achmea
Achmea Bank N.V.
Pillar III report
2018
KvK 27154399

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Common Equity Tier 1 ratio (CET1-ratio) (2017: 20.4%)	Tier 1 Capital ratio (2017: 20.4%)	Total Capital ratio (2017: 20.5%)
20.8%	**20.8%**	**20.9%**

Leverage ratio (2017:6.0%)	Total Risk Weighted Exposure Amounts (2017: € 4,024 mln)	Write-offs (2017: € 29,540 mln)
6.5%	**€ 3,728M**	**€ 6,202M**

Liquidity Coverage ratio (LCR) (2017: 255%)	Net Stable Funding ratio (NSFR) (2017: 119%)
364%	**122%**

Capital management

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

The Total Capital ratio at 31 December 2018 amounted to 20.9% and is well above the current requirements and limits of the capital (risk) position of Achmea Bank.

Liquidity management

The liquidity risk management of Achmea Bank is adequate. The development of relevant indicators, such as the cash and liquidity position, the survival period and the Liquidity Coverage ratio (LCR) are monitored consistently by the bank. The amount and composition of the liquidity buffers at 31 December 2018 are adequate and enables the bank to continuously meet its payment obligations both under normal and stressed conditions. Achmea Bank complies structurally with the internal and external requirements, including healthy balance sheet ratios, e.g. funding mix, asset encumbrance (ratio) and overcollateralization (ratio).

INTRODUCTION

This document presents the consolidated Capital Adequacy and Risk Management report (hereafter referred to as Pillar III report) of Achmea Bank N.V. as at 31 December 2018.

Achmea Bank operates under the CRDIV capital framework which came into force in 2014. CRDIV constitutes the Basel framework which seeks to align regulatory requirements with the economic principles of risk management. CRDIV was implemented into Dutch law as amendments to the 'Financial Supervision Act' (Wet op het financieel toezicht, Wft) and further accompanying regulations. Pillar III requirements under CRDIV are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. Achmea Bank's 2018 year end disclosures are prepared in accordance with the CRDIV requirements and associated guidelines of the European Banking Authority (EBA) technical standards that came into force on 31 December 2016.

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

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

This report describes the Bank's:

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

ACHMEA BANK

Achmea Bank N.V. (Achmea Bank or the Bank) is licensed as a financial services provider under the Financial Supervision Act (Wft). All shares in the Company are held by Achmea B.V. (hereinafter, together with its subsidiaries and affiliates, referred to as ’Achmea’).

Achmea, one of the largest insurance companies in the Netherlands with a history stretching back more than 200 years, offers its clients a range of insurance and banking products and services. Achmea 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%). The percentages reflect the capital rights of the shareholders of Achmea.

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

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

PRODUCTS

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

Achmea Bank also provides savings products to private customers under the label Centraal Beheer. Achmea Bank obtains a substantial part of its funding from retail savings and unsecured and secured notes issued in the capital markets.

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

STRATEGY

MISSION: PROVIDE LONG-TERM FINANCIAL SECURITY TO OUR CUSTOMERS

Achmea’s goal is to provide long-term financial security to our customers. We put the interests of our customers first. That means manage the savings of our customers in a prudent and responsible manner and maintain a responsible lending policy. It also means that Achmea Bank is committed to safeguard the continuity and reliability of its services. We have a strong financial position, a low risk mortgage portfolio and a sound risk management structure.

Our main focus is on the sustainability, reliability and performance of the services we offer. The management of our business is geared towards the long-term interests of customers and other stakeholders. We aspire to gain the full trust of our customers, distribution partners, employees, regulators and investors as well as of our shareholder Achmea. Decisions are made 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 markets. We ensure adequate liquidity and capital to meet our obligations to our investors and our customers. Achmea Bank has and aims to have a strong capital and liquidity position and a diversified funding mix with retail savings and wholesale funding.

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

STRATEGY: AN INTEGRAL PART OF ACHMEA'S RETIREMENT SERVICES STRATEGY

Achmea aims to be a leading player in retirement services anticipating a shift to more individualized need for retirement solutions. Achmea strongly positioned itself in this market and offers consumers integrated propositions consisting of pension solutions, together with asset management, savings and mortgages products. Achmea Bank plays a key role in the retirement services strategy of Achmea. Our products form a critical component of the retirement services and of the solutions offered by Centraal Beheer. The retirement services strategy is expected to lead to future growth in the Bank's mortgage and savings portfolio.

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

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

Achmea Bank is a well-established originator of mortgages with over 40 years of experience with a high quality mortgage portfolio and low write-offs. Our business model is straightforward: We develop and market simple and transparent savings and mortgage products that are easy to use. Our business model is to a large extent based on the margin on mortgage products. It is vital to have a sustainable and profitable business model. For that reason Achmea Bank aims to:

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

Core objectives

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

Rating agencies

Achmea bank is rated by S&P and Fitch. The ratings of both agencies are derived from Achmea's credit rating. The S&P rating is A-/Negative Outlook since March 2017, the rating was confirmed in August 2018. Since year-end October 2016 Achmea Bank has a Fitch long-term rating of A/Stable Outlook, the rating was confirmed in June 2018. Both agencies apply their own methodologies to assess the capital and the liquidity adequacy of Achmea Bank. These assessments also take into account the competitiveness and conditions of the Dutch financial markets in which the Bank operates.

Liquidity

The ratings are based on the view of an extremely high probability of support, in case of need, for the bank from its parent Achmea B.V.

Capital

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

BASIS OF CONSOLIDATION

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

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

- DMPL X B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans X Holding)***)
- DMPL XI B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans XI Holding)
- DMPL XII B.V. (shares are held by Stichting Dutch Mortgage Portfolio Loans XII Holding)
- SGML II B.V. (shares are held by Stichting Securitised Guaranteed Mortgage Loans II Holding) *)
- DRMPI B.V. (shares are held by Stichting Holding Dutch Residential Mortgage Portfolio I)
- DRMPII B.V. (shares are held by Stichting Holding Dutch Residential Mortgage Portfolio II)
- SRMPI B.V. (shares are held by Stichting Holding Securitized Residential Mortgage Portfolio I) **)
- 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 2018
**) Issued in 2018
***) Called in 2017

All consolidated companies have their registered office in Amsterdam except for Stichting Trustee Achmea Hypotheekbank which has its registered office in The Hague.
These entities (with the exception of Stichting Incasso Achmea Hypotheken, Stichting Trustee Achmea Hypotheekbank, Achmea Covered Bond Company B.V. and Achmea Conditional Pass-Through Covered Bond Company B.V.) are companies set up by the Bank for securitisation purposes of residential mortgage loans. There are no representatives of the Bank 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 distribute 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.

RISK MANAGEMENT

INTRODUCTION

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

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

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

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

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

KEY METRICS SUMMARY

IN MILLIONS OF EUROS	2018	2017
Common Equity Tier 1 (CET1)	775	821
Tier 1	775	821
Total capital	778	825
Total risk-weighted assets (RWA)	3,728	4,024
Common Equity Tier 1 ratio	20.8%	20.4%
Tier 1 ratio	20.8%	20.4%
Total capital ratio	20.9%	20.5%
Additional CET1 buffers		
Capital conservation buffer	2.5%	1.3%
Countercyclical buffer	0.0%	0.0%
Bank GSIB and/or DSIB	0.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%
TLAC requirements	0.0%	0.0%
Leverage ratio		
leverage ratio exposure	11,933	13,742
Leverage ratio	6.5%	6.0%
Liquidity Coverage Ratio		
Total HQLA	691	2,046
Total Net Cash Outflow	190	802
LCR ratio	364%	255%
Net Stable Funding Ratio		
Total Available Stable funding	10,427	11,465
Total Required Stable funding	8,578	9,662
NSFR ratio	122%	119%

RISK APPROACH

Risk strategy

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

- sound balance sheet management to control financial risks; and
- protection of Achmea Bank's identity and reputation: Achmea Bank aims to retain the confidence of its customers and other stakeholders.

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

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 results, liquidity position and solvency the Bank is willing to accept under normal and extreme conditions. With respect to solvency 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 times of severe stress;
- avoid irresponsible concentration risks in its loan portfolio;
- maintain a sound balance sheet, including a diversified funding mix and an acceptable level of asset encumbrance; and
- have a conservative investment policy.

A further explanation of these items is provided 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.

Significant risks and developments

Achmea Bank identifies the following types of material risks:

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

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

RISK MANAGEMENT ORGANIZATION

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

Risk decision making

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

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

Risk governance and risk management committee structure

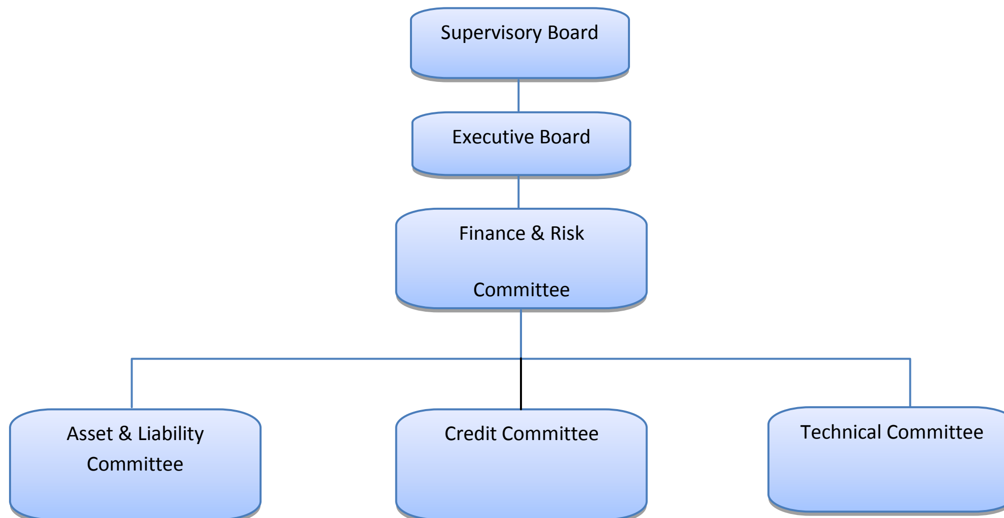
The Bank aims to achieve an optimal balance between risk and return. Adequate risk management is key in order to support and monitor the Bank's core activities.

