Achmea Bank N.V. Annual Report 2018

KvK 27154399

Contents

A WORD FROM THE CHAIRMAN 4

ACHMEA BANK IN NUMBERS 6

ANNUAL REPORT

EXECUTIVE BOARD REPORT 8

SUPERVISORY BOARD REPORT 13

CORPORATE SOCIAL RESPONSIBILITY 15

FINANCIAL STATEMENTS 18-78

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 18

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 19

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 20

CONSOLIDATED STATEMENT OF CASH FLOWS 21

GENERAL

01 GENERAL INFORMATION 22

02 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 22

03 CRITICAL ESTIMATES AND JUDGEMENTS USED IN APPLYING THE ACCOUNTING POLICIES 31

04 RISK MANAGEMENT 32

NOTES TO SIGNIFICANT BALANCE SHEET AND INCOME STATEMENT ITEMS

05 LOANS AND ADVANCES TO CUSTOMERS AND IMPAIRMENT CHARGES 54

06 DEBT SECURITIES ISSUED 56

07 FUNDS ENTRUSTED 57

08 INTEREST MARGIN 57

09 CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS, DERIVATIVES AND HEDGE ACCOUNTING 58

NOTES TO OTHER ITEMS

10 CASH AND BALANCES WITH CENTRAL BANKS 62

11 LOANS AND ADVANCES TO BANKS 62

12 LOANS AND ADVANCES TO PUBLIC SECTOR 62

13 INTEREST-BEARING SECURITIES 63

Contents

14 PREPAYMENTS AND OTHER RECEIVABLES	63
15 DEPOSITS FROM BANKS	64
16 PROVISIONS	64
17 SUBORDINATED LIABILITIES	65
18 ACCRUALS AND OTHER LIABILITIES	65
19 DEFERRED TAX ASSETS AND LIABILITIES	65
20 CURRENT TAX ASSETS AND LIABILITIES	67
21 TOTAL EQUITY	67
22 RESULTS ACIER LOAN PORTFOLIO	67
23 OTHER INCOME	68
24 FEES AND COMMISSION INCOME AND EXPENSE	68
25 OPERATING EXPENSES	68
26 STAFF COSTS	69
27 INDEPENDENT AUDITOR'S FEES	69
28 INCOME TAX EXPENSES	69
29 CONTINGENT LIABILITIES AND COMMITMENTS	70
30 RELATED PARTIES	71
31 REMUNERATION EXECUTIVE BOARD AND SUPERVISORY BOARD	72
32 EVENTS AFTER REPORTING PERIOD	73
PROPOSAL FOR PROFIT APPROPRIATION	73
AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS	74
COMPANY STATEMENT OF FINANCIAL POSITION OF ACHMEA BANK N.V.	**75**
COMPANY STATEMENT OF COMPREHENSIVE INCOME OF ACHMEA BANK N.V.	**76**
STATEMENT OF CHANGES IN COMPANY EQUITY OF ACHMEA BANK N.V.	**77**
NOTES TO THE COMPANY FINANCIAL STATEMENTS OF ACHMEA BANK N.V.	**78**
AUTORIZATION OF COMPANY FINANCIAL STATEMENTS	**78**
OTHER INFORMATION	
PROFIT APPROPRIATION ACCORDING TO THE ARTICLES OF ASSOCIATION	**79**
INDEPENDENT AUDITOR'S REPORT	**80**

A word from the Chairman

Our goal is to provide long-term financial security to our customers. For this purpose, we provide straightforward and transparent mortgage and savings products through the Achmea brands *Centraal Beheer* and *Woonfonds*. In realizing its strategy and objectives, Achmea Bank closely works together with its business partners (within the Achmea group as well as external). Together we offer financial solutions for retirement and the purchase of a house. Delivering together (*Samen Waarmaken*) is also the name of Achmea's strategic plan up to 2020. Significant improvements have been realized during the past year, both in terms of service to our customers and in our business operations. My well-deserved compliments to all our employees who work hard every day to serve our customers.

Pierre Huurman,
Chief Executive Officer

Customer-relevant innovations

The needs and requirements of our customers and other stakeholders change rapidly. Nevertheless, by constantly adjusting our products and services we continue to be relevant for our customers. During the past year, several new products have been introduced. The Buy-to-Let Mortgage (*Woningverhuur Hypotheek)* was introduced in 2018. This product is tailored to the current developments in the housing market in the Netherlands. In view of the shortage of student rooms for rent and the high rents being charged, many parents are now turning to buying and renting out an apartment as a solution for their children. Furthermore, this is considered to be a good investment as an alternative to savings. Another new product that was introduced is the Family Mortgage (*Familie Hypotheek*). The ageing population is leading to new housing needs and requirements. The *Familie Hypotheek* makes it possible for different generations to live together and thus facilitates informal care by relatives (Dutch: *mantelzorg*). This mortgage product is our solution to new social and demographic trends.

Social involvement

As part of a co-operative insurance group, it is in our nature to keep a close watch on the long-term interests of all our stakeholders. Corporate social responsibility is the cornerstone of our business operations and strategy. With that in mind it is self-evident that sustainability is one of our primary concerns. We want to assist our customers, in making their homes sustainable. That is why we provide the option of co-financing that sustainability through our mortgage products.

Achmea Bank also believes strongly in the importance of improving the general level of knowledge about financial matters that are essential in order to be financially self-sufficient in a complex society. Increasing that level of knowledge will enable consumers to make better and more responsible financial decisions. Achmea Bank contributes to various initiatives in this field. One of such initiatives is the Mortgage Academy (*Hypotheek Academie*), which we set up in in cooperation with Centraal Beheer. The Academy is an online learning environment in which consumers can prepare themselves, on a voluntary basis, for (independently) taking out a mortgage. A number of our employees also give guest lectures at secondary schools.

A word from the Chairman

On course with implementing our strategy

A number of important steps were taken last year in the context of our strategy. We implemented a new system for the administration of our savings products. This new system enabled us to improve our customer service while at the same time cutting down on costs.
The cooperation with our partner Quion for the servicing of mortgages is running smoothly. At the end of 2018, the overall performance of the most important processes was above the agreed service levels.
Last year, in addition to developing new value propositions, we, together with our partners, put a lot of energy into the continuing development of online customer services. The investments in online services and digitalization were a contributing factor in our improved customer satisfaction rating.

We also invested heavily in the positioning of our two strongest brands Centraal Beheer and Woonfonds. Centraal Beheer is developing from a traditional insurance company into a broad-based financial services provider in the field of insurance, savings, investment, and mortgages. The Woonfonds brand allows us to focus more emphatically on particular target groups in the mortgage market, such as the self-employed and the elderly, as well as on the financing of buy-to-let residential property.
With our renewed systems and the collaboration with Quion for mortgage servicing, we now have an efficient organisation that successfully combines high level of customer service with a sharp eye on costs.
We are proud that, in spite of all the changes, our employees' level of involvement continues to be very high. Furthermore, the yearly employee survey showed that confidence in the future of our company continues to rise.

Improvement in financial performance

Financially, we have continued the positive trend of 2017. The operational result (before taxes) for 2018 increased to € 39 million and our financial position remained robust with a solvency ratio of 20.8%. At the same time our customer ratings continue to be high, customer satisfaction has increased, and our interest margin and solvency ratio have remained more or less stable.

With our brands we are working on trending new products and on the provision of services that are relevant to our customers on a daily basis. Continual change remains pivotal in our operational management. After all, not everything that we do today will still be self-evident tomorrow.

We cannot do this alone. We must do it together with our customers, partners, capital providers, and employees. Together, we are working to create a bank that is ready for a prosperous and sustainable future.

Pierre Huurman
Chairman of the Executive Board Achmea Bank

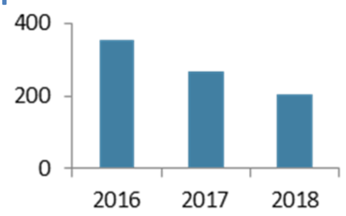
Achmea Bank in numbers

Non-financial highlights

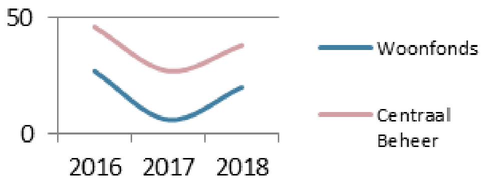
Mission | Achmea Bank believes that everyone should have the financial means and opportunities for a comfortable life. Now and in the future.

Our brands | Centraal Beheer | Woonfonds de hypotheekuitvinders | acier Financieringen

FTE |



NPS score 2018 | New costumers

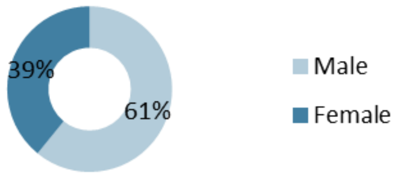


Male – female ratio in senior leading positions

♀ 3

♂ 8

Total male - female ratio



Employee Engagement	7.8	7.8	7.4	7.0
	Involvement	enthusiasm	employability	customer

Number of unique visitors of Centraal Beheer's Mortgages Academy

200,000

Number of children received guest lectures by Achmea Bank

1300+

Achmea Bank in numbers

Financial highlights

Operational result

€39,2 million ↑

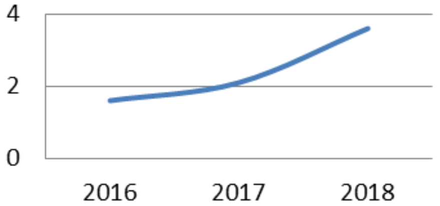
2017: 22,1 million

Total result (before tax)

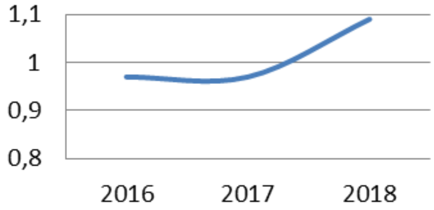
€38,9 million ↑

2017: 23,6 million

Return on equity |
in %



Net interest margin (excl. changes in fair value) **|**
in %



Core Equity Tier 1 |

20.8%

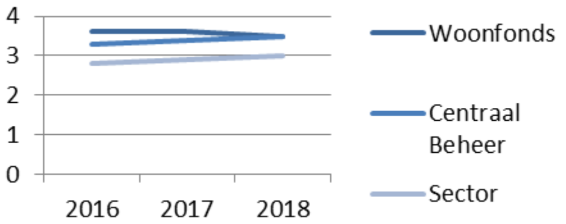
2017: **20.4%**

Efficiency ratio (exl. changes in fair value) **|**

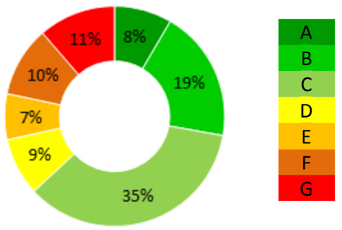
67.8%

2017: 86.2%

Trust in the financial sector and trust in our brands
According to the Dutch Banking Association (scale 0 – 5)



Energy label properties



Executive Board Report

The executive board

Mr. Pierre Huurman and Mr. Pieter Emmen

About us

Achmea Bank is a wholly owned subsidiary of Achmea B.V. (hereafter 'Achmea'), the largest insurer in the Netherlands, with a history of more than 200 years. Our mission, strategy and identity are strongly connected with Achmea and with the key brands Centraal Beheer and Woonfonds.

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

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. We currently originate and service mortgages for both the balance sheets of Achmea Bank and Achmea Pensioen- en Levensverzekeringen N.V.

We develop, market and service the mortgage and retail savings products for the Achmea brands (Centraal Beheer, Woonfonds and Acier). Centraal Beheer and Woonfonds employ the distributive power of intermediaries to offer mortgage loans. Furthermore, Centraal Beheer offers mortgage loans online. The label Acier relates to the former Staalbankiers portfolio that was acquired in 2015 and 2016.

We also provide expertise in the fields of product management, balance sheet management, product pricing, operating processes, (financial) risk management and compliance.

Achmea Bank is a customer-driven, efficient and agile bank. We are actively involved with our customers and society. Our staff are trustworthy, knowledgeable and professional. The duty of care is deeply embedded in our corporate culture. We treat our customers and other stakeholders with due care and respect. We have entrepreneurial spirit, are result oriented and have an open and informal culture. Achmea Bank is located in Tilburg and employs around 200 people.

Mission

Achmea Bank believes that everyone should have the financial means and opportunities for a comfortable life. Now and in the future. Together with our business partners we offer financial solutions for retirement and for the purchase of residential property. We offer customers simple and transparent mortgage and savings products.

Strategy

Achmea Bank is strategically important for Achmea. Achmea aims to be a leading player in retirement services in response to social and demographic trends and in anticipation of a shift towards more individualized needs for retirement solutions. Achmea has positioned itself strongly in this market and offers integrated propositions to consumers consisting of pension solutions, investment products, and savings and mortgage products.

Executive Board Report

Achmea Bank plays a key role in the retirement services strategy of Achmea by providing savings and mortgage products through respected and well-known brands. Our products are a part of the retirement services and of the solutions offered by the Achmea brands.

Business Model

Our business model is primarily based on the interest margin on mortgage products. We offer mortgage and savings products through the online and broker channel that are easy to understand and fairly priced.

In terms of mortgages, we provide a full range of mainstream products - from 1 to 30 year maturities - primarily through the Centraal Beheer brand. With the Woonfonds brand we aim to target clients in underserved market segments with tailored solutions such as buy-to-let and mortgages for the self-employed. Achmea Bank originates and services mortgages for both the balance sheets of Achmea Bank and Achmea Pensioen- en Levensverzekeringen N.V. (AP&L).

For savings, we offer flexible and fixed-term products and bank annuities under the Centraal Beheer brand. The broad range of savings products provide funding stability and flexibility to respond if market conditions change. In order to lower funding costs, in 2018, we focused more on instant-access savings with a variable interest rate and put less emphasis on more expensive fixed-term savings.

Goals

To improve interest margins and realize profitable growth, we are developing new propositions for specific segments of the mortgage market which offer higher returns. In 2018 we introduced a mortgage product for the buy-to-let market through the Woonfonds brand.
We aim for a high level of customer satisfaction. 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 approach across channels. We strive to offer our customers an excellent digital customer experience. In 2018 we have continued to invest in online services and portals at both Centraal Beheer and Woonfonds.

We are continually striving for cost reduction. In 2018 we implemented a new IT platform for our savings products which significantly lowered costs. We also benefited from the outsourcing to Quion in 2017. Our efficiency ratio improved from 86.2% to 67.8%.

Identity

Customer interest is a central theme in Achmea Bank's business culture, as is the duty of care. The duty of care to our customers is anchored in everything we do. This forms an integral part of our identity, vision and daily business operations. The interests of all stakeholders are taken into account. Our employees are honest, knowledgeable and experts in their field. In all our actions, integrity is seen as vital to securing confidence in the Bank on a lasting basis.

To this end, Achmea Bank nurtures a culture of openness in which people are able to raise integrity issues without inhibition.
We have a Code of Conduct in which we describe how we treat each other and how we deal with information, resolve conflicts of interest, manage incidents and handle complaints. In addition to the internal rules of conduct, external codes of conduct also apply for our employees, including the banker's oath.

Executive Board Report

Market developments

Driven by the combination of strong economic growth and record-low interest rates, housing prices continued to rise in the Netherlands. Consequently in 2018 the volume of the Dutch mortgage market increased to approximately EUR 702 billion (2017: EUR 695 billion).

Competition from new market entrants in the Dutch mortgage market continues to put pressure on the margin for mainstream mortgage loans. We therefore chose to target clients in underserved segments with tailored products such as Buy-to-Let and mortgage loans for the self-employed. The persistently low interest rates have also led to increased demand for mortgage loans with longer fixed-interest terms (20 and even 30 years). Through our AP&L mandate, we serve customers in this segment through the AP&L balance sheet with no credit risk for Achmea Bank. Despite the low interest rates, saving is still popular. However, driven by the low interest rates, savings clients give preference to on-demand accounts over fixed-term deposits. In 2018 the savings market grew by EUR 13 billion, from EUR 341 billion by the end of 2017 tot EUR 354 billion by the end of 2018.

Financial performance

IN MILLIONS OF EUROS	2018	2017	CHANGE
Interest Income	382	426	−10%
Interest expense	272	323	−16%
Interest margin	**110**	**103**	**7%**
Changes in fair value of financial instruments	–	2	−100%
Interest margin and changes in fair value of financial instruments	**110**	**105**	**5%**
Other income	2	2	0%
Fees and commission income and expense	4	5	−20%
Operating income	**116**	**112**	**4%**
Impairment of financial instruments and other assets	−2	−7	−71%
Operating expenses	79	95	−17%
Total expenses	**77**	**88**	**−13%**
Operating profit before income taxes	**39**	**24**	**63%**
Income tax expense	10	6	67%
Net profit	**29**	**18**	**61%**
Operating profit excluding exceptional items	39	15	160%
Operating profit before income taxes regular Achmea Bank portfolio	38	17	124%
Operating profit before income taxes Acier loan portfolio	1	7	−86%
Operating profit before income taxes Achmea Bank	**39**	**24**	**63%**

RATIOS	2018	2017
Return on average equity	3.6%	2.1%
Efficiency ratio (operating expenses/interest margin, fees and other income)	67.8%	86.2%
Common Equity Tier 1 Capital Ratio	20.8%	20.4%
Total Capital Ratio	20.9%	20.5%
Leverage ratio	6.5%	6.0%
Net Stable Funding Ratio	121%	119%
Liquidity Coverage Ratio	364%	255%

The operating profit, excluding exceptional items, increased from EUR 15 million in 2017 to EUR 39 million in 2018. The growth in the operating profit is mainly due to a higher interest margin of EUR 7 million and lower operating expenses of EUR 16 million. The structural lower operating expenses are mainly the result of the outsourcing of our mortgage servicing to Quion and the implementation of the new

Executive Board Report

savings- and payment system. The 2017 result included the following exceptional items: release of the Acier loan loss provision of EUR 7 million and a positive fair value result of EUR 2 million.

