in the Consolidated Financial Statements of Achmea Bank for the year ended 31 December 2017. There have been no changes in the nature or the size of the transactions involving related parties other than those arising from ordinary operations.

SEGMENTATION

In the internal reports used by the Executive Board to allocate resources to the operating segments and to monitor performance targets, Achmea Bank is identified as a single operating segment. Because the Acier portfolio differs in characteristics from the typical Achmea Bank mortgages, this portfolio is qualified as a non-core portfolio. The income statement contains a breakdown of the operating profit before income taxes for the regular Achmea Bank portfolio and the Acier portfolio. Furthermore, the financial risk management paragraph includes separate information about the credit risk profile of this portfolio.

ESTIMATES

In preparing the Condensed Consolidated Interim Financial Statements use was made of estimates and assumptions (including certain reported amounts in the Condensed Consolidated Interim Financial Statements for the period under review). The principal sources of estimates and the judgments made are the same as those used in preparing the Consolidated Financial Statements of Achmea Bank for the year ended 31 December 2017.

2. FINANCIAL PERFORMANCE

Achmea Bank reported a profit before tax of EUR 18 million (first half-year 2017 EUR 13 million) for the first half-year 2018.

The operating result, excluding exceptional items, increased from EUR 6 million HY 2017 to EUR 18 million HY 2018. The growth in the operational result is mainly due to a higher interest margin of EUR 4 million and lower operational costs of EUR 8 million. The HY 2017 result included the following exceptional items: release of the Acier loan loss provision of EUR 7 million, addition to the provision compensation for income related to early redemptions of EUR 4 million and a positive fair value result of EUR 4 million.

3. FINANCIAL RISK MANAGEMENT

A INTRODUCTION

The Condensed Consolidated Interim Financial Statements do not include all financial risk management information and disclosures required in the Annual Financial Statements and should therefore be read in conjunction with the Consolidated Financial Statements 2017 of Achmea Bank. There have been no significant changes in the risk management department or in any of the risk management policies since year-end.

B CAPITAL MANAGEMENT

Under the Dutch Financial Markets Supervision Act (Wft), banks are required to maintain minimum capital ratios. Pillar I offers guidelines for calculating the minimum amount of capital that needs to be held, according to regulators, in relation to credit risk, market risk and operational risk. Under the rules, the capital adequacy requirements relating to these risks can be calculated in a number of ways with varying degrees of sophistication. The Bank uses the standardized approach to calculate the risk weightings of its assets.

The Bank's policy is to maintain a strong capital position in order to retain investor confidence as well as creditor and market confidence, and thus foster the future development of the business.

The Bank fully complied with external and internal minimum capital requirements throughout the reporting period with a Total Capital ratio of 20.4% and Common Equity Tier 1 (CET1) Capital ratio of 20.3%. The negative impact on capital ratios of the dividend paid (50 million) and IFRS 9 was compensated by the positive result of 2017 and the decrease of risk weighted assets.

QUALIFYING CAPITAL AND CAPITAL RATIO

IN MILLIONS OF EUROS	30 JUNE 2018	31 DECEMBER 2017
Share capital	18	18
Share premium	506	506
Reserves	253	298
Deductions	−1	−2
Common Equity Tier 1 Capital	**776**	**820**
Lower Tier 2	3	4
Total risk exposure amount	**3,813**	**4,024**
Common Equity Tier 1 Capital Ratio	**20.3%**	**20.4%**
Total Capital Ratio	**20.4%**	**20.5%**

C CREDIT RISK

Credit risk is defined as the risk that a counterparty cannot (fully) meet its obligations to Achmea Bank. Credit risk 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 residential mortgage loans. Appropriate underwriting criteria for new clients and active credit risk management for existing clients safeguard the quality of the mortgage loan portfolio.

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

COUNTERPARTY CREDIT RISK

The counterparty risk on exposures to governments and financial institutions is primarily associated with investment activities and cash management. When determining country limits and limits for financial institutions, Achmea Bank applies a risk mitigation policy that complies with the relevant group policy. To manage counterparty risk, the Bank imposes individual counterparty limits on both exposure and maturity. These limits are approved by the Asset and Liability Committee (ALCO) and the Finance & Risk Committee (F&RC) of the Bank.

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 were recognized on these counterparty positions in 2018.