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

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

The Credit Risk Committee, ALCo and the Technical Committee are sub-committees of the Finance & Risk Committee, which is the ultimate decision-making body for new and amended to policies regarding financial risks. At least one of the Executive Board members have a seat in all of these committees.

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



RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

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

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

RISK MEASUREMENT

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

Stress testing

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

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

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

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

Capital management

Achmea Bank has defined four scenarios using scenario planning. The stress scenario is defined by the impact of each scenario on the Bank. This has resulted in four stress scenarios. The impact of the stress scenarios is calculated/ assessed after the approval of the F&RC. The impact of the two most serve stress scenarios is calculated on a quarterly basis and reported to the ALCo. Both scenarios do not breach the minimum risk appetite limit at the key date of 31 December 2018. This means that Achmea Bank can withstand the amount of stress.

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

Liquidity management

On a quarterly basis the impact of a severe market-wide stress scenario, a severe idiosyncratic stress scenario and a combined scenario are determined. Market-wide stress focusses on the effects of changes in the yieldcurve, credit ratings of counterparties and a limited access to the unsecured wholesale markets. Idiosyncratic stress is the result of a (sudden) loss of trust in the creditworthiness of Achmea Bank. The effects of idiosyncratic stress are simulated by a sudden and material outflow of retail funding ('bank run' on customer savings) and a limited access to the wholesale markets for several months.

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

Recovery plan

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

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

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

Achmea Bank defines four crisis levels:

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

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

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

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

IRFS 9

As from 1 January 2018, Achmea Bank applies IFRS 9 for the impairment calculations. 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 expected credit losses in contrast to incurred 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 financial assets with significant increase in credit risk(stage 2) and life time expected credit losses for credit impaired financial assets (stage 3).

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 continued to follow the model management policy cycle with amongst other the model lifecycle and the first in-depth review (which can trigger changes or redevelopment) was performed in the end of 2018. The lifecycle of the ECL model is broken down in five generic key process stages (Origination, Design, Implementation, Operations, In-Depth review). A model cycle typically takes one year. Depending on regulatory requirements and business value the frequency could be higher or lower; however more than two cycles per year would not suit the governance and less than a cycle in three years would introduce a risk of loss of expertise and increased model risk.

The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) corrected for the cumulative full prepayment rate (CFPR), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months or over remaining lifetime.
- The EAD is based on the amounts the Bank expects to be owned at the time of default.
- The LGD represents the Bank’s expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per exposure.
- The CFPR is the expected prepayment percentage cumulated either over the next 12 months or remaining lifetime.

MREL

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

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

The MREL requirement is institution specific and will be set by the National Resolution Authority (NRA). SREP capital and the preferred resolution strategy will determine total MREL. The preferred resolution strategy and MREL requirement for Achmea Bank is expected to be determined by the NRA in the latter half of 2019.

TLAC

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

Basel IV

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

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

CAPITAL MANAGEMENT

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

The Dutch Central Bank (DNB) sets overall (capital) limits based on the outcomes of its annual Supervisory Review and Evaluation Process (SREP). The Bank complied with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 20.8% and a Total Capital Ratio of 20.9% at 31 December 2018, which are well above the internally applied target for the minimum capital ratio level. For 2018 the Executive Board set the internally applied target for the minimum capital ratio level at SREP requirement plus the Pillar 2 Guidance plus the combined buffer requirement plus a management buffer of at least 1%.

COMPOSITION OF REGULATORY CAPITAL

IN THOUSANDS OF EUROS	AMOUNTS	SOURCES BASED TO REGULATORY SCOPE
Directly issued qualifying common share capital plus related stock surplus	523,761	(b) + (c)
Retained earnings	252,508	(d) minus result of 2018
Accumulated other comprehensive income	−561	(d)
Common Equity Tier 1 capital before regulatory adjustments	775,708	
Prudential valuation	286	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	312	
Other transitional adjustments to CET1 Capital	–	(Revaluation) (d)
Total regulatory adjustment to CET1	598	
Common Equity Tier 1 Capital (CET1)	775,110	
Paid up capital instruments and subordinated loans	2,649	(a) including amortisation
Tier 2 Capital	2,649	
Total regulatory capital	777,759	
Total risk weighted assets	3,727,740	

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

Common Equity Tier 1 ratio	20.8%	
Tier 1 ratio	20.8%	
Total Capital Ratio	20.9%	
Institution specific buffer requirement	2.5%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	0.0%	
Common Equity Tier 1 available to meet buffers after meeting the banks' minimum capital requirements	11.7%	

The total regulatory capital of EUR 778 million consist mainly of core equity tier 1 and is more than sufficient for the pillar 1 capital requirements of EUR 299 million[2].

Dividend

In line with Achmea Group's policy to manage excess capital at group level, Achmea Bank has drawn up a dividend policy in 2017 whereby dividend can be paid out if the Bank's Total Capital Ratio exceeds a minimum limit. In addition to this limit Achmea Bank aims to prevent deviating substantially from its peers when taking into account the levels of the CET1 ratio, TCR and Maximum Distributable Amount (MDA). In accordance with this policy and with the market, and given its solid capital position, the clear and lower than expected impact of both Basel IV and IFRS 9 and positive developments in the Acier portfolio, Achmea Bank proposed a total dividend of EUR 29 million. The dividend has been paid out in May 2019.

Internal capital adequacy requirements

Achmea Bank has implemented internal processes to align with the required capital for the risks the Bank faces. These processes are described 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 an (imminent) solvency deficit. Achmea Bank monitors its solvency position on a monthly basis. However, the Bank recognizes that unexpected internal or external events may adversely affect the capital position for a shorter or longer period and that this may jeopardize the continuity of the Bank. It is essential to be able to obtain sufficient capital at all times, not only in a going-concern situation but also in stress situations. Achmea Bank has prepared a recovery plan that describes appropriate measures in place in order to bring the solvency of the Bank back to the desired level in stress situations. The recovery plan is reviewed at least once a year.

REGULATORY CAPITAL REQUIREMENTS

Achmea Bank is using the standard calculation methods for calculating the Regulatory Capital requirements under Basel II and CRR (CRD IV) for credit and operational risk. Achmea Bank's market risk is related to currency risk. Articles 351 and 352 of the CRR include the capital requirements for currency risk. Article 351 contains the provision for the materiality threshold and the weighting for the pillar 1 capital requirement: if the total net position exceeds 2% of the total equity, the bank must hold capital of 8% of the net position. Since the net position does not exceed the 2% threshold, regulatory capital is required for market risk is set at zero.

QUALIFYING CAPITAL

Achmea Bank's capital consists of tier 1 and tier 2 capital. Tier 1 capital consists of three components: paid-up capital, reserves and hybrid capital. Achmea Bank currently does not hold any hybrid tier 1 capital. The reserves consist of the share premium reserve and the retained profits. The tier 2 capital is composed of subordinated loans. The deductions mainly relate to fair value gains and losses arising from the institution's own credit risk related to derivative liabilities and prudential valuation.

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

The available qualifying capital of EUR 778 million that the Bank retains to compensate for potential losses, is well above the level of the total external and internal capital requirements. This underlines the financial solidity of Achmea Bank.

Common equity tier 1 capital

In 2018 the Tier 1 capital decreased by EUR 45 million from EUR 820 million to EUR 775 million, mainly as a result of IFRS9 impact and the dividend payment in May 2018, off set by the positive result of 2017. As the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its core tier 1 capital.

Tier 2 capital

As of 31 December 2018 an amount of EUR 3 million (2017: EUR 4 million) is qualified as Lower Tier 2, which consist of two subordinated loans.

CAPITAL RATIOS

Total capital ratio

The decline of qualifying capital combined with the reduction of risk weighted assets leads to a net increase of the Total Capital Ratio (TCR) of 0.4% (to 20.9%) compared to December 2017. The dividend pay-out of EUR 29 million (equal to the 2018 result) in May 2019 has no impact on the TCR since the 2018 result was not added to the reserves.

SREP ratio

The SREP ratio is the minimum capital level that the bank has to maintain, which is determined by DNB and results from the annual Supervisory Review and Evaluation Process (SREP). The SREP ratio is a measure of the Bank's minimum required capital expressed as a percentage of its risk exposure amount. The minimum required capital consists of pillar I capital, pillar II capital charges and any add-ons imposed by DNB. The current (fully phased in) capital ratios and targets are higher than the minimum capital requirements. Achmea Bank's ambition is to maintain a strong capital position.

Leverage ratio

The Leverage Ratio (LR) is the comparison between the Bank's tier 1 capital and its on-balance sheet positions and off-balance-sheet liabilities, based on the CRR/CRDIV definitions.

The Leverage Ratio is a regulatory capital adequacy measure under CRD IV/CRR. The LR is calculated as an institution's capital divided by the institution's total non-risk weighted exposures, expressed as a percentage. Achmea Bank complies with the internal minimum requirement for 2018 of 3.5% and the (expected future) external minimum requirements; the LR at 31 December 2018 was 6.5% (2017: 6.0%). The LR increased during 2018 due to a lower balance sheet total of roughly EUR 1,900 million, mainly caused by a decline in loans and advances to customers (including the Acier portfolio) and cash position.