In line with Achmea Bank's strategy, Woonfonds has introduced several new niche mortgage propositions, among others a buy-to-let mortgage (2018) and a mortgage product for self-employed persons (end of 2017). Centraal Beheer continues to focus on an excellent digital customer experience. Due to Achmea Bank's focus on niche propositions to achieve better interest margins over additional volume in the mainstream market, production of new mortgages decreased by EUR 0.1 billion to EUR 0.6 billion. In a strong competitive market the production for Achmea Pensioen- en Levensverzekeringen N.V. decreased to EUR 0.3 billion (2017 EUR 0.7 billion). The regular mortgage portfolio of Achmea Bank decreased by EUR 0.5 billion to EUR 9.8 billion with total prepayments stabilizing at EUR 1.1 billion.

As of 1 January 2018, Achmea Bank applies the IFRS 9 reporting standards for financial instruments. The initial impact of IFRS 9 on equity amounts to EUR 13 million negative after tax, mainly related to a change in the classification and measurement of a small part of the mortgage portfolio. The negative impact on equity of the implementation of IFRS 9 per 1 January 2018 on the loan loss provision of the regular portfolio amounted to EUR 3 million (3 basis points). Achmea B.V. issued a capped guarantee to cover credit risk and legal claims related to the Acier portfolio. The impact on the Acier portfolio was largely compensated by this guarantee.

The savings portfolio decreased, as expected, to EUR 5.7 billion (2017 EUR 6 billion), mainly driven by expiring term deposits. In 2018 Achmea Bank redeemed EUR 1.2 billion senior unsecured notes. The Bank retained its sound liquidity position with liquidity ratios well above internal and external limits.

Risk management and Banking Code

As part of an ongoing internal risk management process, the Bank has embedded key risks and controls defined for its primary processes in the entire organization. The Bank continuously reviews and fine-tunes the monitoring and management of its financial and non-financial risks, including compliance related issues as Anti-Money Laundering and Customer Due Diligence. More detailed information about financial risk (management) can be found in the section 'Capital and Financial Risk Management'. Overall the Bank has shown further improvement in 2018 of its risks and balance sheet & Financial Risk management.

Achmea Bank has implemented the banking code and applies it. The Code helps to increase awareness of the role of banks and their responsibilities towards society. Achmea Bank devotes a great deal of attention to the Code in its operations, risk management and in its dealings with customers and other stakeholders.

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

Capital and liquidity position

In its liquidity and capital management, Achmea Bank applies a liquidity survival period (LSP) of at least six months. That means that the Bank has to maintain a liquidity buffer that covers the total net cash outflow during a period of at least six months. The LSP at year-end 2018 was 15.1 months (2017: 9.1 months). On a regular basis the Bank performs stress tests to assess the adequacy of its liquidity buffers.

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are monitored against the minimum internal limits. The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The aim of the NSFR is to ensure that long-term assets are financed with stable, longer term funding. Achmea Bank set its internal minimum targets for both the LCR and NSFR at 105% for 2018. 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 121% (2017: 119%).

The Leverage Ratio (LR) is a regulatory capital adequacy measure under CRD IV/CRR. The LR is calculated as an institution's capital divided by that institution's total non-risk weighted exposures, expressed as a percentage. Achmea Bank complies with the internal minimum requirement for 2018 of 3.5% and the (expected future) external minimum requirements; the LR at 31 December 2018 was 6.5% (2017: 6.0%).

The Total Capital ratio increased to 20.9% (2017: 20.5%). The Common Equity Tier 1 (CET1) Capital ratio increased to 20.8% as per December 2018 (20.4% at the end of 2017). The decline of the mortgage portfolio and 2017 result more than compensated the dividend pay-out of EUR 50 million in May 2018.

Executive Board Report

Outlook

Despite the pressure on interest margin in the current low interest environment, we expect to be able to further improve interest margin by further decreasing funding costs and continued focus on niche propositions. Because of a policy change by Achmea B.V. with respect to cost allocation , Achmea Bank will be charged higher costs from 2019 onwards (increase of approximately 15%). We expect the number of defaults in the regular portfolio to continue to be low. Given the specific nature of the Acier portfolio, coupled with the macro-economic uncertainty, we are unable to make any predictions regarding loan impairments in the Acier portfolio and fair value effects.

Tilburg, 14 March 2019

The Executive Board,

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

Supervisory Board Report

The Supervisory Board

From left to right: Mr. Henny te Beest, Mrs. Bianca Tetteroo, Mr. Huub Arendse (chairman) & Mr. Jan Molenaar

Main developments in 2018

The Supervisory Board is responsible for supervising and advising the Executive Board on its conduct and general management of the business, as well as on company strategy within the context of the Achmea Group strategy. Supervisory Board approval is required for important business-related decisions, such as strategic decisions, transfer of a significant part of the business, entering into or terminating a long-term partnership, major participations and investments, and the termination of employment of a large number of employees.

The Supervisory Board convened on eight occasions in 2018, six ordinary meetings and two extra meetings. Important items on the agenda included the full-year and half-year figures, progress on implementation of strategy, the status of strategic projects - such as the implementation of the new savings and payment system - new product development, the positioning of our brands, capital and funding plans, risk appetite, balance sheet transactions, strategic personnel planning and the strengthening of the internal organization.

One of the Supervisory Board's key duties is its involvement in developing Achmea Bank's strategy (within the context of the Achmea Group strategy) and monitoring its implementation. Achmea Bank's strategy focuses on strengthening the current business model, developing new niche products with higher (risk-adjusted) returns and adding value to Achmea's retirement strategy. The Executive Board and the Supervisory Board discussed the strategy in a number of meetings. The Supervisory Board also invited staff members and managers of the Bank to inform the board about relevant developments at the bank and in the markets in which Achmea Bank is active. The Supervisory Board rates its relationship with the Executive Board as good. The reports and information provided to the Supervisory Board were further improved. The interests of the company's stakeholders were incorporated in these reports in a balanced manner.

Audit & Risk Committee

The Audit & Risk Committee is composed of the members of the Supervisory Board, chaired by Mr Henny te Beest and is attended by the Executive Board, Internal Audit and the independent auditor. The Audit & Risk Committee convened on six occasions in 2018. At the meetings the following subjects were discussed: risk analysis, risk policies, risk appetite with focus on credit risk, market risk, capital and liquidity adequacy, operational risk, compliance risk and strategic risk. The Audit & Risk Committee also approved and monitored the internal and external audit plan and the progress made in the resolution of audit issues including IT and compliance related issues. The Audit & Risk Committee monitored the implementation of IFRS 9 and of the General Data Protection Regulation (GDPR) and discussed the key financials. Furthermore, the Audit & Risk Committee discussed the reports of the specific audits of the internal auditors and the independent auditor and reports of DNB and AFM.

Permanent education

Every year the members of the Supervisory Board and Executive Board attend a number of permanent education (PE) meetings. In 2018 several permanent education sessions were organized for Supervisory Board members. The main topics covered in 2018 in these sessions were Advanced IRB, hedge accounting, market risk, stress testing and IT (Artificial Intelligence, Cloud, Data and Blockchain).

Supervisory Board Report

Attendance rates

The table to the right provides an overview of the attendance rates of the ordinary meetings of each individual board member. To avoid a possible conflict of interest between the Executive Board Achmea B.V. role and the Supervisory Board role, Bianca Tetteroo didn't attend two extra calls of the Supervisory Board.

Name	The Supervisory Board	Audit & Risk Committee
H. Arendse	100%	100%
H. te Beest	100%	100%
B. Tetteroo	100%	100%
J. Molenaar	100%	100%

Finance and risk

The Supervisory Board and the Audit & Risk Committee discussed Achmea Bank's financial situation based on the interim and yearly results, in addition to discussing and approving the Annual Report for 2017. The Supervisory Board underscored the Executive Board's commitment to achieve its financial ambitions: further cost reductions while continuing to invest in excellent (digital) customer service, innovations and strategic initiatives to increase financial return in the long term. The Supervisory Board noted that considerable progress has been made in 2018 in improving the operational result. The discussions on the annual and interim reporting were also attended by the independent auditor. The Supervisory Board approved the proposal of the Executive Board to the General Meeting of Shareholders to pay dividends of EUR 50 million for 2017 to its shareholder (Achmea B.V). Achmea Bank reported a profit before tax of EUR 39 million in 2018 (2017 EUR 24 million). The operating profit, excluding exceptional items, increased from EUR 15 million in 2017 to EUR 39 million in 2018. The growth in the operating profit is mainly due to a higher interest margin of EUR 7 million and lower operating expenses of EUR 16 million.

Composition of the Executive Board

Achmea Bank N.V. has considerably improved its operational performance over the past years. The focus was on cost reductions, improving business processes and making the services provision more customer friendly. This led to a decrease in size of the organization. This, in turn, led to the decision to reduce the Board of Directors from three to two members. As a result, the position of Director of Operations, which had been held by Vincent Teekens, ended in April 2018. During his tenure Vincent Teekens made a significant contribution to the operational transformation of Achmea Bank.The Supervisory Board thanks Vincent for his important contribution to the Bank during his membership of the Board in the past years. As of 1 April 2018 the Board of Directors consists of two members: Pierre Huurman and Pieter Emmen.

Remuneration Committee

In 2018 the Supervisory Board decided that remuneration issues would be discussed by the entire board rather than in a separate Remuneration Committee. The implementation of the remuneration policy was evaluated in 2018. The Supervisory Board provided input regarding the achievements of the Executive Board. The remuneration of the Executive Board members and the senior staff of Achmea Bank for 2017 was approved. 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.

Composition of the Supervisory Board

Members of the Supervisory Board are selected based on a profile which involves the required professional background, education, international experience, skills, diversity and independence. The composition of the Supervisory Board is such that the members can perform their duties properly because of the appropriate mix of experience and expertise. As of 1 January 2018 Petri Hofsté stepped down as Chair of the Supervisory Board. She has been succeeded by Huub Arendse. In 2018 the Supervisory Board had four members as shown in the table below.

Name	Nationality	Sex	Function	Term (up to three installments)	Next reappointment
H. Arendse *(1958)*	Dutch	Male	Chairman	First	2021
H.W. te Beest *(1950)*	Dutch	Male	Member	First	2019
B.E.M. Tetteroo *(1969)*	Dutch	Female	Member	First	2021
J..B.J.M. Molenaar *(1950)*	Dutch	Male	Member	Third	-

Tilburg, 14 March 2019

The Supervisory Board,

Mr. H. (Huub) Arendse, Chair
Mrs. B.E.M. (Bianca) Tetteroo
Mr. H.W. (Henny) te Beest
Mr. J.B.J.M. (Jan) Molenaar

Corporate Social Responsibility

How we give back to society

Achmea Bank wants to make a positive contribution to society. Achmea Bank has drawn up a policy for Corporate Social Responsibility in which we describe how we fulfill our social responsibility. The main topics of this policy are financial education, sustainable living and sustainable working

- Financial education: we use our knowledge to increase the financial self-reliance and financial awareness of people and vulnerable groups.
- Sustainable living: Through our financing we contribute to the sustainability of homes. For example, our customers can apply for an additional loan to make their home more sustainable.
- Sustainable working: In our business operations, we want to be as little harmful as possible for our environment.

To which Sustainable Development Goals does Achmea Bank contribute?

The Sustainable Development Goals (SDGs) are objectives set by the United Nations to develop the world in a sustainable way. Achmea Bank has chosen to focus on the three SDGs to which it can make the largest contribution.

Increasing financial self-reliance through education;

Making a positive contribution to the sustainability of homes; and

Lowering our own carbon footprint

Financial education

Financial education is generally not part of the Dutch education curriculum. Therefore banks have a responsibility in this matter. Achmea Bank is committed to financial education and increasing the general level of knowledge about money matters in society. Through information on the websites of our brands such as the Mortgage Academy of Centraal Beheer, we enable consumers to make informed choices. In addition, our employees give guest lessons in schools during the ´Week of Money´ and, through the Eurowijzer 3 project, we sponsor the financial education of refugees.

During the European Money week Achmea Bank employees gave more than 50 guest lessons reaching over 1,300 children.

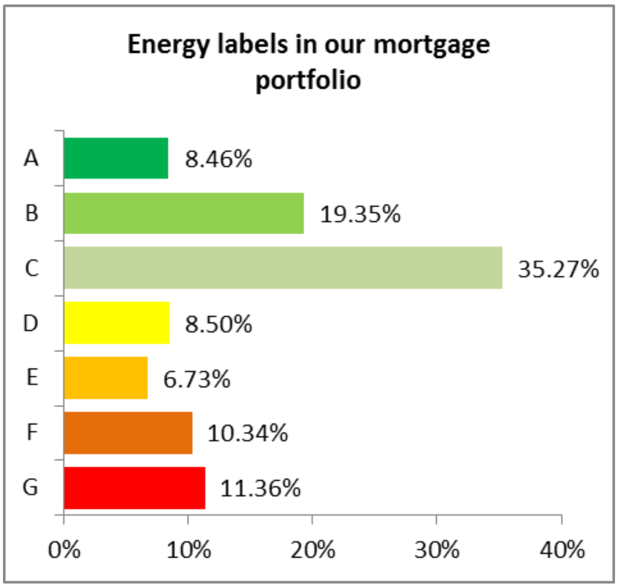
Corporate Social Responsibility

Eurowijzer 3

Eurowijzer 3 is a project of the Dutch Council for Refugees (VluchtelingenWerk Nederland). The aim of this project is to make refugees, who have received a residence permit, financially more resilient. Achmea Bank believes that integration into a new country is already difficult enough, financial problems could make this process even more complex.

Mortgage Academy

For most people buying their first home is one of the most important financial decisions in their lives. Choosing and taking out the right mortgage is a complex process about which many people simply do not know enough. That is why Achmea Bank and Centraal Beheer have developed the Mortgage Academy. The Mortgage Academy is an online learning environment that provides consumers with all the knowledge they need about the financial aspects of a mortgage. After finishing all the e-learning modules of the Mortgage Academy, consumers can apply for a mortgage on an 'execution only' basis.



Commitment of the Dutch Financial sector

The banks in the Netherlands, united in the Dutch Banking Association (NVB), have drawn up a climate statement committing themselves to the Paris Agreement and the Climate Agreement of the Dutch government. The aim of the Climate Agreement is to reduce carbon emissions by 49% by 2030 compared to 1990. The Dutch banks will start reporting on the CO2 footprint of their financing and draw up action plans to limit this. They will also encourage clients where possible to reduce their CO2 emissions and help them to do so with products and services.

Sustainable living

Approximately 30% of the carbon emission in the Netherlands is caused by households. In order to realize the ambitions of the Paris climate agreement, a large part of the Dutch housing stock needs to be made more sustainable. As a mortgage provider, we have a social responsibility to contribute to the reduction of greenhouse gas emission stemming from houses we finance. That is why we offer financing options to make homes more sustainable. In 2019 we will start monitoring the CO2 emissions of our mortgage portfolio. We will also encourage our customers to reduce emission by making their homes more sustainable. The table on this page shows the division of energy labels of our mortgage portfolio.

Sustainable working

Achmea has the ambition to help reduce carbon emission by reducing its own carbon footprint. Our energy consumption, waste products, and the carbon emission caused by commuter traffic have a direct impact on the environment. We strive to lessen this impact by cutting down on energy consumption, paper consumption, and by reusing our waste products.

Our workplaces are flexible. Sometimes we work at home and sometimes at one of the Achmea locations. Working from home helps to lessen traffic congestion and so reduce CO2 emission. Moreover, this flexibility offers our employees the opportunity to better coordinate their work-life balance. From 2011 Achmea Group's operations have been CO2-neutral. Achmea's net CO2 emission in the Netherlands is compensated by purchasing carbon emission certificates. Achmea Group incorporates sustainability criteria in its purchasing policy and its investment policy. A more detailed report on our results in the field of sustainability can be found in Achmea Group's annual report.