Notes to The Condensed Consolidated Interim Financial Statements

As per June 2018 the net exposure to counterparty risk on derivatives amounted to EUR 14 million positive (year-end 2017: EUR 14 million positive) and consisted of the total fair value of the derivatives and the collateral position. This net exposure relates primarily to exposures of counterparties for which the bank has no CSA. The net balance sheet counterparty-risk-related value adjustment was EUR 0.3 million (year-end 2017: EUR 0.3 million). That includes both CVA and DVA 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 the Acier portfolio. The Loan to Market Value is the internally used classification of mortgages for the evaluation of credit quality.

CREDIT QUALITY OF MORTGAGE LOANS

IN MILLIONS OF EUROS		
REGULAR ACHMEA BANK PORTFOLIO	30 JUNE 2018	31 DECEMBER 2017
	Reviewed	Audited
NHG	2,611	2,716
< 75%	4,108	3,845
< 90%	1,482	1,317
< 110%	1,580	1,720
< 125 %	259	592
>= 125%	119	219
Total	**10,159**	**10,409**
ACIER PORTFOLIO (RESIDENTIAL PART)	30 JUNE 2018	31 DECEMBER 2017
	Reviewed	Audited
NHG	–	–
< 75%	362	325
< 90%	148	170
< 110%	149	140
< 125 %	81	85
>= 125%	130	168
Total	**871**	**888**

As compared to year-end 2017 there has been no material change in the classification of the bank's other financial assets. Investments and derivatives are categorised by external credit ratings (Standard & Poor's).

D LIQUIDITY

In 2018 the Bank redeemed EUR 500 million senior unsecured notes. The further optimization of the liquidity position is on track. Achmea Bank retained a sound liquidity position with liquidity ratios well above internal limits.

Compared to year end, there has been no material change in the undiscounted contractual cash flows of financial liabilities.

E FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

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

- Level 1:

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

- Level 2:

Notes to The Condensed Consolidated Interim 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 for which the valuation technique includes inputs not based on observable data and for which those inputs have a significant effect on the valuation.

Use of valuation techniques and the valuation process for level 2 and 3 instruments

No changes were made to the valuation techniques of level 2 and 3 instruments in HY 2018. The only exception is a small part of the mortgage portfolio which was measured at fair value through profit and loss. This portfolio was be reclassified to amortised cost under IFRS 9, in line with the related business model of this portfolio.

Changes in the fair value hierarchy in 2018

Besides the impact of IFRS 9, no changes were made in the classification of the fair value hierarchy in 2018.

FAIR VALUE HIERARCHY FINANCIAL INSTRUMENTS

AS AT 30 JUNE 2018
REVIEWED
IN THOUSANDS OF EUROS

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets held for risk management				
Interest rate swaps	–	45,702	–	45,702
Foreign exchange derivatives	–	153	–	153
Back to back swaps and interest caps	–	47,779	–	47,779
	–	**93,634**	**–**	**93,634**
Financial assets designated at fair value				
through profit or loss				
Investment securities	–	–	–	–
Private sector loans and advances	–	–	–	–
	–	**–**	**–**	**–**
Financial assets held for sale				
Interest-bearing securities	404,661	–	–	404,661
	404,661	**93,634**	**–**	**498,295**
Financial liabilities				
Derivative liabilities held for risk management				
Interest rate swaps	–	481,802	–	481,802
Foreign Exchange derivatives	–	–	–	–
Back to back swaps and interest caps	–	47,779	–	47,779
	–	**529,581**	**–**	**529,581**

Notes to The Condensed Consolidated Interim Financial Statements

AS AT 31 DECEMBER 2017

AUDITED

IN THOUSANDS OF EUROS

	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets held for risk management				
Interest rate swaps	–	58,976	–	58,976
Foreign exchange derivatives	–	73	–	73
Back to back swaps and interest cap	–	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
Foreign exchange derivatives	–	1	–	1
Back to back swaps and interest cap	–	59,586	–	59,586
	–	**573,427**	**–**	**573,427**

Financial instruments not measured at fair value for which the fair value is disclosed

The table below shows an overview of the financial instruments that are not measured at fair value but for which the fair value is disclosed.

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

IN THOUSANDS OF EUROS	JUNE 2018 CARRYING AMOUNT	JUNE 2018 FAIR VALUE	DECEMBER 2017 CARRYING AMOUNT	DECEMBER 2017 FAIR VALUE
Financial assets				
Loans and advances to banks and public sector	773,016	773,012	993,943	993,776
Loans and advances to customers	11,424,216	11,689,283	11,491,588	11,780,622
Financial liabilities				
Deposits from banks	166,401	166,700	144,635	144,794
Funds entrusted	6,051,108	6,139,285	6,171,584	6,268,769
Debt securities issued	5,433,113	5,510,498	6,362,719	6,453,700
Subordinated liabilities	8,114	9,085	8,336	9,515

CONTINGENT LIABILITIES AND COMMITMENTS

Compared to year-end 2017 there has been no material change in the contingent liabilities and commitments, except for irrevocable facilities. Irrevocable facilities concern all liabilities relating to irrevocable undertakings which may lead to credit losses, including offers accepted by customers for mortgage loans and credit facilities amounting to EUR 290 million (December 2017: EUR 199 million).