Processes to manage the risk of excessive leverage

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

LIQUIDITY MANAGEMENT

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

Liquidity risk consists of two basic types of risk:

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

Internal liquidity adequacy process and requirements

The day-to-day cash management is executed through Achmea's central Treasury department, which monitors the daily cash position. In the Risk appetite Achmea Bank has defined a dynamic limit and early warning for the cash position linked to the DNB cash reserve requirement. Liquidity risk monitoring and reporting, which include actual and forecasted figures, is the responsibility of the Balance Sheet Management & Financial Risk department (2nd line of defence). Furthermore, the ALCo monitors Achmea Bank's liquidity risks on a monthly basis.

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

Liquidity and funding contingency

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

RISK MEASUREMENT

Liquidity position

Liquidity buffer and liquidity ratios

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

- A strong withdrawal or bank run on retail (on demand) savings;
- A large outflow of cash due to collateral calls on (interest rate) derivatives in an adverse interest rate scenario; and
- No access to the unsecured wholesale markets for a prolonged period (three to six months).

In 2015 the Bank entered into an Asset Switch agreement with Achmea Pensioen- en Leven N.V. (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. In 2018 the target amount of the Asset Switch agreement has been decreased from EUR 1.0 billion to EUR 0.5 billion. At year-end 2018 EUR 565 million (2017: EUR 1,103 million) of mortgages at nominal value were exchanged for EUR 517 million (2017: EUR 921 million) in government bonds (market value).

The Bank's liquidity buffer mainly consists of on-demand Central Bank deposits and a portfolio of unencumbered high-quality liquid assets, including the government bonds under the Asset Switch. At year-end the Bank had a portfolio of liquid debt securities amounting to EUR 1.554 million, comprising interest bearing securities (RMBS) in the invest portfolio, bonds under Asset Switch and retained RMBS (A-notes SRMP-I). These debt securities can easily be sold or posted as collateral. Furthermore, the Bank holds approximately EUR 70 million cash available on demand at the 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 August 2020 but the Bank has an option to extend the facility in 2020 for a maximum period of one year.

The day-to-day cash management is the responsibility of Achmea Treasury, which monitors the daily minimum cash position. 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, ALCo monitors Achmea Bank's liquidity risks on a monthly basis. In 2018 Achmea Bank introduced a revised method for calculating its survival period, which is based on an internal combined market liquidity and funding liquidity stress scenario. The Bank is required to hold a sufficient liquidity buffer that ensures the bank's survival for at least six months. The actual survival period at year-end was 15.1 months (2017 (old method): 9.1 months).

In 2015 two new regulatory liquidity measures were introduced in the CRD IV/CRR: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The NSFR aims to ensure that long-term assets are financed with stable, longer term funding. Achmea Bank has set its internal minimum targets for both the LCR and NSFR at 105% for 2018, which are higher than the (future) minimum external requirements. The Bank complies with all external and internal minimum requirements in 2018. At year-end 2018 the LCR was 364 % (2017: 255%) and the NSFR was 122% (2017: 119%).

FUNDING STRATEGY

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

Entrusted funds (retail)

Achmea Bank generates consumer savings under the Centraal Beheer label. The total savings portfolio consists of 51% available on demand accounts and 49% term deposits, this is excluding an amount of EUR 0.7 billion saving deposits linked to mortgages.

Secured wholesale funding

Securitisations

One of the Bank's funding sources is securitisation of residential mortgages (RMBS). As of 31 December 2018 the Bank has five outstanding securitisation transactions, with a total outstanding amount of EUR 1.8 billion (2017: EUR 2.2 billion), excluding retained notes for an amount of EUR 1.3 billion (2017: EUR 0.6 billion). EUR 0.8 billion of the RMBS notes has been placed at other Achmea units (2017: EUR 0.9 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.

Conditional pass-through covered bond programme

In 2017, Achmea Bank has set up a EUR 5 billion conditional pass-through covered bond programme.

The Achmea Conditional Pass Through Covered Bond Company (ACPTCB), a bankruptcy remote special purpose vehicle, provides the covered bond investors a guarantee for full payment of interest and principal on the outstanding bonds under the programme by pledging the mortgage receivables of Achmea Bank to the ACPTCB and a parallel debt agreement with the Security Trustee. Investors benefit from 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 is Dutch Central Bank (DNB) registered. 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. The total outstanding amount at year-end 2018 was EUR 0.5 billion (2017: EUR 0.5 billion).

Trustee

The Bank has entered into a Trust Agreement under which it periodically pledges mortgage receivables to Stichting Trustee Achmea Hypotheekbank as collateral for some of its banking liabilities, such as private loans and the Secured Medium Term Note (the 'Secured EMTN Programme'). In the event of default by the Bank, investors can recover their investments from the pledged mortgage receivables. The private loans covered by the Trust amounts to EUR 52 million (2017: EUR 105 million).

The Secured EMTN Programme is used to fund a limited portion of the mortgage portfolio. As at 31 December 2018 a total of EUR 10 million was outstanding (2017: EUR 61 million). The notes are listed on Société de la Bourse de Luxembourg.

Unsecured wholesale funding

Unsecured MTN Programme

In October 2012 the Bank set up a EUR 10 billion Unsecured Medium Term Note programme. In 2018 the Bank redeemed a total amount of EUR 1.3 billion of unsecured notes. The total outstanding amount under the Programme was EUR 2.1 billion at year-end 2018 (2017: EUR 3.1 billion), of which EUR 0.4 billion was in a private placement format (2017: EUR 0.7 billion) and also includes CHF denominated loans for an amount of CHF 0.4 billion (2017: 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 for tenors up to one year which supports the Bank to maintain a well-diversified funding mix. At year-end 2018 the total outstanding amount was EUR 290 million (2017: EUR 257 million).

ASSET ENCUMBRANCE (RATIO)

The EBA states that an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balancesheet or off-balancesheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered. At year-end 2017, EUR 5.1 billion of total assets were encumbered, resulting in an asset encumbrance ratio per year-end 2018 of 30.7% (2017: 33.8%).

ENCUMBRANCE OVERVIEW - ASSETS

IN THOUSANDS OF EUROS	CARRYING AMOUNT OF ENCUMBERED ASSETS	FAIR VALUE OF ENCUMBERED ASSETS	CARRYING AMOUNT OF UNENCUMBERED ASSETS	FAIR VALUE OF UNENCUMBERED ASSETS
Loans on demand			127,083	
Equity instruments				
Debt securities			201,168	201,168
Loans and advances other than loans on demand	3,932,987		7,452,691	
Other assets			571,888	
Assets of the reporting institution	3,932,987		8,352,830	201,168

CREDIT RISK

CREDIT RISK MANAGEMENT

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

Credit risk is defined as the risk that a counterparty cannot (fully) meet its obligations to Achmea Bank and consists of retail credit risk and the credit risk related to exposures to professional counterparties. This includes both actual payment arrears and impairments due to deterioration of the creditworthiness of a counterparty. For payment arrears of retail clients, provisions are made.

CREDIT PORTFOLIO

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

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

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

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

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

Private sector

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

Achmea Bank mortgage portfolio

Achmea Bank's portfolio risks are risks related to the mortgage portfolio and risks on the consumer credit portfolio (2018 YE: 9 million). In 2018 the regular Achmea Bank portfolio decreased with EUR 557 million to EUR 10.2 billion at year-end (2017 YE: EUR 10.8 billion).

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

Acier loan portfolio

In 2018 the Acier loan portfolio decreased with EUR 40 million to EUR 886 million at year-end (2017: EUR 926 million). As at December 2018 the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 35.5 million, which is a decrease of EUR 10.4 million compared to the opening balance of IFRS 9. Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is low. The total amount of claims submitted is recognized on the balance sheet as a receivable on Achmea B.V. The release of the Acier portfolio has been deducted on the receivable on Achmea B.V. related to the first time adoption of IFRS 9.

The majority of the collateral of the Acier loan portfolio is concentrated in the Netherlands. A minor part of collateral is in the rest of Europe.

Consumer and corporate credit portfolio

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

Professional counterparties

The counterparty risk on exposures to governments and financial institutions is primarily associated with investment activities and cash (collateral) management. When determining country limits and limits for financial institutions, Achmea Bank applies a risk mitigation policy that complies with the relevant group policy. To manage counterparty risk, Achmea Bank imposes individual counterparty limits on both exposure and maturity. The individual limits are approved by ALCo. Exposures are managed by the treasury department and are being monitored on a daily basis by Balance Sheet Management & Financial Risk.

Contingent liabilities, commitments and other risks

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

LEGAL PROCEEDINGS

In the course of 2018 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 2018.

GUARANTEE

Achmea B.V. has issued a capped guarantee to Achmea Bank to cover credit risk and legal claims in connection with the acquired loan activities (‘Acier portfolio’) of Staalbankiers. The maximum amount for the financial guarantee is EUR 350 million, of which the duration is aligned with the remaining tenors of the related loans. As at year-end 2018, the total amount claimed by Achmea Bank is EUR 19.6 million (2017: EUR 11.3 million).

CONTRACTUAL OBLIGATIONS

At year-end 2018 the Bank had contractual obligations for the coming year with Achmea Group companies amounting to EUR 39.1 million (2017: EUR 21.2 million), primarily in connection with ICT-related contracts and with Centraal Beheer for distribution.

The Bank had external contractual obligations for the coming year to Quion amounting to EUR 8.5 million (2017: EUR 10.6 million) in connection with outsourcing of the servicing of the regular mortgage portfolio, EUR 2.2 million (2017: EUR 1.9 million) in contractual obligations to Able for the servicing of the saving portfolio and EUR 0.4 million (2017: EUR 0.4 million) in contractual obligations to Stater for the servicing of the Acier mortgage portfolio.

IRREVOCABLE FACILITIES

This refers to all liabilities relating to irrevocable undertakings which could lead to credit losses, including mortgage loan proposals for EUR 199 million (2017: EUR 155 million), construction accounts of EUR 39 million (2017: EUR 35 million) and undrawn credit facilities of credit mortgages of EUR 8 million (2017: EUR 9 million).