Achmea Bank N.V.
Financial Statements

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

BEFORE APPROPRIATION OF RESULT				
IN THOUSANDS OF EUROS				
AS AT		31 DECEMBER 2018	1 JANUARY 2018	31 DECEMBER 2017
	Note			
Assets				
Cash and balances with Central Banks	10	115,781	890,063	890,063
Derivative assets held for risk management	9	82,575	118,635	118,635
Loans and advances to banks	11	758,361	993,056	993,221
Loans and advances to public sector	12	699	722	722
Loans and advances to customers	5	11,056,321	11,700,018	11,730,641
Interest-bearing securities	13	201,168	403,561	403,561
Prepayments and other receivables	14	70,912	75,786	62,512
Total Assets		**12,285,817**	**14,181,841**	**14,199,355**
Liabilities				
Derivative liabilities held for risk management	9	470,479	573,427	573,427
Deposits from banks	15	202,148	144,635	144,635
Funds entrusted	7	5,859,866	6,171,584	6,171,584
Debt securities issued	6	4,858,361	6,362,719	6,362,719
Provisions	16	150	1,600	1,600
Current tax liabilities	20	34,102	26,004	25,857
Deferred tax liabilities	19	1,632	4,994	9,519
Accruals and other liabilities	18	45,562	61,203	61,203
Subordinated liabilities	17	8,336	8,336	8,336
Total Liabilities		**11,480,636**	**13,354,502**	**13,358,880**
Share Capital		18,152	18,152	18,152
Share premium		505,609	505,609	505,609
Reserves		251,948	298,990	298,990
Impact of adopting IFRS 9 at 1 January 2018		–	−13,136	–
Net profit		29,472	17,724	17,724
Total Equity	**21**	**805,181**	**827,339**	**840,475**
Total Equity and Liabilities		**12,285,817**	**14,181,841**	**14,199,355**

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN THOUSANDS OF EUROS			
FOR THE YEAR ENDED 31 DECEMBER		2018	2017
	Note(s)		
Interest income (amortised cost items)	8	381,781	426,177
Interest income (other items)		960	–
Interest expenses (amortised cost items)		271,398	322,458
Interest expenses (other items)	8	844	–
Interest margin	**8**	**110,499**	**103,719**
Changes in fair value of financial instruments	9	−288	1,552
Interest margin and changes in fair value of financial instruments		**110,211**	**105,271**
Other income	23	1,876	2,105
Fees and commission income and expense	24	4,211	5,094
Operating income		**116,298**	**112,470**
Impairment of financial instruments and other assets	5/16	−1,678	−6,769
Operating expenses	25	79,027	95,605
Operating profit before taxes		**38,949**	**23,634**
Income tax expense	28	9,477	5,910
Net profit		**29,472**	**17,724**
Operating profit/loss before taxes regular Achmea Bank portfolio	22	37,885	17,002
Operating profit/loss before taxes Acier portfolio	22	1,064	6,632
Operating profit before taxes	**22**	**38,949**	**23,634**
Other comprehensive income/expense (non-permanent part of Equity)			
Fair value adjustments on items classified as fair value through Other comprehensive income	21	−2,133	−521
Tax effect on Net fair value adjustments on items classified as fair value through Other comprehensive income		503	131
Other comprehensive income/expense net of income tax (non-permanent part of Equity)		**−1,630**	**−390**
Total comprehensive income for the period		**27,842**	**17,334**
Net profit:			
Attributable to owners of the parent		29,472	17,724
Net profit for the period		**29,472**	**17,724**
Total comprehensive income:			
Attributable to owners of the parent		27,842	17,334
Total comprehensive income for the period		**27,842**	**17,334**

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED	SHARE CAPITAL	SHARE PREMIUM	FAIR VALUE RESERVE	PROFIT FOR THE YEAR	OTHER RESERVES	TOTAL EQUITY
IN THOUSANDS OF EUROS						
Balance at 31 December 2017	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**
Impact of adopting IFRS 9 at 1 January 2018	–	–	61	–	−13,197	−13,136
Restated balance as at 1 January 2018	**18,152**	**505,609**	**1,070**	**17,724**	**284,784**	**827,339**
Total comprehensive income for the period						
Net profit	–	–	–	29,472	–	29,472
Other comprehensive income/expense, net of income tax						
Fair value reserve:	**–**	**–**	**–**	**–**	**–**	**–**
Change in fair value net of income tax (will be fully recycled through P&L) (note 13)	–	–	−1,630	–	–	−1,630
Total comprehensive income for the period	**–**	**–**	**−1,630**	**29,472**	**–**	**27,842**
Transaction with owners, recognised directly in equity						
Dividends paid	–	–	–	−17,724	−32,276	−50,000
Appropriation of profit 2017	–	–	–	–	–	–
Capital contribution	–	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**−17,724**	**−32,276**	**−50,000**
Balance at 31 December 2018 (note 21)	**18,152**	**505,609**	**−560**	**29,473**	**252,508**	**805,181**
Balance at 1 January 2017	**18,152**	**505,609**	**1,399**	**12,976**	**285,005**	**823,141**
Total comprehensive income for the period						
Net profit	–	–	–	17,724	–	17,724
Other comprehensive income/expense, net of income tax						
Fair value reserve:	**–**	**–**	**–**	**–**	**–**	**–**
Change in fair value net of income tax (will be fully recycled through P&L) (note 13)	–	–	−390	–	–	−390
Total comprehensive income for the period	**–**	**–**	**−390**	**17,724**	**–**	**17,334**
Transaction with owners, recognised directly in equity						
Appropriation of profit 2016	–	–	–	−12,976	12,976	–
Capital contribution	–	–	–	–	–	–
Balance at 31 December 2017 (note 21)	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER			
IN THOUSANDS OF EUROS		2018	2017
Cash flow generated from operating activities	**Note(s)**		
Net profit		**29,472**	**17,724**
Adjustments for non-cash items in the result:			
Impairment on financial instruments and other assets	5/16	−1,678	−6,769
Net interest and other income		−112,376	−105,825
Changes in derivatives held for risk management		−59,326	−48,521
Changes in fair value of financial instruments	9	288	−1,552
Other non-cash items		54,629	92,435
Income tax expense	28	9,477	5,908
		−79,514	**−46,600**
Changes in operating assets and liabilities:			
Loans and advances to banks	11	191,770	153,717
Loans and advances to public sector	12	23	15,023
Loans and advances to customers	5	604,098	624,701
Prepayments and other receivables	14	6,462	−35,852
Deposits from banks	15	57,700	47,250
Funds entrusted	7	−332,136	−187,203
Accruals and other liabilities	18	−13,191	20,072
Changes in tax assets and liabilities	19	−62	−130
Interest received	8	365,748	442,993
Interest paid	8	−262,762	−335,372
Income tax received	28	–	1,700
Income tax paid	28	−4,196	–
		613,454	**746,899**
Net cash flow generated from operating activities (1)		**533,940**	**700,299**
Cash flow generated from investing activities			
Interest-bearing securities purchased	13	−132,148	−214,588
Interest-bearing securities sold	13	332,037	212,252
Net cash flow generated from/(used in) investing activities (2)		**199,889**	**−2,336**
Cash flow generated from financing activities			
Repayments of Debt securities issued	6	−1,999,985	−1,450,015
Issues of Debt securites issued	6	498,841	1,013,366
Debt securities issued	**6**	**−1,501,144**	**−436,649**
Dividend Payment		−50,000	–
Net cash flow used in financing activities (3)		**−1,551,144**	**−436,649**
Net cash flow (1) + (2) + (3)		**−817,315**	**261,314**
Cash and cash equivalents as at 1 January		944,398	683,084
Cash and cash equivalents as at 31 December		127,083	944,398
Movements in cash and cash equivalents		**−817,315**	**261,314**
Reconciliation of movement in Cash and cash equivalents			
Cash and balances with Central Banks	10	−774,282	231,738
Loans and advances to banks on demand	11	−43,033	29,576
		−817,315	**261,314**

Notes To The Consolidated Financial Statements

1. GENERAL INFORMATION

Achmea Bank N.V. is located at Spoorlaan 298, Tilburg (the Netherlands) with its registered office in The Hague (the Netherlands). It is registered at the Chamber of Commerce under number 27154399. The number of employees was 203 FTEs on 31 December 2018 (2017: 268 FTEs). The core products of Achmea Bank N.V. ('the Bank') consist of savings products for private individuals and residential mortgage loans for properties in the Netherlands. The shares in the Bank are held by Achmea B.V. At year-end 2018 the main shareholders of Achmea B.V. were Vereniging Achmea (61%) and Coöperatieve Rabobank U.A. (28%).

The Bank's consolidated financial statements for 2018 consist of the financial statements of all group companies in which the Bank has a controlling interest. Reference is made to paragraph 2B Basis of consolidation for an overview of the group companies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A AUTHORIZATION FINANCIAL STATEMENTS

The Bank´s consolidated financial statements for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Executive Board on 14 March 2019. At the same date, the Supervisory Board gave its advice to the General Meeting of Shareholders to adopt the financial statements. The Executive Board may decide to amend the financial statements as long as these have not been adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the financial statements, but may not amend these.

B BASIS OF PRESENTATION

The Bank´s consolidated financial statements 2018, including the 2017 comparative figures, have been prepared in accordance with the International Financial Reporting Standards - including International Accounting Standards (IAS) and Interpretations - as adopted by the European Union (hereafter EU and EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code. The comparative figures have been prepared in accordance with the IAS 39 accounting principles. These have been disclosed in the Annual Report 2017.

The financial statements have been prepared on a historical cost basis, except for the following:

- derivative assets and liabilities held for risk management
- Interest bearing securities.

In addition, Achmea Bank split the explanatory notes into the chapter 'notes to significant balance sheet and income statement items' and other items. The notes relating to Achmea Bank's core activities are included in 'significant parts of the balance sheet and income statement' and the remaining notes that do meet the criteria for quantitative and qualitative relative importance in the chapter Other notes.

The specific accounting principles for individual balance sheet and income statement items are disclosed in the explanatory notes.

Notes To The Consolidated Financial Statements

C INITIAL APPLICATION OF ACCOUNTING POLICIES

In 2018 the following amendments to Standards and Interpretations issued by the International Accounting Standard Board (IASB) were adopted:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Annual improvements to IFRS's 2014-2016 cycle: annual improvements consisting of a number of changes with limited impact
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The impact of IFRS 9 and IFRS 15 are disclosed below, the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

ADOPTION OF IFRS 9

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. Achmea Bank did not early adopt any of IFRS 9 in previous periods. The Bank has elected to continue to apply the macro fair value hedge accounting requirements of IAS 39.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 ‘Financial Instruments: Disclosures’.

The disclosures relating to the impact of the adoption of IFRS 9 on the Bank are disclosed below. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in relevant sections.

Classification and measurement of financial instruments
Financial assets should be classified and measured in accordance with the business models of Achmea Bank as well as by the type of contractual cash flows of the underlying financial assets. Both elements determine whether they will be measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss account (FVtPL). As per 1 January 2018, Achmea Bank reviewed their financial assets based on the new IFRS 9 reporting standards.

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

Expected credit loss (ECL) is, in contrast to the IAS 39 incurred losses, a forward looking measure. The forward looking aspect is included to make sure that future losses are accounted for in an early stage and that the phrase “too little, too late” will not repeat in the future.
The main responsibility of Model Development is to develop and maintain the Expected Credit Loss models to be used by Control for their monthly reporting. These models are also used for Stress testing and Capital planning purposes, which means the same methodology is used for reporting actuals (Finance) and forecasting (Credit Risk and Capital Management).

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

Notes To The Consolidated Financial Statements

TRANSITION TABLE TO IFRS 9

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

TRANSITION OF ASSETS PER 1 JANUARY

IN MILLIONS OF EUROS	CLASSIFICATION IAS 39	CARRYING AMOUNT IAS 39	RECLASSIFICATION	CLASSIFICATION IFRS 9	IMPAIRMENT	CARRYING AMOUNT IFRS 9
Cash and balances with Central Banks	L&R	890.1		AC		890.1
Derivative assets held for risk management	FVtPL	118.6		FVtPL		118.6
Loans and advances to banks	L&R	993.2		AC	−0.2	993.0
Loans and advances to public sector	L&R	0.7		AC		0.7
Loans and advances to customers at amortised cost	L&R	11,730.6	226.6	AC	−18.1	11,700.0
of which Loans and advances to customers at fair value	FVtPL	239.1	−239.1	AC		–
Interest-bearing securities	AFS	403.6		FV OCI		403.6
Prepayments and other receivables	L&R	62.5		AC	13.3	75.8
Total		**14,199.4**	**−12.5**		**−5.0**	**14,181.8**

In 2006, Achmea Bank acquired a mortgage portfolio from Interpolis. This portfolio was valued at fair value through P&L. Since it was an intercompany transaction and there was no change in the valuation principles at the consolidated level, Achmea Bank valued this portfolio under fair value through P&L at IAS 39. The reclassification as shown in the table above relates to this portfolio which was measured at fair value through profit and loss and was reclassified to amortised cost under IFRS 9 based on its business model hold to collect and meeting the 'solely payments of principal and interest' (SPPI) requirements. The resulting remeasurement loss of EUR 12.5 million was recognized in opening reserves at 1 January 2018.

The interest-bearing securities were classified as available for sale under IAS 39, given the underlying business model to hold to collect and sell and meeting the SPPI requirements these are now classified as 'fair value through OCI' (FVOCI).

The column impairment shows that the initial impact of the adoption of IFRS 9 on the loan loss provision amounted to EUR 18.3 million. EUR 14 million is related to the Acier portfolio, which was largely compensated by the capped guarantee Achmea B.V. issued to Achmea Bank to cover credit risk and legal claims related to the Acier portfolio. Reference is made to the risk management paragraph, section Credit Risk, for further details of the impairment calculations. Reference is made to the Risk Management paragraph section credit risk for a movement schedule for the loan loss provision.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

Implementation Achmea Bank
The main part of the revenues of the Bank consists of interest income, which are not in scope of IFRS 15. Furthermore, Achmea Bank receives fees for originating mortgages for the balance sheet of Achmea Pensioen- en Levensverzekeringen N.V. These fees are recognised in the income statement in the same period as the mortgages are originated. The related servicing fee is recognised on monthly basis. There are no commission fees for mortgages. The Bank adopted IFRS 15 from 1 January 2018 which resulted in changes in accounting policies. However, as explained above no adjustments in the figures were made.

CHANGES IN STANDARDS AND AMENDMENTS WITH FUTURE APPLICATION DATE

Notes To The Consolidated Financial Statements

The following standards were issued in 2018 or prior years and are not applied by Achmea Bank as these standards are not relevant for Achmea Bank in preparing its Consolidated Financial Statements 2018:

- IFRIC Interpretation 23 Uncertainty over income tax treatment
- IAS 28 Long-term interest in associates and joint ventures
- Annual Improvements to the IFRS Standards 2015-2017 Cycle
- IFRS 3 Business Combinations: Definition of a Business
- IAS 1 and IAS 8: Definition of Material
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- IFRS 16 Leases
- IFRS 17 Insurance contracts

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

AMENDMENTS RELATED TO PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

There are no prior period corrections or changes in presentation.

D 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 II) **)
- Achmea Covered Bond Company B.V. (shares are held by Stichting Holding Achmea Covered Bond Company) ***)
- Achmea Conditional Pass-Through Covered Bond Company B.V. (shares are held by Stichting Achmea Conditional Pass-Through Covered Bond Company B.V.)
- Stichting Trustee Achmea Bank
- 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 Bank, 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 Bank, 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.

Notes To The Consolidated Financial Statements

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.

E ELIMINATION OF INTERGROUP TRANSACTIONS AND ACCOUNTS

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

F SEGMENT INFORMATION

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

G CONSOLIDATED STATEMENT OF CASH FLOWS

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

H RECOGNITION, DERECOGNITION AND MEASUREMENT

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

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

Notes To The Consolidated Financial Statements

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

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

Measurement

At initial recognition, Achmea Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not measured at fair value through profit or loss (FVtPL), transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), as described in note 13, which results in an accounting loss being recognized in the income statement when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognizes the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

Amortised cost measurement

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

Fair value measurement

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

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

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

Fair value through OCI measurement

Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Notes To The Consolidated Financial Statements

I CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

From 1 January 2018, Achmea Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:
- Fair value through profit or loss (FVtPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost

A financial asset is measured at amortised cost when it meets both of the following conditions and is not designated at FVtPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only when it meets both of the following conditions and is not designated at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at Fair Value through Other Comprehensive Income (FVOCI) at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

Financial assets should be classified and measured in accordance with the business models of Achmea Bank as well as by the type of contractual cash flows of the underlying financial assets. Both elements determine whether they will be measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (FVtPL).

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level as this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVtPL as they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

Notes To The Consolidated Financial Statements

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

The transition table to IFRS 9 is included in the paragraph initial application of accounting policies.

J MODIFICATION

In some situations Achmea Bank renegotiates or otherwise modifies the contractual cash flows of financial assets and liabilities. When this happens, Achmea Bank assesses whether or not the new terms are substantially different to the original terms. Achmea Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

When the terms are substantially different, Achmea Bank derecognizes the original financial asset or liability and recognizes a 'new' asset or liability at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, Achmea Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

When the terms are not substantially different, the renegotiation or modification does not result in derecognition, and Achmea Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset or liability and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

K IMPAIRMENT OF FINANCIAL ASSETS

The Bank recognizes loss allowances for expected credit losses (ECL) on all financial instruments that are not measured at FVTPL. The Bank uses a three stage model: 12 Month expected credit losses for performing loans (stage 1), life time expected credit losses for under-performing financial assets (stage 2) and life time expected credit losses for credit impaired financial assets (stage 3).

The highlights of the three stage model for impairment are:

- A financial instrument that is not credit impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Bank;
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit impaired;
- If the financial instrument is credit impaired, the financial instrument is then moved to Stage 3;
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis;
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3);
- Undrawn loan commitments: the present value of the contractual cash flows that are due to the Bank and expect to receive if the commitment is drawn down.

Notes To The Consolidated Financial Statements

The measurement of ECL reflects:
- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank considers a financial asset to have low credit risk when their credit risk rating is equal to the globally understood definition of 'investment grade'. For these financial assets the Bank doesn't use a 3 stages ECL model to calculate the impairment charges. Further details are disclosed in the Risk Management paragraph.

L USE OF ESTIMATES AND ASSUMPTIONS

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

The estimates and underlying assumptions are evaluated on an ongoing basis. The effects of the revisions of estimates are recognised in the year in which the revision takes place.

Any assumptions made by Management in the application of IFRS which have a significant impact on the financial results of current or future years are disclosed in the relevant notes and in paragraph 3 Critical estimates and judgements used in applying the accounting policies.

M OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are netted in the consolidated statement of financial position if Achmea Bank:
- has a legally enforceable right to off set the asset and the liability; and
- intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

N FOREIGN CURRENCY

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

Notes To The Consolidated Financial Statements

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

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

RECOGNITION OF DEFERRED TAX ASSETS

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

FAIR VALUE DERIVATIVES

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

HEDGE ACCOUNTING

The Bank has designated derivatives as fair value hedges on the interest rate risk inherent in its mortgage portfolio (macro hedge) as well as on the interest rate risk and currency risk related to debt securities issued (micro hedge). For the application of fair value hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items or positions, as well as the risk management objective and strategy at the inception of the transaction. The fair value of the hedged item (based on the risk being hedged) may fluctuate significantly from time to time due to fluctuations in market rates and is calculated using a valuation model.
The valuation model makes maximum use of observable market inputs and limits the use of estimates made by the company.