Notes to The Condensed Consolidated Interim Financial Statements

4. IMPLEMENTATION OF IFRS 9

IFRS 9 introduces an approach for the classification of financial assets, a new impairment model and a new approach to hedge accounting.

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 disclosures. The implementation consisted of three phases; assessment phase, design phase and implementation phase.

A During the assessment phase, an assessment of the current working methods, policies & processes and data & IT systems was performed and gaps with IFRS 9 requirements were identified.
B During the design phase solutions were 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.
C During the implementation phase, particular attention was given to the development of the impairment models. A parallel run was performed to analyse the outcome of the models.

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 1 January 2018, Achmea Bank reviewed their financial assets based on the new IFRS 9 reporting standards.

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).

Expected credit loss (ECL) is, in contrast to the IAS 39 incurred losses, a forward looking measure. The forward looking aspect is included to make sure that future losses are accounted for in an early stage and that the phrase “too little, too late” will not repeat in the future.
The departments of Credit Risk Management and Financial Control have collaborated on the implementation of IFRS 9. The main responsibility of Credit Risk Management is to develop and maintain the Expected Credit Loss models to be used by Control for their monthly reporting. These models will also be used for Stress testing and Capital planning, which means the same methodology is used for reporting actuals (Finance) and forecasting (Credit Risk Management). During the implementation project the definition of default was updated in line with the new EBA guidelines. Defaults are recognized earlier and have a probation period which assures the clients will get proper attention. This new Definition of Default is also used in the calculation of the IFRS 9 provision.

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

To be compliant with the IFRS 9 requirements for impairment, Achmea Bank has divided its impairment eligible portfolio into three parts:
- regular mortgage portfolio
- Acier portfolio
- other portfolios

Regular portfolio
IFRS 9 impairment requirements for the regular mortgage portfolio are implemented in Achmea Bank as an expected credit loss (ECL) based methodology and approach. The expected credit loss approach comprises separate ECL models for LGD, PD, EAD and full prepayment rate.

According to the IFRS 9 requirements, the total regular portfolio should be divided in three stages:
- Stage 1: Mortgages without significant credit risk deterioration since initial recognition (12 months ECL)
- Stage 2: Mortgages with significant credit risk deterioration since initial recognition (Lifetime ECL)
- Stage 3: Credit-impaired mortgages (Lifetime ECL) (non-performing)

Notes to The Condensed Consolidated Interim Financial Statements

Assets with no significant increases in credit risk (Stage 1) require 1-year ECL calculation, for assets which experienced significant increases in credit risk (Stage 2), the calculation of lifetime expected credit loss is required.

ECL calculation is performed on financial instrument level, which corresponds to the individual loan part level within Achmea Bank. However, as long as both probability of default and default status are defined on facility level, stage allocation for ECL modelling under IFRS 9 is also performed on facility level. As a result, all loan parts within one facility are allocated to the same stage. At each reporting date, this decision tree has to be assessed for each facility in the regular mortgage portfolio of Achmea Bank.

According to this logic, if a facility is in default, it is allocated to Stage 3. Performing assets are assigned to Stage 2 if there has been significant increase in credit risk since initial recognition. Two criteria are taken into account to identify facilities with significant increase in credit risk:

- Quantitative criterion: if facility's rating grade calculated based on one-year probability of default at reporting date is equal to or worse than the threshold rating grade for its initial rating grade, such facility is allocated to Stage 2;
- Qualitative criterion, or backstop: if facility is 30 days past due or more, such facility is allocated to Stage 2.

The ECL calculation is based on a weighted average of three scenario's: base, up and down. The most important parameters of these scenarios are house prices, GPD index, unemployment, yield curve, income and inflation.

Acier portfolio
The ECL model for the Acier portfolio is based on the same general principles as described above for the regular portfolio. However, the Acier loan portfolio differs in characteristics from the regular Achmea Bank mortgage portfolio. The impairment approach for this portfolio is therefore a combination of the results of the ECL tool for the homogenous parts of the portfolio and an individual assessment for a number of large exposures. 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 (including the impact of transition IFRS 9) and legal claims on the Acier portfolio from Achmea B.V.