FISCAL UNITY

The Bank forms a fiscal unity with Achmea B.V. for company tax purposes, including 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 44 million (2017: EUR 45 million). The expected net recovery of this exposure is limited.

MORTGAGE PORTFOLIO

Credit committees

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

Credit policy

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

Credit approval

The underwriting policy sets the parameters to approve mortgage applications. Loan applications which do not meet the underwriting criteria can be discussed via a special procedure for non-compliant applications (in Dutch: 'buiten kader proces'). This procedure allows the operational department to approve non-compliant applications under increased scrutiny and by means of the so called 4-eyes principal. Under some circumstances (in case of three or more deviations from the underwriting criteria, applications above EUR 1 million- and/or impairments above EUR 0.1 million applications are to be discussed with credit risk management. This department has the final verdict in accepting or rejecting a specific file. With respect to Acier, the Credit Approval Committee has the remit to accept loan applications and is chaired by the CFRO.

Arrears management

Stringent procedures are in place to monitor payment arrears. Borrowers that fail to pay the scheduled payment will be approached (by telephone) by the collections department within 6 days in arrears. If regular customer contact fails, a physical house call will be made within 45 days in arrears. Borrowers will be transferred to Special Servicing if the collections department doesn't succeed in closing the file. Together they are responsible for arrears management and debt collection.

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

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

Definition of default

In 2017, during the IFRS 9 project to introduce the expected credit loss model for the provision of impaired loans, the definition of default has been updated. Defaults are recognized earlier and have a probation period which makes sure the clients will get proper attention. The

definition is broadly in line with the new standard as laid down in the latest EBA Guideline (EBA GL Default definition (EBA-GL-2016-07) (2016)). This new Definition of Default is also used in the calculation of the IFRS 9 provision as of January 2018. At the end of 2019 another update of the definition of default will be made in order to be fully compliant with the EBA guidelines.

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 2018 the forborne exposure amounted to EUR 271 million (2017: EUR 157 million), of which EUR 142 million relates to performing forborne exposures (2017: EUR 106 million). The remaining part of EUR 128 million (2017: EUR 51 million) relates to non-performing forborne exposures. The increase is partly due to the improvement of the forbearance definition and the improvement of its recording in the datawarehouse.

Impairment and past due loans

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

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

Risk management of Achmea Bank has used IFRS 9 to harmonize Finance and Risk and for two years the two departments have worked on the implementation of IFRS 9 in the monthly reporting. The main responsibility of Credit Risk Management is to develop and maintain the ECL models to be used by Control for its monthly reporting. These models are also be used by the Balance sheet &Financial Risk department for stress testing.

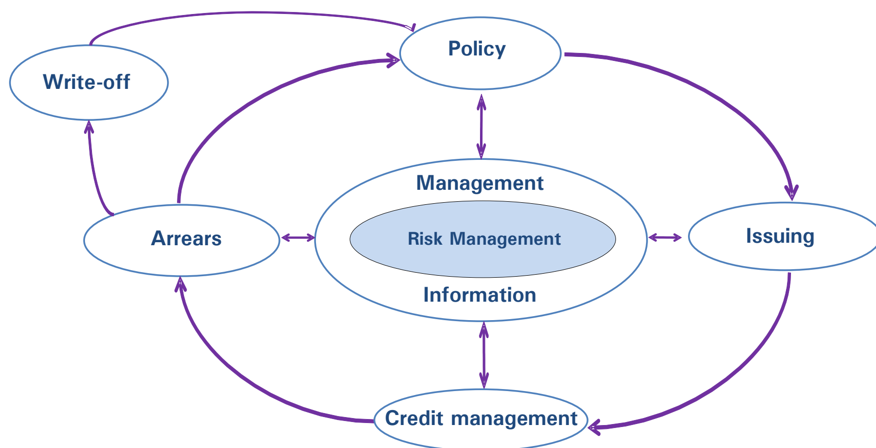
The ECL models for the regular and Acier portfolio consist of several sub-models which are common in the banking world. The sub-models are amongst others: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Discounting. All models are validated by Group Model Validation,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

For 2018 the total write offs for the regular retail portfolio amounted EUR 2.0 million (2017: EUR 3.9 million). For the Acier portfolio the write offs amounted EUR 4.2 million (2017: EUR 26.6 million). Achmea Bank has a (capped) guarantee of Achmea B.V. to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited.

Credit risk measurement

Credit risk measurement framework

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



Risk classification and internal rating system

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

Credit risk reporting

Balance Sheet & Financial Risk Management compiles monthly reports for both the regular and the Acier portfolios. The reports focus on the developments in the credit portfolio and is distributed to the Credit Committee. The report structure is based on the credit cycle and provides insight into new mortgages production, the portfolio as a whole, collections and write-off and links these subjects to policy.

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

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

For capital calculations Achmea Bank applies the standardised approach for its credit risk portfolio to calculate its regulatory capital requirements according to CRR (CRD IV).

Advanced Internal Rating Based (AIRB) approach

Achmea Bank currently operates under the Standardized Approach (SA), the Basel II methodology applied for calculating credit risk and determining the capital requirement. An alternative to calculating credit risk and thus the capital requirement is the Advanced Internal Rating-Based (AIRB) approach. In the AIRB approach, banks use proprietary models (in accordance with legislation and regulations from the European Commission and DNB and guidelines from EBA / ECB / DNB) to calculate credit risk and determine the capital requirement. This is a fundamentally different way of reporting, calculating and operating. A IRB requires strong professionalization of the bank, full compliance with the AIRB laws and regulations and a minimum of three years of use of AIRB models.

AIRB is the market standard for banks in the (risk) management of Dutch mortgages. The use of credit risk models contributes to the necessary professionalization of risk management and the improvement of competitiveness. The potential capital benefit is significant, also taking into account developments proposed by BIS / BCBS that are known in the market as Basel 4/Basel 3.5.

To meet the A-IRB requirements and the increasing demands of the market, Achmea Bank must invest in the quality of its internal organization (data, data quality, processes, policy, knowledge and mindset). Achmea Bank has started an AIRB implementation program in this context.

A-IRB is of strategic importance for Achmea (Bank). AIRB ensures further professionalization in areas necessary to improve our competitiveness. Advantages are:

- Improve data quality and data quality management
- Reliable and consistent decision taking throughout the credit cycle
- Improve mortgage return through lower capital use and improve opportunities to optimize exposure allocation with Achmea group
- Use AIRB models for acceptance, policy and more control over new and existing credit risks (especially niches)
- Strengthen trust of external stakeholders like rating agencies and investors
- Improve competitiveness , supporting our brands Centraal Beheer and Woonfonds

SPECIFIC COUNTERPARTY CREDIT RISK

Counterparty risk policy

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

Credit risk measurement

The Bank uses both Credit Support Annexes (CSA) and central clearing to reduce counterparty risk on its derivative exposures by means of (cash) collateral. No impairments on counterparty positions occurred in 2018. As at 31 December there are no concentrations of credit risk above the internally applied concentration targets.

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 top 10 amounted to EUR 347 million (2017: EUR 518 million) and is comprised of the total fair value of the derivatives versus the collateral positions, Stichting Incasso accounts and SPV related exposures. As at year-end of 2018 the net exposure for the derivative exposures amounted to EUR 9 million (2017: EUR 14 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 (2017: EUR 0.3 million). This value adjustment includes both a Credit Value Adjustment (CVA) and Debit 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 (Achmea middle rating, based on the ratings of Standard & Poor's, Moody's and/ or Fitch).

The lowest rating at year-end 2018 was BBB (EUR 69 million) (year-end 2017: rating BB, EUR 125 million). Most of the collateral positions are included in the category loans and advances to banks. At year-end 2018 part of the collateral position (EUR 30 million) (2017: EUR 67 million)) is reported as liability and recognised under deposits from banks (credit rating A and BBB).

Qualifying Central Counterparties

Following regulatory requirements, Achmea Bank clears all new derivatives (IRS) through a qualifying central counterparty (QCCP) , via its clearing members. For QCCPs appropriate limits are set in the Bank's counterparty risk policy. Achmea Bank's exposure to QCCPs at year-end 2018 amounts to EUR 22 million (2017: 19 million).

Credit risk reporting

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

Additional contractual obligations in case of a rating downgrade

In the event of a rating downgrade of a specific counterparty, Achmea bank could be required to post additional collateral. These potential collateral requirements are connected to the rating triggers in Back-to-Back swap arrangements of the securitisation transactions of Achmea

Bank. In case of a rating downgrade of three notches for all swap counterparties the additional collateral to be posted is calculated at EUR 70 million at year-end 2018.

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS	NOTIONAL	REPLACEMENT COST/ CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EAD POST CRM	RWAS
Mark to market	–	–	–	–	–
Original exposure	–	–	–	–	–
Current Exposure Method (CEM for derivatives)	7,192,710	37,153	44,590	81,743	29,308
IMM (for derivatives and SFTs)	–	–	–	–	–
Of which securities financing transactions	–	–	–	–	–
Of which derivatives and long settlement transactions	–	–	–	–	–
Of which from contractual cross-product netting	–	–	–	–	–
Financial collateral simple method (for SFTs)	–	–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–	–	–
VaR for SFTs	–	–	–	–	–
Total	7,192,710	37,153	44,590	81,743	29,308

SECURITISATIONS

OWN ASSET SECURITISATION

Achmea Bank uses securitisation (RMBS) as part of its funding mix. At year-end 2018 there are five outstanding transacties: DMPL XI, DMPL XII, DRMP I, DRMP II and SRMP I. For one transaction, SRMP I, all notes are retained by Achmea Bank. The class A notes of SRMPI are ECB eligible and can be used as collateral for e.g. central bank funding. The total amount was EUR 837 million (SRMPI A notes) as per 31 December 2018.