MEASUREMENT EXPECTED CREDIT LOSS

The measurement of the expected credit loss for financial assets measured at amortised cost and fair value through OCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further explained in the risk management paragraph, section credit risk. This paragraph includes the sensitivity analysis of the expected loss models for the main mortgage portfolios of Achmea Bank.

BUSINESS MODELS AND SPPI TESTING

Achmea Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level, because this best reflects the way the business is managed and information is provided to management . One of the assumptions is the expected number of sales transaction related to the interest bearing securities.

Notes To The Consolidated Financial Statements

4. RISK MANAGEMENT

This chapter provides insight into the Bank's capital position, financial risks and the way Achmea Bank manages these risks. In this chapter, we provide the information that is required on the basis of IFRS 7 and IAS 1.

In addition, a separate Pillar 3 Report has been published on the website www.achmeabank.com.

This chapter describes the Bank's:

A. Risk strategy
B. Risk appetite
C. Risk governance
D. Solvency risk
E. Liquidity risk
F. Credit risk
G. Market risk
H. Operational risk
I. Cyber security and privacy
J. Fair value financial assets and liabilities
K. Fair value hierarchy

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

B RISK APPETITE

Risk appetite is defined as the level of financial and non-financial risk the Bank is willing to take, given the Bank's business objectives. The risk appetite is translated into the maximum decline in 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.

Notes To The Consolidated Financial Statements

C RISK GOVERNANCE

The CEO is responsible for the effectiveness of non-financial risk management , the CFRO is responsible for effectiveness of financial risk management. The financial risk management organisation is led by the senior manager Balance Sheet & Financial Risk Management. The non-financial risk management organisation, i.e. operational risk, is led by the senior manager Compliance & Operational Risk management.

The Bank aims to maintain a 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 the consistent control of liquidity risk, counterparty risk, credit risk, interest rate risk, currency risk, operational risk and solvency risk.

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 Committee and ALCo).

The Credit Committee and the ALCo are sub-committees of the Finance & Risk Committee (F&RC). The F&RC is the ultimate decision-making body for new and amended policies regarding financial and operational risks. The F&RC is chaired by the CFRO, other members are the CEO and the senior managers of Balance Sheet Management & Financial Risk, Control and Compliance and Operational risk.

The ALCo focuses on the management of interest rate risk, market risk, professional counterparty risk (retail counterparty risk is the focus of the Credit Risk Committee), liquidity risk, funding risk and capital management. The ALCo bases its decisions partly on standard reports in which actual as well as forecasted figures with several (stress) scenarios are represented. In addition the ALCo supervises compliance with the relevant regulatory guidelines, especially with regard to solvency, 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.

D SOLVENCY RISK

The Bank must hold sufficient buffer capital to cover the risks arising from its operations. Pillar I of the Capital Requirements Regulation (CRR) offers regulation for calculating the minimum amount of capital that needs to be held, in relation to credit risk, market risk and operational risk. Under these rules, the capital adequacy requirements relating to these risks can be calculated in a number of ways with varying degrees of sophistication. The Bank uses the standardized approach for credit risk to calculate the risk weightings of its assets. For operational risk the Bank uses the Basic Indicator Approach (BIA).

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

The Dutch Central Bank (DNB) sets overall (capital) limits, based on 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 is, also well above the internal minimum requirements.

QUALIFYING CAPITAL AND CAPITAL RATIO

Risk weighted assets

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

Dividend

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

Notes To The Consolidated Financial Statements

Common Equity Tier 1 Capital

In 2018 Tier 1 capital decreased by EUR 45 million from EUR 820 million to EUR 775 million, mainly as a result of the positive result of 2017, offset by IFRS 9 impact and the dividend payment in May 2018. As the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its core tier 1 capital. The deductions in the table below mainly relate to the revaluation reserve and prudent valuation.

Tier 2 capital

As of 31 December 2018 an amount of EUR 3 million (2017: EUR 4 million) qualifies as Lower Tier 2 and consists of subordinated loans.

QUALIFYING CAPITAL AND CAPITAL RATIO

IN MILLIONS OF EUROS	2018	2017
Share capital	18	18
Share premium reserve	506	506
Reserves	252	298
Deductions	−1	−2
Common Equity Tier 1 Capital	775	820
Lower Tier 2	3	4
Total own funds	778	824
Total risk exposure amount	3,728	4,024
Common Equity Tier 1 Capital Ratio	20.8%	20.4%
Total Capital Ratio	20.9%	20.5%
Total Capital Ratio excl. Acier loan portfolio	20.5%	17.6%

Internal capital adequacy requirements

The Bank has implemented internal processes to align 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) safeguards that the Bank is able to meet and maintain both the current and future capital adequacy of the Bank on a continuous basis.

Capital contingency

The purpose of capital contingency is to ensure that appropriate measures are taken in case of a (imminent) solvency deficit. The Bank monitors its solvency position on a monthly basis. However, the Bank recognizes that unexpected internal or external events may adversely affect the capital position for a shorter or longer period and that this may jeopardize the continuity of the Bank. It is essential to be able to obtain sufficient capital at all times, not only in a going-concern situation but also in stress situations.

E LIQUIDITY RISK

Liquidity risk comprises two basic types of risk:

- Market liquidity risk: The risk that, e.g. because of a crisis in the financial markets, the Bank cannot liquidate its assets in a short period of time at acceptable costs.
- Funding liquidity risk: The risk that the Bank is not able to (re)finance itself in order to meet its obligations. A typical example of this type of risk is a ‘bank run’.

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

Notes To The Consolidated Financial Statements

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).

LIQUIDITY BUFFER

As part of adequate liquidity management it is necessary for banks to have a sufficient liquidity buffer to sustain unforeseen liquidity stress situations. The Bank recognises a wide range of potential liquidity stress situations, for which it holds a liquidity buffer, e.g.:

- A bank run, resulting in a material outflow of retail 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 Levensverzekeringen 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 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.

FUNDING STRATEGY

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

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

FUNDING MIX

IN MILLIONS OF EUROS	2018	2017
Retail funding	5,680	5,939
Secured wholesale funding	2,461	2,891
Unsecured wholesale funding	2,713	3,690
Deposits from banks (excluding Central Bank)	30	67
Other funding	–	25
Total funding	10,884	12,612

Retail funding

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.

Notes To The Consolidated Financial Statements

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 Bank 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 1.2 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 private placements (2017: EUR 0.7 billion) and includes CHF denominated loans for an amount of CHF 0.4 billion (2017: CHF 0.3 billion).

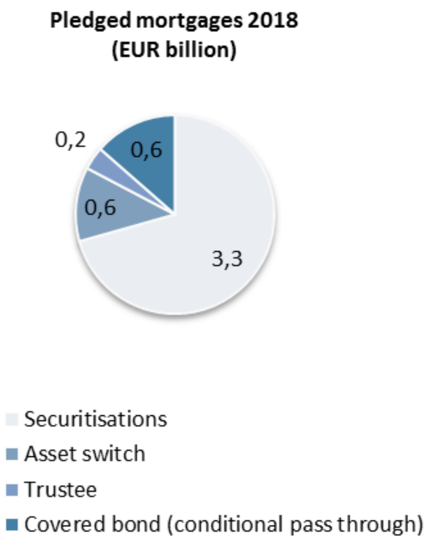
French commercial paper programme
In 2013 the Bank set up a French commercial paper programme of EUR 1.5 billion. With this programme the Bank is able to access the international money markets in order to further diversify its funding mix. In 2018 the ongoing programme resulted in a total outstanding amount of EUR 290 million as at year-end 2018 (2017: EUR 257 million).

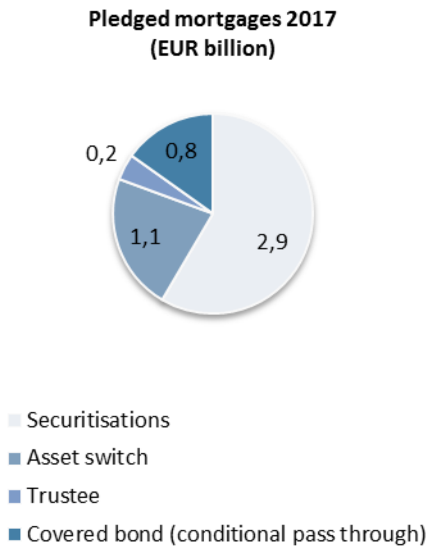
PLEDGED MORTGAGES

In the ordinary course of business, Achmea Bank enters into transactions that result in the transfer of loans and advances to customers. The transferred financial assets continue to be recognised in their entirety or to the extent of the Bank's continuing involvement, or are derecognised in their entirety.

Notes To The Consolidated Financial Statements

The pledges are as follows:





Securitisations

OVERVIEW OF PLEDGED MORTGAGES PER SECURITISATION TRANSACTION

	2018		2017	
IN THOUSANDS OF EUROS	LOANS AND ADVANCES TO CUSTOMERS	RELATED DEBT SECURITIES	LOANS AND ADVANCES TO CUSTOMERS	RELATED DEBT SECURITIES
Dutch Mortgage Portfolio Loans XI B.V.	514,024	438,688	585,639	507,384
Dutch Mortgage Portfolio Loans XII B.V.	565,393	444,817	637,930	519,805
Dutch Residential Mortgage Portfolio I B.V.	680,400	524,110	780,211	630,984
Dutch Residential Mortgage Portfolio II B.V.	528,466	439,734	606,338	514,038
Securitised Guaranteed Mortgage Loans II B.V.	–	–	301,462	–
Securitised Residential Mortgage Portfolio I B.V.	1,016,935	–	–	–
	3,305,218	1,847,349	2,911,580	2,172,211

The net position consists mainly of the notes of the SPVs which are held by the Bank. The total exposure for the Bank on the transferred assets and liabilities amounted to EUR 1.376 million (2017: EUR 750 million) and is defined as the total value of the notes of the SPVs which are held by the Bank and the receivables on subsidiaries (SPVs). All the bonds issued by SRMP I B.V. and the B and C tranches of the bonds issued by DMPL XI B.V., DMPL XII B.V., DRMPI B.V. and DRMPII B.V. are held by the Bank.

Asset Switch

Achmea Bank has a liquidity facility at its disposal in the form of an Asset Switch for a maximum amount of EUR 1.0 billion, with a target amount of EUR 0.5 billion. With the Asset Switch the Bank transfers the legal ownership of a portfolio of Dutch mortgages to Achmea Pensioen- en Levensverzekeringen N.V. in exchange for a portfolio of government bonds. The government bonds are recognized as part of Achmea Bank's liquidity buffer. Important advantages of the Asset Switch are the enhanced flexibility in the timing of attracting new funding and the relatively low charge compared to alternative forms of (on-balance) liquidity.

Trustee

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

Notes To The Consolidated Financial Statements

Covered Bond

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

The pledges by trust arrangements and the covered bond programme are not classified as transferred assets per IFRS paragraph 7.42d.

LIQUIDITY CONTINGENCY PLAN

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

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

UNDISCOUNTED CONTRACTUAL CASH FLOWS OF THE LIABILITIES

AS AT 31 DECEMBER 2018	← 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	→ 5 YEARS	TOTAL	TOTAL CARRYING AMOUNT
IN THOUSANDS OF EUROS						
Deposits from banks	52,061	89,906	60,080	–	202,047	202,148
Funds entrusted	2,987,621	387,549	1,281,281	1,873,271	6,529,722	5,859,866
Debt securities issued	80,382	717,848	3,242,673	969,480	5,010,383	4,858,361
Subordinated liabilities	443	–	7,443	1,199	9,085	8,336
Derivative liabilities held for risk management	14,122	98,420	236,523	120,297	469,362	470,479
Total cashflows	**3,134,629**	**1,293,723**	**4,828,000**	**2,964,247**	**12,220,599**	**11,399,190**

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

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

F CREDIT RISK

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

I. LOAN PORTFOLIO

The loan 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.

II. RETAIL CREDIT RISK

Retail credit risks are risks related to the mortgage portfolio and risks on the consumer credit portfolio.

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

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

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

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.

CREDIT RISK MANAGEMENT

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 Special asset management. 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, for regular management of existing clients and for arrears management. Product Management is responsible for the annual update and/or revision of the first two aforementioned policies, the Special asset management department is responsible for the latter. The Mid-Office and Special Asset Management department are responsible for the implementation of, and being compliant with, the underwriting policy and supplementary credit risk management measures. Balance Sheet & Financial Risk Management is responsible for the review of the updated and/or revised policies as part of their 2nd line of defense role. Credit risk is monitored by the Credit Committee.

Notes To The Consolidated Financial Statements

Credit approval

The underwriting policy sets the parameters to approve mortgage applications. Loan applications which do not meet the underwriting criteria can be discussed via a special procedure for non-compliant applications (in Dutch: 'buiten kader proces'). This procedure allows the operational department to approve non-compliant applications under increased scrutiny and by means of the so called 4-eye principle. Under some circumstances (in case of two or more deviations from the underwriting criteria, applications > EUR 750.000,- and/or impairments > € 100.000,-) applications are to be discussed with credit risk management. This department has the final verdict in accepting or rejecting a specific file. With respect to Acier, the Credit Approval Committee accepts 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 Special asset management department within 8 days. If regular customer contact fails, a physical house call will be made within 38 days in arrears. In case of no contact and 3 sent reminders, the transfer will take place at 3 months in arrears at the latest. Together they are responsible for arrears management and debt collection.

The Credit Risk Management department monitors the credit risk of the portfolio as part of their 2nd line of defense role. When actions are needed, the credit risk management department will advise the Credit Committee and propose possible action(s). Possible 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 from residential mortgages. There are two measures which have an impact on the financial position of the bank, i.e. the provision (IFRS 9) and the capital charge (Standardized Approach). Achmea Bank has the ambition to become an AIRB compliant bank in the near future.

Forbearance

Forbearance measures may be applied in situations where the Bank considers the borrower 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:

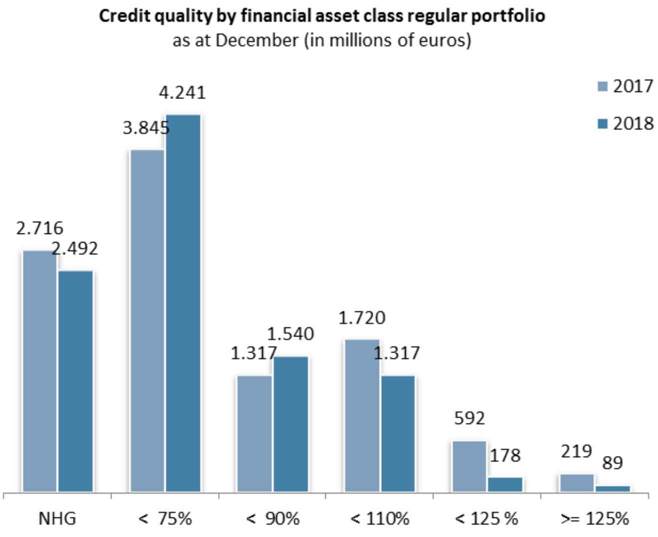
- temporary payment holidays;
- temporary lowering of interest rate;
- interest or cost forgiveness;
- restructuring and/or extension of the loan; and/or
- partial debt write-off.

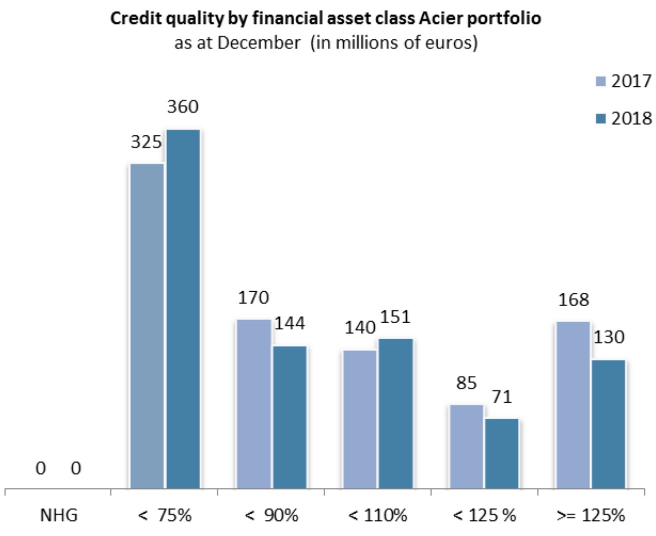
As at 31 December 2018 the forborne exposure amounted to EUR 272 million (2017: EUR 157 million), of which EUR 143 million relates to performing forborne exposures (2017: EUR 106 million). The remaining part of EUR 129 million (2017: EUR 51 million) relates to non-performing forborne exposures. The increase is partly due to the improvement of the forbearance definition and the improvement of its recording in the datawarehouse.

CREDIT QUALITY BY FINANCIAL ASSET CLASS

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

The graphs below are based on notional values of the mortgages. The carrying amount of loans and advances to customers is disclosed in note 10. As from 2017 Achmea Bank uses Calcasa for the valuation of the underlying collateral in the residential mortgage portfolio.





III. COUNTERPARTY CREDIT RISK

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

The Bank uses Credit Support Annexes (CSA) to reduce counterparty risk exposure on derivatives by means of (cash) collateral; for new over-the-counter derivatives -e.g. plain vanilla interest rate swaps- the European Market Infrastructure Regulation (EMIR) applies. No impairments on counterparty positions occurred in 2018. Furthermore, as at 31 December there are no concentrations of credit risk above the internally applied concentration limit.