Other portfolio
IFRS 9 requires an impairment calculation for all financial assets. For all other financial assets, besides the regular mortgages and the Acier portfolio, we have calculated the impairment charges for the other portfolio, based on a simplified model. This model is mainly based on the credit rating of the counterparty.

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.

5. TRANSITION TABLE TO IFRS 9

The table below shows the transition from IAS 39 to IFRS 9 and includes the impact of classification and measurement and impairment, which will be further explained below the table.

TRANSITION OF ASSETS PER 1 JANUARY

IN MILLIONS OF EUROS	CLASSIFICATION IAS 39	CARRYING AMOUNT IAS 39	RECLASSIFICATION	CLASSIFICATION IFRS 9	IMPAIRMENT	CARRYING AMOUNT IFRS 9
Cash and balances with Central Banks	L&R	890.1		AC		890.1
Derivative assets held for risk management	FVtPL	118.6		FVtPL		118.6
Loans and advances to banks	L&R	993.2		AC	−0.2	993.0
Loans and advances to public sector	L&R	0.7		AC		0.7
Loans and advances to customers	L&R	11,730.6	226.5	AC	−18.1	11,700.0
of which	FVtPL	239.0	−239.0	AC		–
Interest-bearing securities	FV OCI	403.6		FV OCI		403.6
Current tax assets	L&R	–		AC		–
Prepayments and other receivables	L&R	62.5		AC	13.3	75.8
Total		**14,199.4**	**−12.5**		**−5.0**	**14,181.9**

Notes to The Condensed Consolidated Interim Financial Statements

As per 1 january, the part of the regular mortgage portfolio measured at fair value through profit and loss was reclassified to amortised cost. The difference of EUR 12.5 million is adjusted through equity. The initial impact of the implementation of IFRS 9 on the loan loss provision amounted to EUR 18.3 million. EUR 14 million is related to the Acier portfolio, which was largely compensated by the capped guarantee Achmea B.V. issued to Achmea Bank to cover credit risk and legal claims related to the Acier portfolio .

Classification and measurement of financial instruments
The classification and measurement of the financial assets and liabilities of Achmea Bank is in most cases equal to the classification and measurement under IAS 39. The only exception is a small part of the mortgage portfolio which was measured at fair value through profit and loss. This portfolio was be reclassified to amortised cost under IFRS 9, in line with the related business model of this portfolio. The outstanding amount of this portfolio as at 1 January 2018 amounts to EUR 227 million. For the financial liabilities of Achmea Bank, the existing amortised cost measurement was maintained under IFRS 9.

Impairment of financial instruments
Based on the assumptions mentioned above, the breakdown of the financial instruments can be specified as follows:

BREAKDOWN OF IMPAIRMENTS OF FINANCIAL INSTRUMENTS

PER 30 JUNE 2018 IN MILLIONS OF EUROS	Assets without significant increase in credit risk since initial recognition (Stage 1)	Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)	Credit-impaired assets (Stage 3)	Total impairment
Cash and balances with Central Banks	–	–	–	–
Loans and advances to banks	0.2	–	–	0.2
Loans and advances to public sector	–	–	–	–
Loans and advances to customers	1.2	19.6	27.9	48.7
Interest bearing securities	0.1	–	–	0.1
Prepayments and other receivables	–	–	–	–
Total impairment	**1.5**	**19.6**	**27.9**	**49.0**

EUR 38.7 million of the total provision (EUR 48.7 million) for loans and advances to customers is related to the Acier portfolio.

There has been no material changes in the classification of the financials asset in the stages, since the implementation of IFRS 9 per 1 January 2018.

6. SUBSEQUENT EVENTS

There are no subsequent events which impact the understanding of the Interim Financial Statements.

AUTHORISATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Tilburg, 8 August 2018

The Board of Directors,

Mr. P.J. (Pierre) Huurman,	Chief Executive Officer
Mr. P.C.A.M (Pieter) Emmen,	Director Finance and Risk

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	

To: The Executive Board and Supervisory Board of Achmea Bank N.V.

Review report

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements for the six-month period ended 30 June 2018 of Achmea Bank N.V., the Hague, which comprises the condensed consolidated statement of financial position as at 30 June 2018, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows for the period then ended and the selected explanatory notes. The executive board is responsible for the preparation and presentation of this condensed interim financial statements accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, review of Interim Financial Information Performed by the Independent Auditor of the company. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements for the six-month period ended 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 8 August 2018

PricewaterhouseCoopers Accountants N.V.

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

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