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

REGULATORY CAPITAL APPROACHES

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

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

Significant Risk Transfer

Achmea Bank holds capital for the mortgages underlying the securitisation notes or for the notes themselves, depending on whether Significant Risk Transfer (SRT) is applied. When SRT is applied, a significant amount of risk is transferred to the investors who invested in (part of) the notes. Therefore, Achmea Bank achieves a certain amount of capital relief. This is currently the case for the outstanding DMPL XI (First Optional Redemption Date (FORD) on 28 May 2019) and DMPL XII notes (FORD on 26 May 2020). The DRMP (DRMP I and DRMP II) and SRMPI transactions do not have SRT due to changes in regulation: In case of a call option held by the originator and of an issuance after June 2014, the application of SRT is no longer permitted.

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

The table below provides an overview of the current securitisations (as per 31 December2018) of Achmea Bank.

SECURITISATION EXPOSURES IN THE BANKING BOOK

IN THOUSANDS OF EUROS

	BANK ACTS AS ORIGINATOR			BANK ACTS AS SPONSOR			BANK ACTS AS INVESTOR		
	TRADITIONAL	SYNTHETIC	SUB-TOTAL	TRADITIONAL	SYNTHETIC	SUB-TOTAL	TRADITIONAL	SYNTHETIC	SUB-TOTAL
Retail (total); of which	155,553	–	155,553	–	–	–	201,168	–	201,168
residential mortgages	155,553	–	155,553	–	–	–	201,168	–	201,168
credit cards	–	–	–	–	–	–	–	–	–
other retail exposures	–	–	–	–	–	–	–	–	–
re-securitisation	–	–	–	–	–	–	–	–	–
Wholesale (total); of which	–	–	–	–	–	–	–	–	–
loans to corporates	–	–	–	–	–	–	–	–	–
commercial mortgages	–	–	–	–	–	–	–	–	–
lease and receivables	–	–	–	–	–	–	–	–	–
other wholesale	–	–	–	–	–	–	–	–	–
re-securitisation	–	–	–	–	–	–	–	–	–

RISK MEASUREMENT

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

Own securitisations

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

Investing in third party RMBS

Achmea Bank also acts as an investor in RMBS. These assets are used as part of a buffer of liquid assets held to manage liquidity risk. . The RMBS investment portfolio is management by a professional asset manager, under a strict mandate from Achmea Bank. The mandate (only) allows for investments in prime (AAA rated) UK and Dutch RMBS. RWA of these investments is based on the market value of the notes.

Standardised approach

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

OPERATIONAL RISK MANAGEMENT

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

OPERATIONAL RISK FRAMEWORK

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

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

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

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

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

Managing operational risk

The operational risk management process follows the following process steps:

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

DEVELOPMENTS IN 2018

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

In 2018, Achmea Bank completed one important strategic project:

> A more cost effective savings and payments chain. Simplifying the processes and replacing the current IT systems should result in material benefits for both client and Achmea Bank. After the system migration, the business advised by the operational risk department, paid al lot of attention to the level of control of the altered processes in the savings and payments chain.

As a result, the level of outsourcing in 2018 has increased further. This has an impact on the operational risk profile of Achmea Bank and has constant attention of risk management.

As of 25 may 2018 the General Data Protection Regulation (GDPR) came into force. This privacy regulation has, among other consequences, impact on the use of personal data in systems. In 2018 a bank-wide programme was carried out to timely implement this new privacy regulation.

MARKET RISK

INTEREST RATE RISK BANKING ENVIRONMENT

Interest rate risk framework

One of the 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 in the banking book. The Bank has a strict policy on mitigating foreign currency risk and uses financial instruments to hedge interest rate risk and foreign currency risk.

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

Achmea Bank does not calculate a pillar 1 market risk capital charge, because of all interest rate risks are on exposures in the banking book.

Governance of management interest rate risk in the banking book

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

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

- Value perspective: Effects of a change in interest rates on the economic value of total equity; and
- Income perspective: Effects of a change in interest rates on the interest income.

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

Risk measurement

Effects of a change in interest rates on total equity

The impact on total equity is based on the market value of all financial instruments[3]. This is not directly visible in the income statement or in the consolidated statement of the financial position as most instruments are recognised at amortised cost.

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

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

These sensitivity analysis are also used in management reports and discussed in ALCo. The outcome of the sensitivity analysis were within the limits during 2018.

[3] Including options in products

DURATION

IN YEARS	2018	2017
Duration of equity	1.81	1.88

The table above shows that the duration of total equity of Achmea Bank decreased from 1.88 years as at 31 December 2017 to 1.81 years as at 31 December 2018.

SENSITIVITY ANALYSIS

IN THOUSANDS OF EUROS	2018	2017
Parallel shift in the yield curve of 200 basis points downward	−11,955	−63,865
Parallel shift in the yield curve of 200 basis points upward	−44,901	−35,372

The effect of a 200 basis point upward shift of the yield curve on total equity value is EUR -45 million at 31 December 2018, compared to EUR -35 million at 31 December 2017. The increase impact of the 200 basis point upward scenario is mainly due to changes in the prepayment rate of mortgages. In this scenario the prepayment rate decreases, so mortgages remain longer on the balance sheet. In itself a decrease in prepayment rate is beneficial for mortgages with (on average) a high coupon. However from 31 December 2017 to 31 December 2018 the average mortgage coupon has decreased and the benefits from a decrease in prepayment rate have therefore lower impact.

Compared to 2017, the negative impact of 200 basis points downward shift shows a significant improvement. This is mainly due to the ‘flooring’ of negative interest rates, because of the introduction of a higher EBA-interest rate floor.

Effects of a change in interest rates on interest income

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

INTEREST RATE RISK EXPOSURE

IN THOUSANDS OF EUROS	2018	2017
Income at Risk	149	156

The decrease in the Income at Risk is mainly due to changing gaps in the first year and negative interest rates.

NON-TRADING CURRENCY RISK

With respect to foreign currencies, the Bank´s policy is to fully hedge its exposure to foreign currency risk. The Bank´s exposure at 31 December 2018 is limited to the CHF mortgage portfolio as part of the Acier loan portfolio and a CHF bank account.

Part of the Acier loan portfolio is denominated in CHF (EUR 440 million at year-end 2018). This position is partly hedged by unsecured wholesale funding of CHF 400 million in total. The remaining CHF exposure is fully hedged on a monthly basis via foreign exchange derivatives (FX swaps).

All foreign exchange (CHF) positions are being hedged. The remaining net CHF exposure of EUR 0.2 million is negligible. Achmea Bank does not calculate a charge for FX related market risk, because the net exposure is below the 2% materiality threshold of article 351 CRR.

FOREIGN CURRENCY EXPOSURE

	2018			2017		
In thousands of euros	Total exposure	Notional amounts of hedging instruments	Net exposure	Total exposure	Notional amounts of hedging instruments	Net exposure
Assets						
Swiss Franc	440,243	−440,057	186	434,181	−432,105	2,076
	440,243	−440,057	186	434,181	−432,105	2,076
Liabilities						
Swiss Franc	–	–	–	–	–	–
	–	–	–	–	–	–
Net						
Swiss Franc	440,243	−440,057	186	434,181	−432,105	2,076
	440,243	−440,057	186	434,181	−432,105	2,076

REMUNERATION PRINCIPLES AND POLICY

The Remuneration Committee consists of two members of the Supervisory Board (Petri Hofsté and Jan Molenaar). The execution of the remuneration policy was evaluated in 2018. The Remuneration Committee approved the remuneration of the Executive Board members and the senior staff of Achmea Bank. The Supervisory Board evaluates remunerations in the context of the remuneration policy of Achmea Group. More details regarding remuneration policies can be found in the Remuneration Report and on www.achmea.nl or www.achmea.com.

RENUMERATION AWARDED DURING THE FINANCIAL YEAR

IN THOUSANDS OF EUROS

RENUMERATION AMOUNT	SENIOR MANAGEMENT	OTHER MATERIAL RISK-TAKERS
Fixed remuneration		
Number of employees	4	0
Total fixed remuneration	868	0
Of which: cash-based		
Of which: deferred		
Of which: shares or other share-linked instruments		
Of which: deferred		
Of which: other forms		
Of which: deferred		
Variable remuneration		
Number of employees	4	0
Total variable remuneration	101	0
Of which: cash-based		
Of which: deferred	50.5	0
Of which: shares or other share-linked instruments		
Of which: deferred		
Of which: other forms		
Of which: deferred		

DEFERRED REMUNERATION

IN THOUSANDS OF EUROS

DEFERRED AND RETAINED REMUNERATION	TOTAL AMOUNT OF OUTSTANDING DEFERRED REMUNERATION	OF WHICH: TOTAL AMOUNT OF OUTSTANDING DEFERRED AND RETAINED REMUNERATION EXPOSED TO EX POST EXPLICIT AND/OR IMPLICIT ADJUSTMENT	TOTAL AMOUNT OF AMENDMENT DURING THE YEAR DUE TO EX POST EXPLICIT ADJUSTMENTS	TOTAL AMOUNT OF AMENDMENT DURING THE YEAR DUE TO EX POST IMPLICIT ADJUSTMENTS	TOTAL AMOUNT OF DEFERRED REMUNERATION PAID OUT IN THE FINANCIAL YEAR
Senior management					
Cash	164	164	0	50.5	102
Shares					
Cash-linked instruments					
Other					
Other material risk-takers					
Cash					
Shares					
Cash-linked instruments					
Other					
Total	164	164	0	50.5	102