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 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 (Middle rating: Standard & Poor's, Moody's and Fitch):

CREDIT RISK ON OTHER FINANCIAL ASSETS

AS AT 31 DECEMBER 2018
IN THOUSANDS OF EUROS
FINANCIAL ASSETS CATEGORISED PER MIDDLE RATING

	→ A	< A	NOT RATED	TOTAL
Cash and balances with Central Banks	115,781	–	–	115,781
Derivative assets held for risk management	12,658	69,917	–	82,575
Loans and advances to banks	135,257	623,104	–	758,361
Loans and advances to public sector	–	699	–	699
Interest-bearing securities	201,168	–	–	201,168
	464,864	**693,720**	**–**	**1,158,584**

Notes To The Consolidated Financial Statements

AS AT 31 DECEMBER 2017 IN THOUSANDS OF EUROS FINANCIAL ASSETS CATEGORISED PER MIDDLE RATING	→ A	< A	NOT RATED	TOTAL
Cash and balances with Central Banks	890,063	–	–	890,063
Derivative assets held for risk management	14,127	104,508	–	118,635
Loans and advances to banks	164,394	828,827	–	993,221
Loans and advances to public sector	–	722	–	722
Interest-bearing securities	403,561	–	–	403,561
	1,472,145	**934,057**	**–**	**2,406,202**

The lowest rating at year-end 2018 was BBB (EUR 69 million) (year-end 2017: rating BBB, 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).

IV. EXPECTED CREDIT LOSS

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 12 Month and lifetime expected credit losses and b) the breakdown of all financial assets in three stages: 12 Month expected credit losses for performing loans (stage 1), life time expected credit losses for under-performing financial assets (stage 2) and life time expected credit losses for credit impaired financial assets (stage 3).

The 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 lifecycle and the first in-depth review (which can trigger changes or redevelopment) was performed. 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.

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

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

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

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

Notes To The Consolidated Financial Statements

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

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

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

Acier portfolio

The ECL is determined by projecting the PD, LGD and EAD for each individual exposure and aggregate segment. This effectively calculates an ECL which is then discounted back to the reporting date and summed. The ECL model for the Acier portfolio is based on the same general principles as described above for the regular portfolio. However, the Acier loan portfolio differs in characteristics from the regular Achmea Bank mortgage portfolio. The impairment approach for this portfolio is therefore a combination of the results of the ECL tool for the homogenous parts of the portfolio and an individual assessment for a number of large exposures. Achmea B.V. issued a capped guarantee to cover credit risk and legal claims related to this portfolio. Based on this contract Achmea Bank can claim a part of the credit losses (including the impact of the transition to IFRS 9) and legal claims on the Acier portfolio from Achmea B.V.

Other portfolios

IFRS 9 requires an impairment calculation for all financial assets at amortised cost or at fair value through OCI. We have calculated the impairment charges for the other portfolios (Loans and advances to Banks, interest bearing securities and other receivables), based on the IFRS 9 exemption for financial assets with low-credit risk. The models are mainly based on the credit rating of the counterparty.

Measuring ECL

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), Exposure at Default (EAD) and the Loss Given Default (LGD) 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.

Definition of default

The current definition is broadly compliant with the new standard as laid down in the latest Guidelines of EBA (EBA GL Default definition (EBA-GL-2016-07) (2016)). This new Definition of Default is also used in the calculation of the IFRS 9 provision as of January 2018.

A retail mortgage facility is in default when at least one of the following criteria is met:

- A facility is materially past due for more than 90 days
- The obligor of the facility is unlikely to pay
- Cross default at discretion of Special asset management. Cross defaults are assessed as part of an unlikely to pay assessment performed by Special asset management.

An obligor of an 'other credit risk exposure' is in default when at least one of the following criteria is met:

- The obligor is materially past due for more than 90 days
- The obligor is unlikely to pay
- Cross defaults. A cross default assessment is part of the unlikely to pay decision by ALCo.

The frequency of assessing the default criteria will be done on an ad-hoc basis and is triggered if:

- Any amounts have not been paid at the date they were due;
- Credit ratings are downgraded to below investment grade (<BBB).

Notes To The Consolidated Financial Statements

Significant increase in credit risk (SICR)

Achmea Bank uses Significant increase in credit risk (SICR) as one of the drivers to classify a facility as a stage 2 facility. SICR is determined by comparing the PD at origination with the current PD. When the PD has increased several rating grades the facility is classified as stage 2. The current PD is dependent on several risk drivers amongst them the Loan to Value and Arrears information. Note that 30 days past due is also a factor which automatically classifies a facility as stage 2.
For all other financial instruments a decrease in credit rating might be an indication for a significant increase in credit risk.

Forward looking information

The assessment of SICR and the calculation of the ECL both incorporate macro economic information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Forecast of these economic variables are updated on a semi-annual basis and provide the best estimate of the economy over the next three years and a longer period. The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below. The scenario´s base, up and down were used for the regular mortgage portfolio as well as the Acier portfolio. The up and down scenarios are expressed as percentage on top of the base scenario. Sensitivity analysis on the most important variables are included at the end of this paragraph.

BASE SCENARIO

SUBJECT	BASE 2018	BASE 2019	BASE 2020	BASE 2021	LT (10JR)
House price index (yoy%) (Regular mortgage portfolio)	9.0%	6.0%	4.0%	3.0%	2.0%
House price index (yoy%) (Acier)	6.0%	5.0%	3.0%	2.0%	2.0%
GDP (yoy%)	2.7%	2.4%	2.0%	1.8%	1.3%
Unemployment rate (level)	3.9%	3.7%	3.5%	3.5%	5.0%

DOWN SCENARIO (RELATIVE TO BASE SCENARIO)

SUBJECT	DOWN 2018	DOWN 2019	DOWN 2020	DOWN 2021
House price index (yoy%) (Regular mortgage portfolio)	−2.0%	−3.0%	−4.0%	−4.0%
House price index (yoy%) (Acier)	−2.0%	−3.0%	−4.0%	−4.0%
GDP (yoy%)	−1.0%	−1.0%	−1.0%	−1.0%
Unemployment (level)	0.6%	0.7%	0.8%	1.0%

UP SCENARIO (RELATIVE TO BASE SCENARIO)

SUBJECT	UP 2018	UP 2019	UP 2020	UP 2021
House price index (yoy%) (Regular mortgage portfolio)	2.0%	2.0%	2.0%	2.0%
House price index (yoy%) (Acier)	2.0%	2.0%	2.0%	2.0%
GDP (yoy%)	0.5%	0.5%	0.5%	0.5%
Unemployment (level)	−0.2%	−0.2%	−0.2%	−0.2%

The outcome of the ECL is the result of three scenario’s (base, up and down). The base scenario is included for 60%, the up and down scenario for 20% each.

For financial assets which have a low credit risk, the Bank calculates only 12 month expected credit losses. The Bank considers a financial asset to have a low credit risk when their credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Based on the above mentioned assumptions, the breakdown of the loss allowances of financial instruments in stages can be specified as follows:

BREAKDOWN OF THE LOSS ALLOWANCES OF FINANCIAL INSTRUMENTS IN STAGES

PER 31 DECEMBER 2018				
IN MILLIONS OF EUROS				
	ASSETS WITHOUT SIGNIFICANT INCREASE IN CREDIT RISK SINCE INITIAL RECOGNITION (STAGE 1)	ASSETS WITH SIGNIFICANT INCREASE IN CREDIT RISK SINCE INITIAL RECOGNITION BUT NOT CREDIT-IMPAIRED (STAGE 2)	CREDIT-IMPAIRED ASSETS (STAGE 3)	TOTAL IMPAIRMENT

Notes To The Consolidated Financial Statements

Cash and balances with Central Banks	–	–	–	–
Loans and advances to banks	0.1	–	–	0.1
Loans and advances to public sector	–	–	–	–
Loans and advances to customers	1.2	16.2	25.6	43.0
Interest bearing securities	–	–	–	–
Prepayments and other receivables	0.1	–	–	0.1
Total	**1.4**	**16.2**	**25.6**	**43.2**

The following tables show the transfers between stages from the opening to the closing balance for Loans and advances to customers. There are no transfers between stages for the other financial assets.

TRANSFERS BETWEEN IMPAIRMENT STAGES (GROSS BASIS PRESENTATION)

GROSS CARRYING AMOUNT / NOMINAL AMOUNT						
PER 31 DECEMBER 2018	TRANSFERS BETWEEN STAGE 1 AND STAGE 2		TRANSFERS BETWEEN STAGE 2 AND STAGE 3		TRANSFERS BETWEEN STAGE 1 AND STAGE 3	
IN MILLIONS OF EUROS	TO STAGE 2 FROM STAGE 1	TO STAGE 1 FROM STAGE 2	TO STAGE 3 FROM STAGE 2	TO STAGE 2 FROM STAGE 3	TO STAGE 3 FROM STAGE 1	TO STAGE 1 FROM STAGE 3
Loans and advances to customers	104.8	176.4	20.0	49.0	30.8	9.6
total	104.8	176.4	20.0	49.0	30.8	9.6

The breakdown of gross carrying amount in stages, as per 31 December 2018, is EUR 10.0 billion for stage 1, EUR 0.5 billion in stage 2 and EUR 0.2 billion in stage 3. The following table show the reconciliation from the opening to the closing balance of the loss allowances.

LOSS ALLOWANCE LOANS AND ADVANCES TO CUSTOMERS REGULAR PORTFOLIO

IN THOUSANDS OF EUROS	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	
Loss allowance as at 1 January 2018	**1,106**	**4,379**	**5,680**	**11,164**
Movements with P&L impact				
Transfers:				
Of which, transfer from stage 1 to stage 2	−43	1,058	–	1,015
Of which, transfer from stage 1 to stage 3	−5	–	1,329	1,324
Of which, transfer from stage 2 to stage 1	17	−1,158	–	−1,141
Of which, transfer from stage 2 to stage 3	–	−293	904	611
Of which, transfer from stage 3 to stage 1	2	–	−166	−165
Of which, transfer from stage 3 to stage 2	–	508	−1,708	−1,199
Movements due to recognition/derecognition	465	−326	−1,133	−994
Other movements	−741	−1,269	927	−1,083
total net P&L charge during the period	**−305**	**−1,480**	**153**	**−1,632**
Movements with no P&L impact				
Write-offs	−210	−3	−1,755	−1,968
Loss allowance as at 31 December 2018	**591**	**2,896**	**4,078**	**7,564**

LOSS ALLOWANCE LOANS AND ADVANCES TO CUSTOMERS ACIER PORTFOLIO

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	
Loss allowance as at 1 January 2018	**205**	**15,556**	**30,075**	**45,836**
Movements with P&L impact				
Transfers:				
Of which, transfer from stage 1 to stage 2	−3	57	–	54
Of which, transfer from stage 1 to stage 3	−1	–	8	7
Of which, transfer from stage 2 to stage 1	59	−1,559	–	−1,500

Notes To The Consolidated Financial Statements

Of which, transfer from stage 2 to stage 3	–	−19	–	−19
Of which, transfer from stage 3 to stage 1	–	–	–	–
Of which, transfer from stage 3 to stage 2	–	366	−2,558	−2,192
Movements due to recognition/derecognition	15	1,483	−2,335	−837
Other movements	505	−2,616	454	−1,657
total net P&L charge during the period	**575**	**−2,288**	**−4,431**	**−6,144**
Movements with no P&L impact				
Write-offs	−157	–	−4,077	−4,234
Loss allowance as at 31 December 2018	**622**	**13,267**	**21,567**	**35,457**

The loss allowance recognised in the period is impacted by a variety of factors:

- transfers between stage 1 and stages 2 or 3 due to significant increase or decrease of credit risk or becoming credit-impaired in the period, and the consequent step up or step down between 12-month and lifetime ECL
- additional allowances for new financial instruments recognised during the period, as well as released for financial instruments de-recognised in the period.
- Impact on the measurement of ECL due to changes in PD’s, EAD’s and LGD´s in the period, arising from regular updates of inputs of models.
- Foreign exchange effects for assets denominated in foreign currencies (Acier portfolio) and other movements.

V. SENSITIVITY ANALYSIS ON EXPECTED CREDIT LOSSES

For the main mortgage portfolios, Achmea Bank performs a sensitivity analysis for the base scenario on the main drivers of the ECL models. In the scenario analysis the effect of applying other assumptions for these risk drivers and applying other weights is calculated. The following table shows the sensitivity to the main drivers of the ECL.

The main drivers for the regular mortgage portfolio are:

- House price index: the ECL includes house price index predictions for the coming three years separately and for the period > 3 years.
- Unemployment rate: the ECL includes predictions for unemployment rate for the coming three years separately and for the period > 3 years.

SENSITIVITY TO THE MAIN DRIVERS OF THE ECL FOR THE REGULAR MORTGAGE PORTFOLIO

PER DECEMBER 2018						
IN MILLIONS OF EUROS						
SCENARIO	ORIGINAL SITUATION	STAGE 1	STAGE 2	STAGE 3	TOTAL	CHANGE
Base		0.6	2.9	4.1	7.6	
Unemployment rate +1%	4%	0.9	3.1	4.1	8.1	0.5
House prices index -16%	6%	0.7	3.2	4.7	8.6	1.0
House prices index -4%	6%	0.6	2.9	4.2	7.7	0.1

The main drivers of the ECL model for the Acier portfolio are:

- Probability of Default drivers; the main drivers of the PD are Affordability (indicator for payment behaviour), BKR (official credit registration) and LTV. The table below shows the impact of different weights.
- Cure rate: cure rate reflects the possibility that a non-performing loan recover to a performing loan. There are different cure rates for base scenario, LTV< 100% and enforcement.
- Haircut: the ECL models include a haircut, which reflect an adjustment of the collateral value resulting in an indication of the transaction price in case of a forced sale.
- House price index: the ECL includes house price index predictions (%) for the coming three years separately and for the period > 3 years.

Notes To The Consolidated Financial Statements

SENSITIVITY TO THE MAIN DRIVERS OF THE ECL FOR THE ACIER PORTFOLIO

PER DECEMBER 2018 IN MILLIONS OF EUROS SCENARIO	ORIGINAL SITUATION	STAGE 1	STAGE 2	STAGE 3	TOTAL	CHANGE
Base		0.6	13.3	21.6	35.5	
PD drivers weights 75;15;10	weights: 33;33;33	0.2	9.7	21.6	31.5	−4.0
PD drivers weights 50;30;20	weights: 33;33;33	0.4	10.9	21.6	32.9	−2.7
PD drivers weights 60;25;15	weights: 33;33;33	0.4	11.7	21.6	33.7	−1.8
Cure rate for base/ LTV < 100% / Enforcement (50/100/0)	25/50/0	0.5	10.7	21.3	32.5	−3.0
Cure rate for base/ LTV < 100% / Enforcement (40/80/0)	25/50/0	0.5	11.7	21.4	33.7	−1.9
Haircut 15%	20%	0.6	12.0	21.1	33.7	−1.8
Haircut 25%	20%	0.7	14.7	22.0	37.4	1.9
Haircut 30%	20%	0.7	16.3	22.6	39.6	4.0
House prices for year 1/2/3/>3 (scenario 5%/5%/5%/2%)	5%/3%/2%/2%	0.6	12.1	21.6	34.3	−1.2
House prices for year 1/2/3/>3 (scenario 5%/5%/5%/0%)	5%/3%/2%/2%	0.6	15.3	21.6	37.5	2.0

These sensitivity analyse have been calculated for the homogenous part of the Acier portfolio.

VI. MODIFICATION

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in;

Only if the terms are substantially different, the Bank derecognises the original financial assets and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different the Bank continues the current contract.

During 2018 the Bank has no financial assets with lifetime expected credit losses whose cash flows were significantly modified.

G MARKET RISK

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 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.

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

VII. INTEREST RATE RISK

Introduction

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.

Notes To The Consolidated Financial Statements

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

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

Effects of a change in the interest rate on total equity

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

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

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

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

DURATION

IN YEARS	2018	2017
Equity Duration	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
Change in the interest rate of 200 basis points negative	−11,955	−63,865
Change in the interest rate of 200 basis points positive	−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. In this scenario the prepayment rate decreases, so mortgages are 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 a change in the interest rate of 200 basis points downward shows a significant improvement. This is mainly due to the earlier cutting off of negative interest rates, because of the introduction of a higher EBA-interest rate floor.

Effects of a change in the interest rate on income statement

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

INTEREST RATE RISK EXPOSURE

IN THOUSANDS OF EUROS	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.

Notes To The Consolidated Financial Statements

VIII. FOREIGN 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 in the Acier loan portfolio.

Part of the Acier loan portfolio is denominated in CHF (EUR 440 million at year-end 2018). This position is partly hedged by CHF 400 million (EUR 355 million) unsecured loans. The remaining CHF exposure is fully hedged on a monthly basis via foreign exchange derivatives (forward contracts). The net currency effect of 2018 amounts to EUR 0.3 million gain (2017: EUR 1.5 million gain) and is recognised in changes in fair value of financial instruments.

FOREIGN CURRENCY EXPOSURE

IN THOUSANDS OF EUROS	2018			2017		
	Total exposure	hedging instruments	Net exposure	Total exposure	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**

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

The following exchange rates have been used:

	CLOSING RATE		AVERAGE RATE	
	2018	2017	2018	2017
Swiss Franc	1.1269	1.1702	1.1485	1.1221

H OPERATIONAL RISK

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

The Bank has a framework for identifying, evaluating, monitoring and managing operational risks including compliance risks and risks surrounding information security and business continuity. This framework comprises the following processes:

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

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

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

Notes To The Consolidated Financial Statements

I CYBER SECURITY AND PRIVACY

When confidential or private information belongs to Achmea Bank or a client, we handle it with the utmost care. Cybercrime is a risk for Achmea Bank as well as for all of our financial sector peers. In 2018 we carried out a large number of security tests, continuously assessing our security and data protection, as part of our efforts to strengthen Achmea Bank's cyber resilience. We have several policies such as information security policies, a clean desk policy and additional security controls. Our approach is detailed in our Corporate Information Security Policy and our Data Protection Policy.

No security incidents incurred in the previous year which significantly harmed or affected the provision of services to clients, nor did any loss or damage occur as a result of instances of fraud.