APPENDIX: TABLES

KEY METRICS

KEY METRICS

IN MILLIONS OF EUROS	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017
Available capital (amounts)					
Common Equity Tier 1 (CET1)	775	775	776	776	821
Tier 1	775	775	776	776	821
Total capital	778	778	779	780	825
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	3,728	3,738	3,812	3,879	4,024
Risk-based capital ratios					
Common Equity Tier 1 ratio	20.8%	20.7%	20.3%	20.0%	20.4%
Tier 1 ratio	20.8%	20.7%	20.3%	20.0%	20.4%
Total capital ratio	20.9%	20.8%	20.4%	20.1%	20.5%
Additional CET1 buffers					
Capital conservation buffer	2.5%	2.5%	2.5%	1.9%	1.3%
Countercyclical buffer	0.0%	0.0%	0.0%	0.0%	0.0%
Bank GSIB and/or DSIB	0.0%	0.0%	0.0%	0.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%	0.0%	0.0%	0.0%
TLAC requirements	0.0%	0.0%	0.0%	0.0%	0.0%
Leverage ratio					
leverage ratio exposure	11,933	12,521	12,675	13,738	13,742
Leverage ratio	6.5%	6.2%	6.1%	5.7%	6.0%
Liquidity Coverage Ratio					
Total HQLA	691	576	1,430	1,738	2,046
Total Net Cash Outflow	190	298	493	523	802
LCR ratio	364%	193%	290%	332%	255%
Net Stable Funding Ratio					
Total Available Stable funding	10,427	10,670	10,769	11,014	11,465
Total Required Stable funding	8,578	8,853	9,112	9,412	9,662
NSFR ratio	122%	121%	118%	117%	119%

RECONCILIATION OF REGULATORY CAPITAL TO BALANCE SHEET

IN THOUSANDS OF EUROS

	BALANCE SHEET AS IN PUBLISHED STATEMENTS	REFERENCE
Cash and balances with Central Banks	115,781	
Derivative assets held for risk management	82,575	
Loans and advances to banks	758,361	
Loans and advances to public sector	699	
Loans and advances to customers	11,056,321	
Interest-bearing securities	201,168	
Current tax assets	–	
Deferred tax assets	–	
Prepayments and other receivables	70,913	
Total Assets	12,285,817	
Derivative liabilities held for risk management	470,479	
Deposits from banks	202,148	
Funds entrusted	5,859,866	
Debt securities issued	4,858,361	
Provisions	150	
Current tax liabilities	34,102	
Deferred tax liabilities	1,632	
Accruals and other liabilities	45,563	
Subordinated liabilities	8,336	a
Total Liabilities	11,480,637	
Share Capital	18,152	b
Share premium	505,609	c
Reserves	281,420	d
Total shareholders' equity	805,180	
Total Equity and Liabilities	12,285,817	

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION

CARRYING VALUES IN MILLIONS OF EUROS			OF WHICH:		
	FINANCIAL STATEMENT	REGULATORY REPORTS	CREDIT RISK	COUNTERPARTY CREDIT RISK	SECURITISATION FRAMEWORK
Cash and balances with Central Banks	116	116	116	–	–
Derivative assets held for risk management	83	83	–	83	–
Loans and advances to banks	758	758	758	–	–
Loans and advances to public sector	1	1	1	–	–
Loans and advances to customers	11,056	11,056	9,934	–	1,122
Interest-bearing securities	201	201	–	–	201
Current tax assets	–	–	–	–	–
Deferred tax assets	–	–	–	–	–
Prepayments and other receivables	71	71	71	–	–
Assets held for sale and discontinued operations	–	–	–	–	–
Total assets	12,286	12,286	10,880	83	1,323

MAIN SOURCES OF DIFFERENCES FOR 2018

IN MILLIONS OF EUROS	TOTAL	CREDIT RISK	SECURITISATION	COUNTERPARTY CREDIT RISK
Asset carrying value amount under scope of regulatory consolidation	12,286	10,880	1,323	83
Liabilities carrying value amount under the regulatory scope of consolidation	–	–	–	–
Total net amount under the regulatory scope of consolidation	12,286	10,880	1,323	83
Off-balance sheet amounts	246	52	–	–
Differences due to different netting rules for derivatives	−46	–	–	−46
Differences due to valuation of derivatives (add on for potential future exposure)	45	–	–	45
Differences due to the application of Significant Risk Transfer	−966	–	−966	–
Exposure amounts considered for regulatory purposes	11,565	10,932	357	82

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

PRUDENT VALUATION ADJUSTMENTS FOR 2018

IN THOUSANDS OF EUROS	INTEREST RATES	FX	CREDIT	COMMODITIES	TOTAL	OF WHICH: IN THE BANKING BOOK
Close-out uncertainty, of which:	286	–	–	–	286	286
Mid-market value	286	–	–	–	286	286
Close-out cost	–	–	–	–	–	–
Concentration	–	–	–	–	–	–
Early termination	–	–	–	–	–	–
Model risk	–	–	–	–	–	–
Operational risk	–	–	–	–	–	–
Future administrative costs	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total adjustment	286	–	–	–	286	286

DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

AS PER 31/12/2018		METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	FULL CONSOLIDATION	PROPORTIONAL CONSOLIDATION	NEITHER CONSOLIDATED OR DEDUCTED	DEDUCTED	
DMPL XI B.V.	Full consolidation	X				Special purpose vehicle
DMPL XII B.V.	Full consolidation	X				Special purpose vehicle
SRMP I B.V.	Full consolidation	X				Special purpose vehicle
DRMP I B.V.	Full consolidation	X				Special purpose vehicle
DRMPII B.V.	Full consolidation	X				Special purpose vehicle
Stichting Trustee Achmea Hypotheekbank	Full consolidation	X				
Stichting Incasso Achmea Hypotheken	Full consolidation	X				
Achmea Conditional Pass-Through Covered Bond Company B.V.	Full consolidation	X				

COMPOSITION OF REGULATORY CAPITAL

IN THOUSANDS OF EUROS

	AMOUNTS	SOURCES BASED TO REGULATORY SCOPE
Directly issued qualifying common share capital plus related stock surplus	523,761	(b) + (c)
Retained earnings	252,508	(d) minus result of 2018
Accumulated other comprehensive income	−561	(d)
Common Equity Tier 1 capital before regulatory adjustments	775,708	
Prudential valuation	286	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	312	
Other transitional adjustments to CET1 Capital	–	(Revaluation) (d)
Total regulatory adjustment to CET1	598	
Common Equity Tier 1 Capital (CET1)	775,110	
Paid up capital instruments and subordinated loans	2,649	(a) including amortisation
Tier 2 Capital	2,649	
Total regulatory capital	777,759	
Total risk weighted assets	3,727,740	
Common Equity Tier 1 ratio	20.8%	
Tier 1 ratio	20.8%	
Total Capital Ratio	20.9%	
Institution specific buffer requirement	2.5%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	0.0%	
Common Equity Tier 1 available to meet buffers after meeting the banks' minimum capital requirements	11.7%	

OVERVIEW OF RWA

IN MILLIONS OF EUROS	RWA	RWA	MINIMUM CAPITAL REQUIREMENTS
	2018	2017	2018
Credit risk (excl. counterparty credit risk)	3,127	3,358	250
Of which Standardised approach	3,127	3,358	250
Of which internal rating-based approach	–	–	–
Counterparty credit risk	29	34	2
Of which mark to market	–	–	–
Of which original exposure	–	–	–
Of which the standardised approach	29	34	2
Of which internal model method	–	–	–
Of which risk exposure amount for contribution to default fund of a CCP	–	–	–
Of which CVA	–	–	–
Settlement risk	–	–	–
Securitisation exposure in banking book	360	434	29
Of which securitisation internal rating-based approach	–	–	–
Of which securitisation external rating-based approach	–	–	–
Of which securitisation standardised approach	360	434	29
Market risk	–	–	–
Of which Standardised approach	–	–	–
Of which internal model approach	–	–	–
Large exposures	–	–	–
Operational risk	208	193	17
Of which basic indicator approach	208	193	17
Of which standardised approach	–	–	–
Of which advanced measurement approach	–	–	–
Credit valuation adjustment	4	5	–
Amounts below the threshold for deduction (subject to 250% risk weight)	–	–	–
Floor adjustment	–	–	–
Total	3,728	4,024	298

In 2018 the total risk exposure amount decreased with EUR 296 million from EUR 4,024 million to EUR 3,728 million, mainly due to the overall reduction of the mortgage portfolio, including the Acier portfolio.

LEVERAGE RATIO COMMON DISCLOSURE

IN MILLIONS OF EUROS	2018	2017
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	12,203	14,080
(Asset amounts deducted in determining Tier 1 capital)		
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	12,203	14,080
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	37	42
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	45	46
Exposure determined under Original Exposure Method	–	–
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	−16	−14
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	−388	−455
(Exempted CCP leg of client-cleared trade exposures)	–	–
Adjusted effective notional amount of written credit derivatives	–	–
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
Total derivative exposures	−322	−381
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–	–
(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
Counterparty credit risk exposure for SFT assets	–	–
Derogation for SFTs: Counterparty credit risk exposure	–	–
Agent transaction exposures	–	–
(Exempted CCP leg of client-cleared SFT exposure)	–	–
Total securities financing transaction exposures	–	–
Off-balance sheet exposures at gross notional amount	246	200
(Adjustments for conversion to credit equivalent amounts)	−194	−157
Other off-balance sheet exposures	52	43
Tier 1 capital	775	821
Total exposure	11,933	13,742
Leverage ratio	6.5%	6.0%

The category ‘Other adjustments’ in the table above consists mainly of a correction for collateral covered derivative positions, e.g. interest rate swaps (IRSs).