J FAIR VALUE FINANCIAL ASSETS AND LIABILITIES

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

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

FAIR VALUE FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COSTS

IN THOUSANDS OF EUROS	CARRYING AMOUNT 2018	FAIR VALUE 2018	CARRYING AMOUNT 2017	FAIR VALUE 2017
Financial assets				
Loans and advances to banks	758,361	758,361	993,221	993,056
Loans and advances to customers and public sector	11,057,020	11,297,822	11,492,310	11,781,342
Financial liabilities				
Deposits from banks	202,148	202,500	144,635	144,794
Funds entrusted	5,859,866	5,942,056	6,171,584	6,268,769
Debt securities issued	4,858,361	4,926,707	6,362,719	6,453,700
Subordinated liabilities	8,336	9,091	8,336	9,515

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

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

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

Principles for determining fair value:

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

NOTES TO ESTIMATION OF THE FAIR VALUES

Loans and advances to banks (Level 2)

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

Loans and advances to customers or public sector (Level 3)

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

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

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

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

Subordinated liabilities (level 2)

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

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

K FAIR VALUE HIERARCHY

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

AS AT 31 DECEMBER 2018

IN THOUSANDS OF EUROS

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative assets held for risk management				
Interest rate swaps	–	50,833	–	50,833
Back-to-back swaps and interest caps	–	31,742	–	31,742
	–	**82,575**	**–**	**82,575**
Financial assets held for sale				
Interest-bearing securities	201,168	–	–	201,168
	201,168	**82,575**	**–**	**283,743**
Financial liabilities				
Derivative liabilities held for risk management				
Interest rate swaps	–	438,500	–	438,500
Foreign exchange derivatives	–	237	–	237
Back-to-back swaps and interest caps	–	31,742	–	31,742
	–	**470,479**	**–**	**470,479**

Notes To The Consolidated Financial Statements

AS AT 31 DECEMBER 2017				
IN THOUSANDS OF EUROS				
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative assets held for risk management				
Interest rate swaps	–	58,976	–	58,976
Foreign exchange derivatives	–	73	–	73
Back-to-back swaps and interest caps	–	59,586	–	59,586
	–	**118,635**	**–**	**118,635**
Financial assets designated at fair value				
through profit or loss				
Loans and advances to customers	–	–	239,053	239,053
	–	**–**	**239,053**	**239,053**
Financial assets held for sale				
Interest-bearing securities	403,561	–	–	403,561
	403,561	**118,635**	**239,053**	**761,249**
Financial liabilities				
Derivative liabilities held for risk management				
Interest rate swaps	–	513,840	–	513,840
Foreign exchange derivatives	–	1	–	1
Back-to-back swaps and interest caps	–	59,586	–	59,586
	–	**573,427**	**–**	**573,427**

Explanation of the levels:

- Level 1:

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

- Level 2:

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

- Level 3:

Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation. As from January 2018, there are no financial instruments with a level 3 classification on the face of the balance sheet.

Changes in the fair value hierarchy in 2018

During 2018 no changes were made in classification of fair value hierarchy.

Notes To The Consolidated Financial Statements

NOTES TO THE FAIR VALUE HIERARCHY

Interest-bearing securities (level 1)

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

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

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

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

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

Foreign exchange derivatives (level 2)

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

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

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

Loans and advances to customers (level 3)

As a result of the IFRS 9 implementation, there are no financial instruments with a level 3 classification on the face of the balance sheet. The small part of the total Loans and advances to customers that was measured at fair value in 2017, is now classified at amortised cost.

Notes To The Consolidated Financial Statements

NOTES TO SIGNIFICANT BALANCE SHEET AND INCOME STATEMENT ITEMS

5. LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICIES LOANS AND ADVANCES TO CUSTOMERS

Loans and receivables are financial instruments with fixed or determinable payments that are not listed on an active market. These receivables arise when the Bank lends funds or provides services directly to a debtor without the intention to trade the receivables. Consumer loans are included in the 'Loans and receivables' and are predominantly mortgages. The 'Loans and advances' also include loans to real estate management companies and loans which are secured by commercial real estate.

Classification and measurement
Loans and advances to customers should be classified and measured in accordance with the business models of Achmea Bank as well as by the type of contractual cash flows of the underlying financial assets. Both elements determine whether they will be measured at Amortised Cost (AC), Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss account (FVtPL). Based on the business model assessment all mortgages are classified for the business model holding to collect and the pass for the SPPI test. The value of the mortgage portfolio is initially recognized at fair value and subsequently measured at amortised cost using the effective interest method. Reference is made to chapter I Classification and measurement of the Summary of significant accounting policies.

Impairment
The Bank recognizes loss allowances for expected credit losses (ECL) on all loans and advances to customers. The Bank uses a three stage model: 12 Month expected credit losses for performing loans (stage 1), life time expected credit losses for under-performing financial assets (stage 2) and life time expected credit losses for credit impaired financial assets (stage 3).

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

LOANS AND ADVANCES TO CUSTOMERS

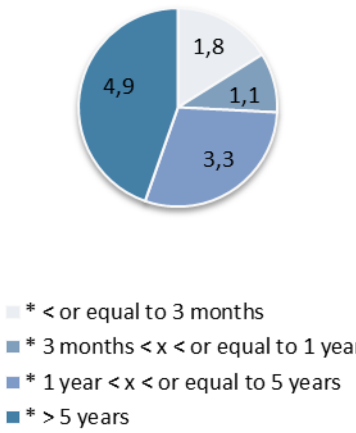
IN THOUSANDS OF EUROS	2018	2017
Loans and advances to customers at fair value	–	239,053
Loans and advances to customers at amortised cost	10,213,802	10,604,315
Less: Provisions for impairment	7,564	7,025
Total loans and advances to customers regular Achmea Bank portfolio	**10,206,238**	**10,836,343**
Loans and advances to customers Acier loan portfolio at amortised cost	885,540	926,123
Less: Provisions for impairment Acier loan portfolio	35,457	31,825
Total loans and advances to customers	**11,056,321**	**11,730,641**

As at December 2018 (IFRS 9) the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 35.5 million (2017 (IAS 39: EUR 31.8 million). Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this portfolio. In 2015 and 2016 Achmea Bank acquired the loan portfolio of Staal Beheer N.V. (formerly known as Staalbankiers N.V.). The transfer of 2016 was effected in stages and was completed in 2017.

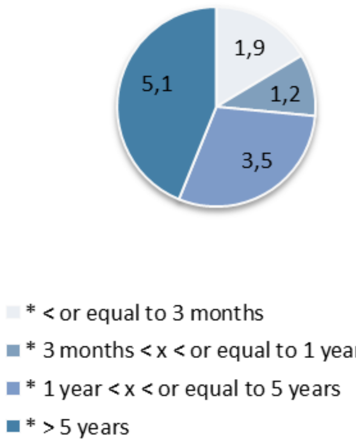
The remaining contractual term to maturity of the Loans and advances to customers net of provision, including a prepayment rate of 7.7% for the regular portfolio and 10.6% for the Acier portfolio, is:

Notes To The Consolidated Financial Statements

Contractual term to maturity 2018 (EUR billion)



Contractual term to maturity 2017 (EUR billion)



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

MOVEMENT SCHEDULE LOANS AND ADVANCES TO CUSTOMERS (REGULAR ACHMEA BANK PORTFOLIO)

IN THOUSANDS OF EUROS			2018		2017
Balance as at 31 December 2017			**10,597,291**		
	First time adoption IFRS 9		221,854		
Balance as at 1 January			**10,819,145**		**11,192,847**
Changes nominal portfolio	Loans granted	599,275		687,399	
	Repayments	−1,156,203		−1,109,945	
			−556,928		**−422,546**
Fair value hedge accounting	Revaluation basis adjustment mortgages	−59,993		−138,007	
	Amortisation basis adjustment mortgages	4,620		−1,867	
			−55,373		**−139,874**
	Additions	−893		−604	
	Releases	2,525		1,163	
	Write-offs	1,968		3,903	
			3,600		**4,462**
Other movements			**−4,206**		**−37,598**
Balance as at 31 December			**10,206,238**		**10,597,291**

The first time adoption of IFRS 9 of EUR 222 million reflects the impact of the new impairment guidelines (EUR 4 million) as well as the reclassification of a part of the regular mortgage portfolio (‘interpolis portfolio’) from fair value through profit and loss to amortised cost (EUR 226 million).

The carrying amount of the fair value hedge adjustment is EUR 345 million (2017: EUR 405 million).

Notes To The Consolidated Financial Statements

MOVEMENT SCHEDULE LOANS AND ADVANCES TO CUSTOMERS (ACIER LOAN PORTFOLIO)

IN THOUSANDS OF EUROS			2018		2017
Balance as at 31 December 2017			**894,298**		
	First time adoption IFRS 9		−14,011		
Balance as at 1 January			**880,287**		**1,049,616**
Changes nominal portfolio	Acquired portfolio	–		21,089	
	Repayments	−40,210		−205,765	
			−40,210		**−184,676**
Allowances for losses on loans and advances	at acquisition date			−3,076	
	Additions	−3,603		−574	
	Releases	9,748		7,076	
	Write-offs	4,234		26,637	
			10,379		**30,063**
Other movements			**−373**		**−706**
Balance as at 31 December			**850,083**		**894,298**

6. DEBT SECURITIES ISSUED

ACCOUNTING POLICIES DEBT SECURITIES ISSUED

This item includes bonds and other debt securities.

Debt securities issued are initially recognised at fair value net of transaction costs. Subsequently Debt securities issued are valued at amortised cost using the effective interest method. Any differences between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. The Bank initially recognises Debt securities issued on the date that they are originated. The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or when they expire. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid is recognized in profit or loss.

IN THOUSANDS OF EUROS	2018	2017
* Residential Mortgage Backed Securities	1,847,349	2,172,210
* Achmea Conditional Pass Through Covered Bond Programme	497,814	497,444
* European Medium Term Notes Programme	9,996	61,186
* Senior Unsecured Loans	2,148,533	3,302,030
* Commercial paper	289,763	257,178
Total notional amounts	**4,793,455**	**6,290,048**
Accrued interest	27,571	40,168
Fair value adjustment	36,907	31,864
Amortised cost	428	639
Carrying amount	**4,858,361**	**6,362,719**

The notes held by the Bank are eliminated upon consolidation and as such not presented in the table above.
The fair value adjustment is the fair value of bonds which are included in a hedge relation as at 31 December 2018. The differences between the movement of the nominal amounts and the net cash flow from debt securities issued as recognised in the cash flow statement are due to amortised effects, which are included in the nominal amounts.

Notes To The Consolidated Financial Statements

The weighted average interest rate for the year 2018 was 0.96% (2017: 1.00%).

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

IN THOUSANDS OF EUROS	2018	2017
* < or equal to 3 months	76,743	790,400
* 3 months < x < or equal to 1 year	704,895	1,156,143
* 1 year < x < or equal to 5 years	3,130,570	3,275,724
* > 5 years	946,153	1,140,452
	4,858,361	**6,362,719**

Further details on Debt securities issued are disclosed in the Risk Management paragraph.

7. FUNDS ENTRUSTED

ACCOUNTING POLICIES FUNDS ENTRUSTED

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

Funds entrusted are initially recognised at fair value net of transaction costs. Subsequently financial liabilities are valued at amortised cost using the effective interest method. Any differences between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. The Bank recognised financial liabilities initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument. The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or when they expire. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid is recognized in profit or loss.

IN THOUSANDS OF EUROS	2018	2017
* < or equal to 3 months	3,005,259	2,926,781
* 3 months < x < or equal to 1 year	369,536	720,907
* 1 year < x < or equal to 5 years	1,153,054	1,122,008
* > 5 years	1,332,017	1,401,888
	5,859,866	**6,171,584**

Funds entrusted include an amount of EUR 0.7 billion (2017: EUR 0.8 billion) related to liabilities to saving deposits linked to mortgages.

8. INTEREST MARGIN

ACCOUNTING POLICIES NTEREST MARGIN

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

• Purchased originated credit impaired (‘POCI’) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
• Financial assets that are not ‘POCI’ but have subsequently become credit-impaired (or ‘Stage 3’), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

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

INTEREST MARGIN

IN THOUSANDS OF EUROS	2018	2017
Interest income (amortised cost items)	381,781	426,177
Interest income (other items)	960	–
Interest expenses (amortised cost items)	271,398	322,458
Interest expenses (other items)	844	–
Interest margin	**110,499**	**105,271**

Interest income (amortised cost items)

The total interest income can be specified as follows:

IN THOUSANDS OF EUROS	2018	2017
Loans and advances to customers	376,998	422,024
Loans and advances to banks and public sector	2	542
Other interest income	4,781	3,611
	381,781	**426,177**

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

Interest expenses (amortised cost items)

The total interest expenses can be specified as follows:

IN THOUSANDS OF EUROS	2018	2017
Deposits	–	1,356
Funds entrusted	98,671	111,606
Debt securities issued	64,242	82,806
Interest expenses related to derivatives	101,097	117,120
Other interest expenses	7,388	9,570
	271,398	**322,458**

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

9. CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS, DERIVATIVES AND HEDGE ACCOUNTING

ACCOUNTING POLICIES DERIVATIVES AND CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Derivatives

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

Hedge accounting

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

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

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

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

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

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

Changes in fair value of financial instruments

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

IN THOUSANDS OF EUROS	2018	2017
Effectiveness results of fair value hedge accounting	5,007	5,201
Amortisation effects	−6,484	−2,863
Other fair value effects	1,189	−786
Changes in fair value of financial instruments	**−288**	**1,552**

The effectiveness of fair value hedge accounting is in line with the fluctuation of the interest rates during 2018.

The amortisation effects are related to the hedge of mortgages and the hedge of Debts securities issued.

Other fair value effects mainly consist of revaluation effects of derivatives which are not designated in a hedge relation.

Fair value hedges

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

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

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

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

Notes To The Consolidated Financial Statements

FAIR VALUE CHANGES HEDGES

IN THOUSANDS OF EUROS	GAIN	LOSS	NET 2018	NET 2017
Macro hedge				
Fair value changes in hedged items	58,246	105,522	–47,276	–131,019
Fair value changes in hedging instruments	110,257	57,648	52,609	140,783
	168,503	**163,170**	**5,333**	**9,764**
Micro hedge				
Fair value changes in hedged items	23,496	30,150	–6,654	17,645
Fair value changes in hedging instruments	30,522	24,194	6,328	–22,208
	54,018	**54,344**	**–326**	**–4,563**
Total hedge				
Fair value changes in hedged items	81,742	135,672	–53,930	–113,374
Fair value changes in hedging instruments	140,779	81,842	58,937	118,575
	222,521	**217,514**	**5,007**	**5,201**

Derivatives held for risk management

INTEREST RATE SWAPS AND CROSS CURRENCY SWAPS

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

FOREIGN EXCHANGE DERIVATIVES

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

BACK-TO-BACK SWAPS AND INTEREST CAPS

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

The Bank uses Credit Support Annexes (CSA) to reduce counterparty risk exposure on derivatives by means of (cash) collateral; for new over-the-counter derivatives -e.g. plain vanilla interest rate swaps- the European Market Infrastructure Regulation (EMIR) applies.

Notes To The Consolidated Financial Statements

The remaining contractual term to maturity of the Derivatives held for risk management is:

DERIVATIVES

AS AT 31 DECEMBER 2018						
IN THOUSANDS OF EUROS	NOTIONAL AMOUNT	LESS THAN THREE MONTHS	BETWEEN THREE MONTHS AND ONE YEAR	BETWEEN ONE YEAR AND FIVE YEARS	MORE THAN FIVE YEARS	TOTAL FAIR VALUE
ASSETS						
Interest rate swaps	1,239,193	–	–	32,325	18,508	50,833
Foreign exchange derivatives	355	–	–	–	–	–
Back-to-back swaps and interest caps		–	5,029	19,815	6,898	31,742
Total derivative assets		**–**	**5,029**	**52,139**	**25,406**	**82,575**
Liabilities						
Interest rate swaps	3,771,500	1,877	15,863	109,599	311,160	438,500
Foreign exchange derivatives	84,746	237	–	–	–	–
Back-to-back swaps and interest caps		–	5,029	19,815	6,898	31,742
Total derivative liabilities		**2,115**	**20,893**	**129,414**	**318,058**	**470,479**

AS AT 31 DECEMBER 2017						
ASSETS		LESS THAN THREE MONTHS	BETWEEN THREE MONTHS AND ONE YEAR	BETWEEN ONE YEAR AND FIVE YEARS	MORE THAN FIVE YEARS	TOTAL FAIR VALUE
Interest rate swaps	1,944,193	4,832	–	29,950	24,195	58,977
Foreign exchange derivatives	171,183	73	–	–	–	73
Back-to-back swaps and interest caps		–	–	59,586	–	59,586
Total derivative assets		**4,905**	**–**	**89,536**	**24,195**	**118,635**
Liabilities						
Interest rate swaps	3,931,878	4,373	24,810	124,632	360,026	513,841
Foreign exchange derivatives	250	1	–	–	–	1
Back-to-back swaps and interest caps	–	–	–	59,586	–	59,586
Total derivative liabilities		**4,374**	**24,810**	**184,218**	**360,026**	**573,428**

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

10. CASH AND BALANCES WITH CENTRAL BANKS

ACCOUNTING POLICIES CASH AND BALANCES WITH CENTRAL BANKS

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

Based on the business model assessment Cash and balances with Central Banks are classified for the business model holding to collect and pass for the SPPI test.

Cash and cash equivalents are measured at amortised cost.

IN THOUSANDS OF EUROS	2018	2017
Cash and balances with Central Banks	115,781	890,063

At the end of 2018 the minimum cash reserve to be maintained at DNB, which is not at the Bank's free disposal amounted to EUR 45.3 million (2017: EUR 45.3 million).

11. LOANS AND ADVANCES TO BANKS

ACCOUNTING POLICIES LOANS AND ADVANCES TO BANKS

Loans and advances to banks refer to receivables from banks, other than Interest-bearing securities. Based on the business model assessment Loans and advances to banks are classified for the business model holding to collect and pass for the SPPI test.
Loans and advances to banks are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method.

IN THOUSANDS OF EUROS	2018	2017
Loans and advances to banks	758,361	993,221

IN THOUSANDS OF EUROS	2018	2017
* Not available on demand	747,059	938,887
* On demand	11,302	54,334
	758,361	**993,221**

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

12. LOANS AND ADVANCES TO PUBLIC SECTOR

ACCOUNTING POLICIES LOANS AND ADVANCES TO PUBLIC SECTOR

Based on the business model assessment Loans and advances to public sector are classified for the business model holding to collect and pass for the SPPI test. Loans and advances to public sector are initially recognized at fair value and subsequently measured at amortised cost using the effective interest method.

This item comprises funds lent to public authorities.

Notes To The Consolidated Financial Statements

IN THOUSANDS OF EUROS	2018	2017
Loans and advances to public sector	699	722

At December 2018 the total outstanding amount is non-current (2017: EUR total amount is non-current).

13. INTEREST-BEARING SECURITIES

ACCOUNTING POLICIES INTEREST – BEARING SECURITIES

Based on the business model assessment Loans and advances to banks are classified for the business model holding to collect and sell and pass for the SPPI test. Interest-bearing securities are carried at fair value. Gains and losses on Interest-bearing securities are recognised directly in other comprehensive income (in the line item 'fair value reserve'). When Interest-bearing securities are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss. The interest income, calculated using the effective interest method, is recognised directly in the statement of comprehensive income. If there is objective evidence of impairment the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in profit or loss.

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

MOVEMENTS IN INTEREST-BEARING SECURITIES

	2018	2017
IN THOUSANDS OF EUROS		
Balance as at 1 January	**403,561**	**401,182**
Purchases	132,147	214,588
Sales/repayments	−331,961	−212,252
Value adjustments	−2,552	54
Changes in accrued interest	−27	−11
Balance as at 31 December	**201,168**	**403,561**

The Interest-bearing securities amounted to EUR 0.2 billion (2017: EUR 0.4 billion). The changes in the value of investments in the interest-bearing securities mentioned above amounts to EUR 2.6 million negative (2017: EUR 0.1 million positive) of which an amount of EUR 1.6 million (2017: EUR 0.4 million) is recognised in Equity.

14. PREPAYMENTS AND OTHER RECEIVABLES

ACCOUNTING POLICIES INTEREST – PREPAYMENTS AND OTHER RECEIVABLES

Based on the business model assessment prepayments and other receivables are classified for the business model holding to collect and pass for the SPPI test. Prepayments and other receivables are initially measured at fair value. After initial recognition Prepayments and other receivables are measured at amortised cost using the effective interest method.

IN THOUSANDS OF EUROS	2018	2017
Prepayments and other receivables	70,912	62,512
	70,912	**62,512**

Prepayments and other receivables include an amount of EUR 33 million (2017: EUR 24 million) relating to receivables to Achmea Group companies. For an analysis of receivables within Achmea, we refer to the separate related-parties disclosure (note 30). In 2018 an amount of 1.2 million is non-current (2017: there are no non-current amounts).

Notes To The Consolidated Financial Statements

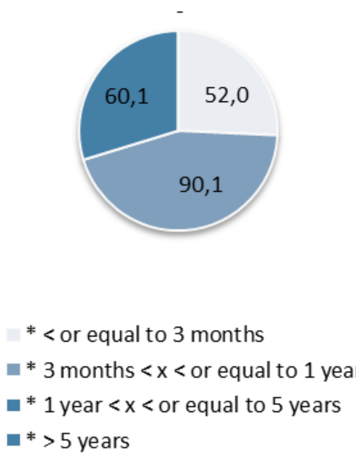
15. DEPOSITS FROM BANKS

ACCOUNTING POLICIES DEPOSITS FROM BANKS

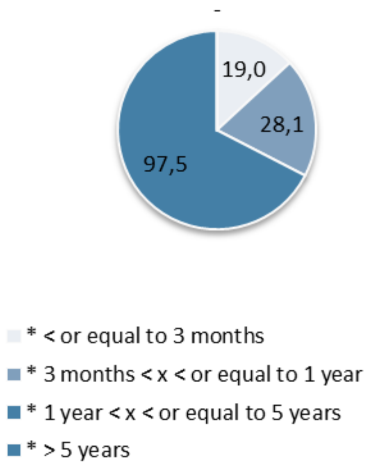
Deposits from banks are initially measured at fair value less attributable transaction costs. After initial recognition, Interest-bearing debt securities are measured at amortised cost, the difference between cost and redemption value being recognised in the statement of comprehensive income using the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

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

Contractual term to maturity 2018 (EUR million)



Contractual term to maturity 2017 (EUR million)



16. PROVISIONS

ACCOUNTING POLICIES PROVISIONS

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

IN THOUSANDS OF EUROS	2018	2017
Balance as at 1 January	1,600	1,065
Addition	150	5,363
Releases	–	−1,897
Amounts used	−1,600	−2,931
Balance as at 31 December	**150**	**1,600**

The Provision as per 31 December 2018 relates to compensation for early redemptions on mortgage loans. The total amount of the provisions is current.

Notes To The Consolidated Financial Statements

17. SUBORDINATED LIABILITIES

ACCOUNTING POLICIES SUBORDINATED LIABILITIES

Subordinated liabilities are initially recognised at fair value net of transaction costs. Subsequently financial liabilities are valued at amortised cost using the effective interest method. Any differences between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Subordinated liabilities are recognised on the date that they are originated.

The Subordinated liabilities are as follows:

IN THOUSANDS OF EUROS	INTEREST RATE (%)	2018	2017
Loan 1999/2020	5.57	7,144	7,144
Loan 1999/2024	5.68	1,192	1,192
		8,336	**8,336**

The interest expenses for 2018 amounted to EUR 0.4 million (2017: EUR 0.4 million). The total amount of the subordinated liabilities is non-current.

18. ACCRUALS AND OTHER LIABILITIES

ACCOUNTING POLICIES INTEREST – ACCRUALS AND OTHER LIABILITIES

Accruals and liabilities are initially measured at fair value. After initial recognition accruals and other liabilities are measured at amortised cost using the effective interest method.

IN THOUSANDS OF EUROS	2018	2017
Accruals	6,394	5,444
Other liabilities	39,168	55,759
	45,562	**61,203**

Accruals and other liabilities include an amount of EUR 32.7 million (2017: EUR 43.7 million), relating to liabilities to Achmea Group companies. For an analysis of these liabilities within Achmea Group, we refer to the separate related-parties disclosure (note 30). The total amount of Accruals and other liabilities is current.

19. DEFERRED TAX ASSETS AND LIABILITIES

ACCOUNTING POLICIES DEFERRED TAX ASSETS AND LIABILITIES

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

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

Notes To The Consolidated Financial Statements

Deferred tax is calculated for all temporary differences at an effective tax rate of 25.0% for 2019, 22,55% for 2020 and 20,5% for the other years. The Deferred tax assets and liabilities are related to the following items:

DEFERRED TAX

	ASSETS		LIABILITIES		BALANCE	
IN THOUSANDS OF EUROS	2018	2017	2018	2017	2018	2017
Interest-bearing securities	–	–	–	1,059	–	– 1,059
Valuation differences due to differences in tax base	898	1,088	8,468	38,102	– 7,570	– 37,014
Tax position asset/liability	**898**	**1,088**	**8,468**	**39,161**	**– 7,570**	**– 38,073**
TAX RATE	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**225**	**272**	**2,117**	**9,790**	**– 1,892**	**– 9,519**
Correction on corporation tax due to change in tax rate	– 31		– 291		260	
Net deferred tax	**194**	**272**	**1,826**	**9,790**	**– 1,632**	**– 9,519**

SPECIFICATION VALUATION DIFFERENCES DUE TO APPLICATION OF IFRS

IN THOUSANDS OF EUROS	2018	2017	2018	2017	2018	2017
Derivative assets held for risk management	–	–	−356,953	−416,279	356,953	416,279
Debt securities issued	–	–	−36,907	−31,864	36,907	31,864
Accrued interest	–	–	–	−587	–	587
Loans and advances to customers	898	1,088	402,328	486,832	−401,430	−485,744
Tax position asset/liability	**898**	**1,088**	**8,468**	**38,102**	**−7,570**	**−37,014**
TAX RATE	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net deferred tax	225	271	2,117	9,526	−1,892	−9,254
Correction on corporation tax due to change in tax rate	−31		−291		260	
Net deferred tax	**194**	**271**	**1,826**	**9,526**	**−1,632**	**−9,254**

From deferred tax assets and liabilities an amount of EUR 2.0 million is current (2017: EUR 4.0 million), the remainder is non-current.

CHANGES TO TEMPORARY DIFFERENCES

IN THOUSANDS OF EUROS	BALANCE AS AT 01-01-2018	RECOGNISED IN RESULT	RECOGNISED IN EQUITY	BALANCE AS AT 31-12-2018
2018				
Interest-bearing securities	−1,059	271	788	–
Valuation differences due to differences in tax base	−37,014	11,099	18,345	−7,570
Tax position asset/liability	**−38,073**	**11,370**	**19,133**	**−7,570**
TAX RATE	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**−9,518**	**2,844**	**4,783**	**−1,892**
Correction on corporation tax due to change in tax rate		260		260
Net deferred tax	**−9,518**	**3,104**	**4,783**	**−1,632**

IN THOUSANDS OF EUROS	BALANCE AS AT 01-01-2017	RECOGNISED IN RESULT	RECOGNISED IN EQUITY	BALANCE AS AT 31-12-2017
2017				
Interest-bearing securities	−1,573	1,860	−1,346	−1,059
Valuation differences due to differences in tax base	−100,033	63,019	–	−37,014
Tax position asset/liability	**−101,606**	**64,879**	**−1,346**	**−38,073**
TAX RATE	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**−25,401**	**16,220**	**−337**	**−9,518**

Notes To The Consolidated Financial Statements

20. CURRENT TAX ASSETS AND LIABILITIES

ACCOUNTING POLICIES CURRENT TAX ASSETS AND LIABILITIES

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

The net current corporate tax liabilities of EUR 34.1 million (2017: tax liabilities EUR 25.9 million) refers to the tax payable for the reporting period and for previous periods. The Bank is part of a fiscal unity with Achmea B.V., settlement of tax liabilities is handled centrally by Achmea B.V.

21. TOTAL EQUITY

As at 31 December 2018 the authorised share capital amounted to EUR 90 million (2017: 90 million), divided into 90 million shares (2017: 90 million) each with a nominal value of EUR 1 (2017: EUR 1). As at 31 December 2018 18,151,663 shares had been issued and paid up in full (2017: 18,151,663 shares).
The fair value reserve comprises the cumulative net gains and losses on the fair value of the financial assets that are classified as fair value through OCI. (see also note 13)

The profit for the year includes the 2018 net profit.

In line with Achmea Group's policy to manage excess capital at group level and our dividend policy Achmea Bank paid out dividend of EUR 50 million in May 2018. The other reserves consist of retained earnings (EUR 252.2 million).

22. RESULT ACIER LOAN PORTFOLIO

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

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

FOR THE YEAR ENDED 31 DECEMBER 2018

IN THOUSANDS OF EUROS	REGULAR ACHMEA BANK PORTFOLIO	ACIER LOAN PORTFOLIO	TOTAL ACHMEA BANK
Interest margin	107,629	2,870	110,499
Changes in fair value of financial instruments	−1,252	964	−288
Interest margin and changes in fair value of financial instruments	**106,377**	**3,834**	**110,211**
Other income	1,876	–	1,876
Fees and commission income and expense	4,211	–	4,211
Operating income	**112,464**	**3,834**	**116,298**
Impairment on financial instruments and other assets	−1,649	−29	−1,678
Operating expenses	76,228	2,799	79,027
Operating profit before taxes	**37,885**	**1,064**	**38,949**

FOR THE YEAR ENDED 31 DECEMBER 2017

IN THOUSANDS OF EUROS	REGULAR ACHMEA BANK PORTFOLIO	ACIER LOAN PORTFOLIO	TOTAL ACHMEA BANK

Notes To The Consolidated Financial Statements

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

23. OTHER INCOME

ACCOUNTING POLICIES OTHER INCOME

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

IN THOUSANDS OF EUROS	2018	2017
Other Income	1,876	2,105

24. FEES AND COMMISSION INCOME AND EXPENSE

ACCOUNTING POLICIES FEES AND COMMISSION INCOME AND EXPENSE

Fees and Commission includes commission paid and received related to mortgages and saving products and the fees received from Achmea Pensioen- en Levensverzekeringen N.V. with regard to mortgages originated on their balance sheet.

Fees and commission is recognized as the related services is performed. The major part of the fees and commission income relates to originating mortgages for the balance sheet of Achmea Pensioen- en Levensverzekeringen N.V. These fees are recognized in the income statement in the same period.

IN THOUSANDS OF EUROS	2018	2017
Fees and commission income	4,381	5,481
Fees and commission expense	170	387
	4,211	**5,094**

25. OPERATING EXPENSES

ACCOUNTING POLICIES FEES AND COMMISSION INCOME AND EXPENSE

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

IN THOUSANDS OF EUROS	2018	2017
Staff costs	24,057	32,448
Administrative expenses	54,970	63,157
	79,027	**95,605**

Notes To The Consolidated Financial Statements

26. STAFF COSTS

ACCOUNTING POLICIES EMPLOYEE BENEFITS

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

IN THOUSANDS OF EUROS	2018	2017
Wages and salaries	12,954	15,909
Pension costs	3,004	3,584
Compulsory social security obligations	1,694	2,167
Other staff costs	6,405	10,788
	24,057	**32,448**

The average number of employees during 2018 was 172 FTEs (2017: 303 FTEs). This reduction in average number of employees is mainly due the result of the outsourcing of our mortgage servicing to Quion and the implementation of the new savings- and payment system. The costs for the employee benefits are not allocated to the Bank. All personnel including the Executive Board of Achmea Bank are employed by Achmea Interne Diensten N.V. The personnel costs and other operating expenses associated with the activities of Achmea Bank are passed on. Achmea Interne Diensten N.V. allocates the pension expenses to the various entities of Achmea Group. Allocation is effected on the basis of the pensionable salary of the current employees. In 2018 there were no adjustments or claw backs in connection with (past) remuneration to members of the Executive Board.

27. INDEPENDENT AUDITOR'S FEES

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

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

- Statutory audit of the SPVs and conditional pass through covered bond programme;
- Audit of the regulatory reports to be submitted to De Nederlandse Bank;
- ISAE type I DGS;
- Agreed upon procedures interest rate risk;
- Agreed upon procedures Stichting Trustee;
- Several comfort letters related to funding programmes.

28. INCOME TAX EXPENSES

RECONCILIATION OF THE EFFECTIVE TAX RATE

IN THOUSANDS OF EUROS	2018	2017
Operating profit before taxes	38,949	23,634
Nominal tax rate	25.0%	25.0%
Nominal tax expenses	9,737	5,910
Correction on corporation tax due to change in tax rate	−260	
Effective tax expenses	**9,477**	**5,910**
Effective tax rate	**24.3%**	**25.0%**

Notes To The Consolidated Financial Statements

The Bank is part of a fiscal unity with Achmea B.V. for company tax purposes and VAT. The effective tax expenses consist of EUR 12.6 million current tax and EUR 3.1 million deferred tax.

29. CONTINGENT LIABILITIES AND COMMITMENTS

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 of Staalbankiers. The maximum amount for the duration of the financial guarantee is EUR 350 million. The contract for the financial guarantee will end in line with the maturity of the related loans. As at year-end 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 and VAT. Within this fiscal unity the Bank is severally liable. The tax expenses are settled in the current account with the Group.

POST FORECLOSURE CLAIM

Achmea Bank has a residual claim after write-off of mortgage receivables of EUR 44 million (2017: EUR 45million). The expected net recovery of this exposure is limited.

Notes To The Consolidated Financial Statements

30. RELATED PARTIES

IDENTITY OF RELATED PARTIES

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

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

A sum of EUR 0.7 billion (2017: EUR 0.8 billion) is included under Funds entrusted for liabilities to non-banking institutions within Achmea B.V., EUR 1.6 billion of the total liabilities (2017: EUR 1.7 billion) is related to Achmea Pensioen- en Levensverzekeringen N.V. and consists mainly of investments in the Bank's securitisation programmes.

Achmea B.V. has issued a capped guarantee to Achmea Bank to cover credit risk and legal claims in connection with the acquired loan activities of Staalbankiers. The maximum amount for the duration of the financial guarantee is EUR 350 million. The contract for the financial guarantee will end in line with the maturity of the related loans. As at year-end 2018, the total amount claimed by Achmea Bank is EUR 19.6 million (2017: EUR 11.3 million), the increase is due to the implementation of IFRS9.
The Bank entered into an Asset Switch agreement with Achmea Pensioen- en Levensverzekeringen N.V. in order to improve its liquidity position. In addition, the Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V. The movements in Loans and advances from and to related parties are a result of repayments and additional borrowings.