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

IN MILLIONS OF EUROS	2018	2017
Total assets	12,286	14,199
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure)	–	–
Adjustments for derivative financial instruments	45	46
Adjustments for securities financing transactions "SFTs"	–	–
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	52	43
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure)	–	–

(Adjustment for exposures excluded from the leverage ratio exposure measure)	–	–
Other adjustments	−450	−546
Total leverage ratio exposure	11,933	13,743

LIQUIDITY MANAGEMENT

LIQUIDITY COVERAGE RATIO

AVERAGE OF Q4 2017 IN THOUSANDS OF EUROS

	TOTAL UNWEIGHTED VALUE	TOTAL WEIGHTED VALUE
Total high quality liquid assets	–	725,367
	–	–
Retail deposits and deposits from small business customers	2,811,693	161,873
of which stable deposits	2,530,194	126,510
of which less stable deposits	281,499	35,363
Unsecured wholesale funding	104,521	104,521
of which operational deposits and bank deposits	–	–
of which non-operational deposits	87,715	87,715
of which unsecured debt	16,805	16,805
Secured wholesale funding	150,473	401
Additional requirements	183,756	138,489
of which outflows related to derivatives and collateral	112,409	112,409
of which outflows related to loss of funding	23,697	23,697
of which credit and liquidity facilities	47,649	2,382
Other contractual funding obligations	219,284	128,978
Other contingent funding obligations	81,397	4,070
TOTAL CASH OUTFLOWS	–	538,332
	–	–
Secured loans (eg reverse repos)	–	–
Inflows from fully performing exposures	172,633	172,351
Other cash inflows	241,864	121,864
TOTAL CASH INFLOWS	–	294,215
	–	TOTAL ADJUSTED VALUE
Total HQLA	–	669,805
Total net cash outflows	–	244,117
Liquidity Coverage ratio		285%

NET STABLE FUNDING RATIO

IN THOUSANDS OF EUROS	UNWEIGHTED VALUE BY RESIDUAL MATURITY				WEIGHTED VALUE
	NO MATURITY	← 6 MONTHS	6 MONTHS TO ← 1YR	→ 1 YR	
AVAILABLE STABLE FUNDING (ASF) item					
Regulatory capital	777,759	–	–	–	777,759
Other capital instruments	–	–	–	5,631	5,631
Capital	777,759	–	–	5,631	783,390
Stable deposits	2,499,023	130,569	188,294	1,390,030	4,454,549
Less stable deposits	275,275	89,749	23,403	367,354	329,411
Retail deposits and deposits from small business customers	2,774,298	220,318	211,697	1,757,384	4,783,960
Operational deposits	–	–	–	–	–
Other wholesale funding	–	900,192	336,479	4,690,173	4,858,412
Wholesale funding	–	900,192	336,479	4,690,173	4,858,412
Liabilities with matching interdependent assets	–	–	–	–	–
NSFR derivative liabilities	–	17,005	8,210	27,399	–
All other liabilities and equity	14,175	79,824	–	1,632	1,632
Other liabilities	14,175	96,829	8,210	29,031	1,632
TOTAL AVAILABLE STABLE FUNDING	3,566,232	1,217,339	556,386	6,482,218	10,427,394
REQUIRED STABLE FUNDING(RSF) item	–	–	–	–	–
Total NSFR high quality liquid assets (HQLA)	115,781	–	62,695	138,473	100,584
Deposits held at other financial institutions for operational purpose	–	–	–	–	–
Performing loans and securities; of which	10,563	302,095	87,640	10,831,029	8,140,193
Performing loans to financial institutions secured by Level 1 HQLA	–	–	–	–	–
Performing loans to financial institutions secured by non-level 1 HQLA	10,563	223,971	8,755	103,124	142,916
Performing loans to non-financial corporate clients, retail, sovereigns and central banks; of which	–	99	750	124,857	103,580
with a risk weight of less than or equal to 35% (SA credit risk)	–	–	–	5,232	3,538
Performing residential mortgages; of which	–	78,025	78,135	10,603,048	7,893,697
with a risk weight of less than or equal to 35% (SA credit risk)	–	74,298	75,605	9,803,373	7,200,735
Securities that are not in default and do not qualify as HQLA	–	–	–	–	–
Assets with matching interdependent liabilities	–	–	–	–	–
Assets posted as intitial margin for derivative contracts and contibutions to default funds of CCP's	–	–	–	–	–
NSFR derivative assets	–	6,133	1,104	29,399	–
NSFR derivative liabities before deduction of variation margin posted	–	17,005	8,210	415,032	88,049
All other assets	55,621	35,934	367	145,341	237,263
Other assets	55,621	42,067	1,471	174,740	325,312
Off balance sheet items	–	246,118	–	–	12,306
TOTAL REQUIRED STABLE FUNDING	181,965	590,279	151,807	11,144,242	8,578,395
Net Stable Funding Ratio	181,965	344,162	151,807	11,144,242	122%

SOURCES OF ENCUMBRANCE

IN THOUSANDS OF EUROS	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
Carrying amount of selected financial liabilities	2,925,726	3,164,268
Derivatives	462,336	443,080
Deposits	105,881	123,760
Debt securities issued	2,357,509	2,597,427
Other sources of encumbrance	516,615	768,719

COLLATERAL RECEIVED

IN THOUSANDS OF EUROS	ENCUMBERED	UNENCUMBERED	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal amount of collateral received or own debt securities issued not available for encumbrance
Collateral received by the reporting institution	–	516,615	–
Loans on demand	–	–	–
Equity instruments	–	–	–
Debt securities	–	516,615	
Loans and advances other than loans on demand	–	–	–
Other collateral received	–	–	–
Own debt securities issued other than own covered bonds or ABSs	–	–	–

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

TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

IN THOUSANDS OF EUROS	Net value of exposure an end of the period	Average net exposures over the period
Central governments or central banks	115,985	549,548
Institutions	840,104	843,373
Corporates	99,492	110,785
Retail	1,234,367	1,269,858
Secured by mortgages on immovable property	8,700,983	8,858,518
Exposures in default	146,432	151,865
Other exposures	70,913	70,180
Total standardised approach	11,208,275	11,854,128

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

CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

IN THOUSANDS OF EUROS	GROSS CARRYING VALUE OF				
	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Central governments or central banks	–	115,985	–	–	115,985
Institutions	–	840,189	–	85	840,104
Corporates	–	103,956	–	4,463	99,493
Retail	–	1,239,057	–	4,689	1,234,368
Secured by mortgages on immovable property	–	8,708,650	–	7,667	8,700,983
Exposures in default	172,188	0	25,756	–	146,432
Other exposures	0	70,970	–	57	70,913
Total standardised approach	172,188	11,078,807	25,756	16,961	11,208,278
Of which: Loans and advances	172,188	10,564,193	25,756	16,904	10,693,721
Of which: Debt securities	0	0	–	–	–
Of which: Off-balance-sheet exposures	0	246,118	–	–	246,118

As from 1 January 2018, Achmea Bank applies IFRS 9 for its impairment calculations. General credit risk adjustment consists of stage 1 and 2 assets and the Specific credit risk adjustment consists of stage 3 assets.

MATURITY OF EXPOSURES

IN THOUSANDS OF EUROS NET EXPOSURE VALUE	ON DEMAND	←= 1 YEAR	→ 1 YEAR ←= 5 YEARS	→ 5 YEARS	NO STATED MATURITY	TOTAL
Central governments or central banks	115,781			204		115,985
Institutions	11,324	332,100	300,262	196,417	1	840,104
Corporates		–	6,866	92,627		99,493
Retail		95,486	69,774	1,069,109		1,234,368
Secured by mortgages on immovable property		229,915	227,331	8,243,737		8,700,983
Exposures in default		9,372	1,109	135,950		146,431
Other exposures		69,699	1,214		–	70,913
Total standardised approach	127,105	736,571	606,556	9,738,044	1	11,208,278

CONCENTRATION OF EXPOSURE BY COUNTERPARTY TYPES

IN THOUSANDS OF EUROS NET VALUE	FINANCIAL SECTOR	NON FINANCIAL SECTOR	TOTAL
Central governments or central banks	115,781	204	115,985
Institutions	840,104	–	840,104
Corporates	–	99,493	99,493
Retail	–	1,234,368	1,234,368
Secured by mortgages on immovable property	–	8,700,983	8,700,983
Exposures in default	–	146,432	146,432
Other exposures	24,056	46,857	70,913
Total standardised approach	979,941	10,228,337	11,208,278

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

CREDIT QUALITY OF EXPOSURES BY COUNTERPARTY TYPES

IN THOUSANDS OF EUROS GROSS CARRYING VALUE OF	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Financial sector	–	980,083	–	142	979,941
Non financial sector	172,188	10,098,724	25,756	16,819	10,228,337
Total	172,188	11,078,807	25,756	16,961	11,208,278

GEOGRAPHICAL BREAKDOWN OF EXPOSURES

IN THOUSANDS OF EUROS

NET VALUE

	NETHERLANDS	UNITED KINGDOM	GERMANY	FRANCE	DENMARK	OTHER COUNTRIES	TOTAL
Central governments or central banks	115,781	–	–	–	–	204	115,985
Institutions	418,184	132,547	55,208	31,675	184,135	18,355	840,104
Corporates	98,470	–	–	–	–	1,023	99,493
Retail	1,231,896	–	–	441	–	2,031	1,234,368
Secured by mortgages on immovable property	8,688,690	–	185	1,373	–	10,734	8,700,983
Exposures in default	144,973	–	–	–	–	1,459	146,432
Other exposures	70,913	–	–	–	–	–	70,913
Total standardised approach	10,768,907	132,547	55,393	33,489	184,135	33,807	11,208,278

CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

IN THOUSANDS OF EUROS

GROSS CARRYING VALUE OF

	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Netherlands	170,729	10,640,867	25,756	16,933	10,768,907
United Kingdom	–	132,553	0	6	132,547
Germany	–	55,415	0	22	55,393
France	–	33,489	0	–	33,489
Denmark	–	184,135	0	–	184,135
Other Countries	1,459	32,348	0	–	33,807
Total	172,188	11,078,807	25,756	16,961	11,208,278

A materiality threshold of EUR 15mln is applied to specific material countries. The following countries are included in 'Other countries': Belgium, Switzerland, Aruba, Italy, Canada, Monaco, United states, Hong Kong, Spain, Norway, South Africa, United Arab Emirates and Austria.

AGEING OF PAST-DUE EXPOSURES

IN THOUSANDS OF EUROS

CARRYING VALUES

	< 30 DAYS	30 DAYS < 60 DAYS	→ 60 DAYS < 90 DAYS	UNLIKELY TO PAY THAT ARE NOT PAST-DUE OR PAST-DUE ←= 90 DAYS	→ 90 DAYS < 180 DAYS	→ 180 DAYS < 1 YEAR	→ 1 YEAR
Loans and advances	23987	22,509	4611	147,527	17,094	16,913	54,556
Debt securities	0	0	0	0	0	0	0
Total exposures	23,987	22,509	4,611	147,527	17,094	16,913	54,556

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

CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

IN THOUSANDS OF EUROS	GROSS CARRYING VALUE DEFAULTED EXPOSURES
Opening balance	191,054
Loans and debt securities that have defaulted since the last reporting period	64,616
Returned to non-defaulted status	−73,782
Amounts written off	−6,202
Other changes	−3,499
Closing balance	172,187

NON-PERFORMING AND FORBORNE EXPOSURES

IN THOUSANDS OF EUROS GROSS CARRYING VALUES		OF WHICH: PERFORMING BUT PAST DUE → 30 DAYS AND ←= 90 DAYS	OF WHICH: PERFORMIN G FORBORNE	OF WHICH: NON PERFORMING			
					OF WHICH: DEFAULTED	OF WHICH: IMPAIRED	OF WHICH: FORBORNE
Debt securities	201,208	0	0	0	0	0	0
Loans and advances	11,004,878	15,967	142,581	236,091	172,188	172,188	128,726
Off-balance sheet exposures	246,118	–	–	–	–	–	–

NON-PERFORMING AND FORBORNE EXPOSURES

IN THOUSANDS OF EUROS GROSS CARRYING VALUES	ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
	ON PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES	OF WHICH FORBORNE EXPOSURES
		OF WHICH: FORBORNE		OF WHICH: FORBORNE		
Debt securities	40	0	0	0	0	0
Loans and advances	16,904	518	25,756	6,255	202,739	121,599
Off-balance sheet exposures	–	–	–	–	–	–

CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

IN THOUSANDS OF EUROS	ACCUMULATED SPECIFIC CREDIT RISK ADJUSTMENT	ACCUMULATED GENERAL CREDIT RISK ADJUSTMENT
Opening balance	32,413	5,902
First time adoption IFRS9	3,222	15,149
Increases due to recognition	1,988	2,178
Decreases due to derecognition	−5,455	−625
Changes due to change in credit risk (net)	136	−4,090
Changes due to modifications without derecognition (net)	−715	−1,182
Decrease in allowance account due to write-offs	−5,832	−370
Business combinations, including acquisitions and disposals of subsidiaries	–	–
Other adjustments	–	–
Closing balance	25,756	16,961
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–	–
Specific credit risk adjustments directly recorded to the statement of profit or loss	–	–

CREDIT RISK MITIGATION TECHNIQUES

IN THOUSANDS OF EUROS				
CARRYING AMOUNT			OF WHICH	
	EXPOSURES UNSECURED	EXPOSURES SECURED	SECURED BY COLLATERAL	SECURED BY CREDIT DERIVATIVES
Total loans and advances	370,728	10,322,992	10,322,992	–
Total debt securities	–	–	–	–
Total exposures	370,728	10,322,992	10,322,992	–
Of which: defaulted	–	146,432	146,432	–

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION EFFECTS

IN THOUSANDS OF EUROS	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
EXPOSURE CLASSES	ON-BALANCE	OFF-BALANCE	ON-BALANCE	OFF-BALANCE	RWA	RWA DENSITY
Central governments or central banks	115,985	–	2,010,056	3,278	41	0.0%
Institutions	840,104	–	452,471	–	110,816	13.2%
Corporates	99,492	–	98,534	–	98,534	99.0%
Retail	1,162,938	71,429	578,461	15,877	445,753	36.1%
Secured by mortgages on immovable property	8,526,294	174,689	6,573,940	32,559	2,312,490	26.6%
Exposures in default	146,432	–	126,135	–	133,438	91.1%
Other items	70,913	–	1,122,562	–	53,932	76.1%
Total	10,962,158	246,118	10,962,159	51,714	3,155,003	28.1%

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION EFFECTS

IN THOUSANDS OF EUROS

	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
EXPOSURE CLASSES	ON-BALANCE	OFF-BALANCE	ON-BALANCE	OFF-BALANCE	RWA	RWA DENSITY
Central governments or central banks	115,985	–	2,010,056	3,278	41	0.0%
Institutions	840,104	–	452,471	–	110,816	13.2%
Corporates	99,492	–	98,534	–	98,534	99.0%
Retail	1,162,938	71,429	578,461	15,877	445,753	36.1%
Secured by mortgages on immovable property	8,526,294	174,689	6,573,940	32,559	2,312,490	26.6%
Exposures in default	146,432	–	126,135	–	133,438	91.1%
Other items	70,913	–	1,122,562	–	53,932	76.1%
Total	10,962,158	246,118	10,962,159	51,714	3,155,003	28.1%

COUNTERPARTY CREDIT RISK

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS

	NOTIONAL	REPLACEMENT COST/ CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EAD POST CRM	RWAS
Mark to market	–	–	–	–	–
Original exposure	–	–	–	–	–
Current Exposure Method (CEM for derivatives)	7,192,710	37,153	44,590	81,743	29,308
IMM (for derivatives and SFTs)	–	–	–	–	–
Of which securities financing transactions	–	–	–	–	–
Of which derivatives and long settlement transactions	–	–	–	–	–
Of which from contractual cross-product netting	–	–	–	–	–
Financial collateral simple method (for SFTs)	–	–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–	–	–
VaR for SFTs	–	–	–	–	–
Total	7,192,710	37,153	44,590	81,743	29,308

CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

IN THOUSANDS OF EUROS

	Exposure value	RWAs
All portfolios subject to the Standardised method	4,067	4,067
Based on the original exposure method	–	–
Total subject to CVA capital charge	4,067	4,067

CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

IN THOUSANDS OF EUROS

Exposure classes	0%	4%	20%	35%	50%	75%	100%	150%	Other	Total
Central governments or central banks	–	–	–	–	–	–	–	–	–	–
Regional government or local authorities	–	–	–	–	–	–	–	–	–	–
Public sector entities	–	–	–	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–	–	–
Institutions	–	22,279	4,385	–	55,080	–	–	–	–	81,743
Corporates	–	–	–	–	–	–	–	–	–	–
Retail	–	–	–	–	–	–	–	–	–	–
Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–	–	–	–
Total	–	22,279	4,385	–	55,080	–	–	–	–	81,743

IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

IN THOUSANDS OF EUROS

	GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT	NETTING BENEFITS	NETTED CURRENT CREDIT EXPOSURE	COLLATERAL HELD	NET CREDIT EXPOSURE
Derivatives	82,575	45,421	37,154	15,717	21,437
SFTs	–	–	–	–	–
Cross-product netting	–	–	–	–	–
Total	82,575	45,421	37,154	15,717	21,437

EXPOSURES TO CENTRAL COUNTERPARTIES

IN THOUSANDS OF EUROS

	EAD POST-CRM	RWAS
Exposures for trades at QCCP's (ex. Initial margin and default fund); of which	22,279	891
- OTC derivatives	22,279	891
- Exchange-traded derivatives	–	–
- Securities financing transactions	–	–
- Netting sets where cross-product netting has been approved	–	–
Segregated initial margin	–	–
Non-segregated initial margin	35,806	1,432
Prefunded default fund contributions	–	–
Alternative calculation of own funds requirements for exposures	–	–
Total Exposures to QCCP's	58,085	2,323

COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR

IN THOUSANDS OF EUROS

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS			
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF POSTED COLLATERAL	
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED
Cash- domestic currency	–	29,892	–	443,253
Cash- other currency	–	–	–	–
Domestic sovereign debt	–	–	–	–
Other sovereign debt	–	–	–	–
Government agency debt	–	–	–	–
Corporate bonds	–	–	–	–
Equity securities	–	–	–	–
Other collateral	–	–	–	–
Total	–	29,892	–	443,253

SECURITISATION EXPOSURES AND CAPITAL REQUIREMENTS

IN THOUSANDS OF EUROS

	EXPOSURE VALUES					EXPOSURE VALUES (BY REGULATORY APPROACH)		RWA (BY REGULATORY APPROACH)		CAPITAL CHARGE AFTER CAP	
	← 20% RW	→ 20% TO 50% RW	→ 50% TO 100% RW	→ 100% TO 1250% RW	1250% RW	SA/SSFA	12.5	SA/SSFA	12.5	SA/SSFA	**12.5**
Bank acting as originator											
Traditional securitisation	–	58,800	79,900	–	16,853	155,553	16,853	109,300	210,663	8,744	16,853
Of which securitisation	–	58,800	79,900	–	16,853	155,553	16,853	109,300	210,663	8,744	16,853
Of which retail underlying	–	58,800	79,900	–	16,853	155,553	16,853	109,300	210,663	8,744	16,853
Of which wholesale	–	–	–	–	–	–	–	–	–	–	–
Bank acting as investor											
Traditional securitisation	201,168	–	–	–	–	201,168	–	40,234	–	3,219	–
Of which securitisation	201,168	–	–	–	–	201,168	–	40,234	–	3,219	–
Of which retail underlying	201,168	–	–	–	–	201,168	–	40,234	–	3,219	–
Of which wholesale	–	–	–	–	–	–	–	–	–	–	–

BUSINESS INDICATOR FOR OPERATIONAL RISK

IN THOUSANDS OF EUROS

	2018	2017
Interest income	382,327	425,022
Interest expense	272,112	322,458
Interest	110,215	102,564
Fee income	4,381	5,481
Fee expenses	170	387
Other operating income	–	–
Other operating expense	–	–
Services	4,211	5,094
Net P&L on Banking Book	–	–
Financial	–	–
Total exposure for operational risk	114,426	107,658

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