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

INTERCOMPANY POSITIONS

IN THOUSANDS OF EUROS	2018	2017
Assets		
Prepayments and other receivables	33,394	23,952
	33,394	**23,952**
Liabilities		
Funds entrusted	849,228	803,615
Secured bank loans	782,169	909,964
Accruals and other liabilities	32,675	43,653
	1,664,072	**1,757,232**

PREPAYMENTS AND OTHER RECEIVABLES FROM RELATED PARTIES

IN THOUSANDS OF EUROS	2018	2017
Achmea B.V.	8,914	1,849
Achmea Pensioen- en Levensverzekeringen N.V.	24,481	21,911
Staal Beheer N.V.	–	192
	33,394	**23,952**

INTEREST INCOME ON RECEIVABLES TO RELATED PARTIES

IN THOUSANDS OF EUROS	2018	2017
Interamerican Health General Insurance Company of Health and Assistance SA	38	23
Interamerican Hellenic Life Insurance Company SA	21	29
Interamerican Property and Casualty Insurance Company SA	85	102
Interassistance Road Assistance Services SA	1	1
Practice Medical Company SA	–	2
Athinaiki General Clinic SA	2	3
	147	**160**

Notes To The Consolidated Financial Statements

FUNDS ENTRUSTED AND SECURED BANK LOANS

IN THOUSANDS OF EUROS	2018	2017
Achmea Pensioen- en Levensverzekeringen N.V.	1,604,505	1,666,760
Interamerican Health General Insurance Company of Health and Assistance SA	–	11,282
Interamerican Hellenic Life Insurance Company SA	–	7,968
Interamerican Property and Casualty Insurance Company SA	23,169	23,254
Interassistance Road Assistance Services SA	297	298
Mentor Assessors Estimator, engineers SA	59	60
Interamerican Assistance Gen Ins Company	2,983	2,994
Athinaiki General Clinic SA	384	964
	1,631,397	**1,713,580**

DEPOSITS FROM BANKS AND OTHER LIABILITIES

IN THOUSANDS OF EUROS	2018	2017
Achmea Interne Diensten N.V.	1,989	3,984
Achmea Pensioen- en Levensverzekeringen N.V.	30,686	39,669
	32,675	**43,653**

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

INTEREST EXPENSES ON LOANS AND ADVANCES TO RELATED PARTIES

IN THOUSANDS OF EUROS	2018	2017
Achmea B.V.	67	1,249
Achmea Pensioen- en Levensverzekeringen N.V.	41,519	46,767
Achmea Schadeverzekeringen N.V.	–	102
FBI Zorg Vastrentende waarden	–	–
	41,586	**48,118**

COMMISSION INCOME AND EXPENSES RELATED PARTIES

IN THOUSANDS OF EUROS	2018	2017
Staal Beheer N.V.	500	125
Achmea Pensioen- en Levensverzekeringen N.V.	3,436	4,609
	3,936	**4,734**

OTHER EXPENSES RELATED PARTIES

IN THOUSANDS OF EUROS	2018	2017
Achmea Interne Diensten N.V.	1,087	5,392
	1,087	**5,392**

31. REMUNERATION EXECUTIVE BOARD AND SUPERVISORY BOARD

REMUNERATION OF SUPERVISORY BOARD MEMBERS

IN THOUSANDS OF EUROS	2018	2017
Short term remuneration	152	176
	152	**176**

REMUNERATION OF EXECUTIVE BOARD MEMBERS

IN THOUSANDS OF EUROS	2018	2017
Short-term employee benefits	847	896
Post-employment benefits	57	89
	904	**985**

Notes To The Consolidated Financial Statements

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

The members of Executive Board and Supervisory Board are classified as key management personnel. One of the members of the Supervisory Board members held a mortgage loan during 2018, with an interest rate of 5.7%. The outstanding amount per December 2018 amounts to EUR 0.2 million (2017: EUR 0.2 million). There were no prepayments during the year.

32. EVENTS AFTER REPORTING PERIOD

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

PROPOSAL FOR PROFIT APPROPRIATION

Achmea Bank proposes to pay out a total dividend which equals the net profit of EUR 29 million.

The General Meeting of Shareholders of 30 April 2018, approved the dividend proposal to pay out a total dividend of EUR 50,000,.000, of which EUR 17,724,000 relates to the result of 2017 and EUR 32,276,000 from the other reserves of the Bank.

Notes To The Consolidated Financial Statements

AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

Tilburg, 14 March 2019

The Executive Board,

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

The Supervisory Board

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

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

COMPANY STATEMENT OF FINANCIAL POSITION

BEFORE APPROPRIATION OF RESULT IN THOUSANDS OF EUROS AS AT THE YEAR ENDED 31 DECEMBER	2018	2017
Assets		
Cash and balances with Central Banks	115,781	890,063
Derivative assets held for risk management	75,676	113,079
Loans and advances to banks	512,268	654,022
Loans and advances to public sector	699	722
Loans and advances to customers	11,056,321	11,730,641
Interest-bearing securities	1,508,329	1,056,418
Prepayments and other receivables	211,317	192,738
Total Assets	**13,480,391**	**14,637,683**
Liabilities		
Derivative liabilities held for risk management	445,636	519,397
Deposits from banks	188,736	91,843
Funds entrusted	5,629,609	5,959,616
Borrowings	6,312,990	7,099,049
Provisions	150	1,600
Current tax liabilities	34,102	25,857
Deferred tax liabilities	1,632	9,519
Accruals and other liabilities	45,563	61,202
Subordinated liabilities	8,336	8,336
Payables to subsidiaries	8,456	20,789
Total Liabilities	**12,675,210**	**13,797,208**
Equity		
Share Capital	18,152	18,152
Share premium	505,609	505,609
Reserves	251,948	298,990
Net profit	29,472	17,724
Total Equity	**805,181**	**840,475**
Total Equity and Liabilities	**13,480,391**	**14,637,683**

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

Company Statement of comprehensive income Achmea Bank N.V.

COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER	2018	2017
IN THOUSANDS OF EUROS		
Interest income	382,741	426,177
Interest expenses	272,242	322,458
Interest margin	**110,499**	**103,719**
Changes in fair value of financial instruments	−288	1,552
Interest margin and changes in fair value of financial instruments	**110,211**	**105,271**
Other income	1,876	2,105
Fees and commission income and expense	4,211	5,094
Operating income	**116,298**	**112,470**
Impairment on financial instruments and other assets	−1,678	−6,769
Operating expenses	79,027	95,605
Operating profit before taxes	**38,949**	**23,634**
Income tax expenses	9,477	5,910
Net profit	**29,472**	**17,724**

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

STATEMENT OF CHANGES IN COMPANY EQUITY

BEFORE PROFIT PROPORATION	SHARE CAPITAL	SHARE PREMIUM	FAIR VALUE RESERVE	PROFIT FOR THE YEAR	OTHER RESERVES	TOTAL EQUITY
IN THOUSANDS OF EUROS						
Balance at 31 December 2017	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**
Impact of adopting IFRS 9 at 1 January 2018	–	–	61	–	–13,197	–13,136
Restated balance as at 1 January 2018	**18,152**	**505,609**	**1,070**	**17,724**	**284,784**	**827,339**
Other comprehensive income/expense, net of income tax	–	–	–	29,472	–	29,472
Fair value reserve:						
Change in fair value net of income tax (will be fully recycled through P&L) (note 9)	–	–	–1,630	–	–	–1,630
Total comprehensive income for the period	**–**	**–**	**–1,630**	**29,472**	**–**	**27,842**
Transaction with owners, recognised directly in equity						
Dividends paid	–	–	–	–17,724	–32,276	–50,000
Appropriation of profit 2017	–	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**–17,724**	**–32,276**	**–50,000**
Balance at 31 December 2018 (note 21)	**18,152**	**505,609**	**–560**	**29,472**	**252,508**	**805,181**
Balance at 1 January 2017	**18,152**	**505,609**	**1,399**	**12,976**	**285,005**	**823,141**
Total comprehensive income for the period						
Net profit	–	–	–	17,724	–	17,724
Other comprehensive income/expense, net of income tax						
Fair value reserve:						
Change in fair value net of income tax (will be fully recycled through P&L) (note 9)	–	–	–390	–	–	–390
Total comprehensive income for the period	**–**	**–**	**–390**	**17,724**	**–**	**17,334**
Transaction with owners, recognised directly in equity						
Contributions by and distributions to owners						
Total contributions by and distributions to owners	**–**	**–**	**–**	**–12,976**	**12,976**	**–**
Balance at 31 December 2017 (note 21)	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**

As at 31 December 2018 the authorised share capital amounted to EUR 90 million (2017: 90 million), divided into 90 million shares (2017: 90 million) each with a nominal value of EUR 1 (2017: EUR 1). As at 31 December 2018 18,151,663 shares had been issued and paid up in full (2017: 18,151,663 shares).
The fair value reserve comprises the cumulative net gains and losses on the fair value of the financial assets that are classified as available for sale.

The profit for the year includes the 2018 net profit.

In line with Achmea Group's policy to manage excess capital at group level and our dividend policy Achmea Bank paid out dividend of EUR 50 million in May 2018. The other reserves consist of retained earnings (EUR 252.2 million).

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

Notes to the company financial statements

GENERAL

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

In respect to the measurement basis for assets and liabilities and for determination of the results, the Bank has made use of the option in article 2:362 (8) of the Dutch Civil Code. This means that the accounting policies used are identical to the IFRS standards applied to the consolidated financial statements of Achmea Bank.
Concerning the Company cash flow statement of Achmea Bank N.V., use has been made of the principle according to Section 360.106 of the Dutch Accounting Standards (RJ).

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

The legal ownership of the securitized mortgages has been transferred to the SPVs, the economic ownership of these mortgages remains with the Bank. Back-to-back swaps are used in securitisation transactions, in the company financial statements only the swaps of Achmea Bank are recognised. The fair value of the Back-to-back swaps of the SPVs are recognised as part of the other receivables. The fair value movement in 2018 has been recognised in the income statement as part of the fair value result. The income and expenses of the SPV's are recognised in the company financial statements. Because of the characteristics of the B and C notes, they didn´t pass the SPPI test. Therefore the measurement of the B and C notes in the company financial statements is at fair value instead of amortised cost. In respect to article 100.107a of Dutch accounting principles (RJ), the impairment charges related to intercompany positions has been eliminated in the company financial statements as part of the carrying amount of the financial assets and the impact of the valuation differences on the B and C notes has been eliminated as part of the carrying amount of the interest bearing securities.

AMENDMENTS RELATED TO PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

There are no prior period corrections or changes in presentation.

AUTHORIZATION OF COMPANY FINANCIAL STATEMENTS

Tilburg, 14 March 2019

The Executive Board,

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

The Supervisory Board

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

Other information

PROFIT APPROPRIATION ACCORDING TO THE ARTICLES OF ASSOCIATION

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

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

INDEPENDENT AUDITOR'S REPORT

To: the general meeting and Supervisory Board of Achmea Bank N.V.

Report on the financial statements 2018

Our opinion

In our opinion:

- Achmea Bank N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- Achmea Bank N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2018 of Achmea Bank N.V., the Hague ('the Company'). The financial statements include the consolidated financial statements of Achmea Bank N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated statements of comprehensive income, changes in equity and cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2018;
- the company statement of income for 2018; and
- the notes, comprising the accounting policies applied and other explanatory information.

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

The basis for our opinion

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

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

Independence

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

Our audit approach

Overview and context

Achmea Bank N.V. is a bank that provides residential mortgage loans and saving products to private customers. Besides savings, the Group obtains a substantial part of its funding in the form of unsecured and secured notes issued on the capital markets. The Group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'. We paid specific attention to the areas of focus driven by the operations of the Group as set out below. A relevant matter in light of designing our audit approach and defining our audit scope is that the Company has been outsourcing parts of its processes to third party service organisations over the last two years (we refer to 'The scope of our group audit' section below).

Other information

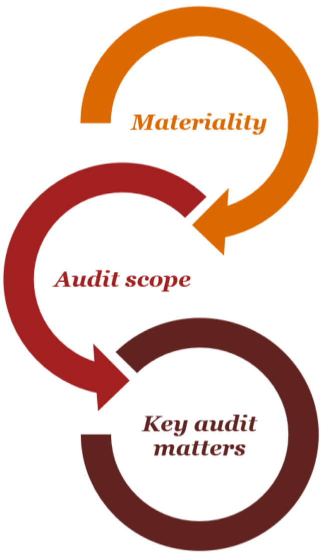
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In note 3 'Critical estimates and judgements used in applying the accounting policies' of the financial statements the Group describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Of the four areas mentioned, we considered loss allowance of loans and advances to customers and the fair value measurement of derivatives as key audit matters as set out in the section 'Key audit matters' of this report, given the significant estimation uncertainty and the related higher inherent risks of material misstatement in these areas. Furthermore, we identified hedge accounting as part of the key audit matter on the fair value of derivatives, following its detailed, formal and technical requirements. Inadequate application or documentation of these requirements may have a material impact on the Company's financial results and financial position.

The disclosure on the impact of IFRS 9 on the opening balance as of 1 January 2018 (IAS 8) is no longer considered as a separate key audit matter because IFRS 9 is implemented as of 1 January 2018. We elaborated on the implementation of IFRS 9 hereafter as part of our key audit matter with respect to the 'loss allowance of loans and advances to costumers'.

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

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

The outline of our audit approach was as follows:



Materiality
- Overall materiality: €2.7 million.

Audit scope
- We conducted audit work on Achmea Bank N.V. and all of its subsidiaries.
- For both ITGCs and the mortgage administration, the Group makes use of several service organisations for which we gained comfort through other auditors.

Key audit matters
- Loss allowance of loans and advances to customers (including IFRS 9 implementation).
- Fair value measurement of derivatives and application of hedge accounting.

Materiality

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

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

Overall group materiality	€2.7 million (2017: €2.6 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we

	used 2.5% of interest margin.
Rationale for benchmark applied	We considered, as a point of reference, (average) profit before tax as a materiality benchmark as it generally is seen as representing the interests of the stakeholders. Given the results of the Group over the last couple of years including several one-off items, we deemed this not to be the most appropriate benchmark to be applied. In assessing other benchmarks, we believe interest margin, being an important financial metric for the general performance of the bank including reflecting the link between return on assets and cost of funding, is an appropriate benchmark to use. We note that this is consistent with the benchmark applied over the last two years.

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

We agreed with the supervisory board that we would report misstatements identified during our audit above €135,000 (2017: €130,000) as well as misstatements below that amount that, in our view, warrant reporting for qualitative reasons.

The scope of our group audit

Achmea Bank N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Achmea Bank N.V. The group audit encompassed all components included in the consolidation of Achmea Bank N.V. as disclosed in note D on page 25 of the financial statements.

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

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

The Group has outsourced the largest part of its mortgage administration services to Quion Groep B.V. and Stater Nederland B.V. In our assessment of the mortgage portfolio balance and related transactions, we obtained sufficient and appropriate evidence over the controls performed by the service organisations through assessing the ISAE 3402 type 2 reports from Quion Groep B.V. and Stater Nederland B.V. and specific special purpose auditor's reports related to the mortgage portfolio of Achmea Bank N.V. In this context, we have been involved in planning of the work by the external auditors of Quion Groep B.V. and Stater Nederland B.V. and assessed their independence, capability and objectivity. We discussed progress and interim findings of the audit and, finally, evaluated the ISAE 3402 type 2 assurance report, to the extent necessary for the purpose of our audit, and specific special purpose auditor's reports related to the mortgage portfolio of Achmea Bank N.V. once they were finalised including performing an audit file review.

Based on these procedures performed, we concluded that we could rely on the work of these auditors for the purpose of our audit.

For the testing of the Group's internal control framework, we also made use of the work performed by internal audit in those areas we deemed that use is appropriate. In making this assessment, we have considered factors in the context of audit standard 610 'using the work of internal auditors', such as our assessment of the level of risk and the amount of judgement involved related to the associated financial statement line item. Where we deemed the risk associated with the financial statement line item to be significant, or where a degree of judgement was required, we performed testing of internal controls independently. In order to make use of the work performed by internal audit we evaluated their objectivity, level of competence and application of a systematic and disciplined approach. We also performed a review of the documentation of the work performed by internal audit that included reperformance for those areas where we make use of their work, which confirmed our initial assessment and reliance approach.

By performing the procedures above, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Other information

Key audit matters

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

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

We note that the key audit matters related to 'loss allowance on loans and advances to customers' and 'fair value measurement of derivatives and application of hedge accounting' are recurring. These relate to the Group's primary business processes and objectives and did not change significantly compared to prior year.

Key audit matter	***How our audit addressed the matter***
Loss allowance of loans and advances to customers (including IFRS 9 implementation) *See note K on page 29 of the summary of significant accounting policies 'impairment of financial assets', paragraph 'measurement expected credit loss' on page 31 of the critical estimates and judgements used in applying the accounting policies, note IV 'expected credit loss' on page 42 of risk management, and note 5 on page 54 'loans and advances to customers'.* The gross loans and advances to customers as at 31 December 2018 amount to €11,099 million (€11,756 million as at 1 January 2018), the total impairment as at 31 December 2018 amounts to €43.0 million (€57.0 million as at 1 January 2018). As at 1 January 2018, the Group has adopted the new accounting standard IFRS 9 'Financial instruments', and changed the impairment model from an incurred loss model to an expected credit loss (ECL) model resulting in an additional impairment of loans and advances to customers of €18.1 million. This impact has been recognised, as per the requirements of the standard, in the opening balance through retained earnings. We note that due to the capped guarantee of Achmea B.V. related to the Acier portfolio, the net impact on retained earnings is €13.3 million lower (refer to note 2C 'adoption of IFRS 9'). *Three-stage expected credit loss impairment model* In connection with the implementation of IFRS 9 the Group implemented the IFRS 9 three-stage expected credit loss impairment model consisting of: • stage 1 (gross carrying amount €10 billion and loss allowance €1.2 million as at 31 December 2018): recognition of loss allowances measured at an amount equal to the 12-month expected credit losses for performing loans; • stage 2 (gross carrying amount €0.5 billion and loss allowance €16.2 million as at 31 December 2018): recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for under-performing financial assets; and • stage 3 (gross carrying amount €0.2 billion and loss allowance €25.6 million as at 31 December 2018): recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for credit-impaired financial assets.	*Control design and operation effectiveness* Our audit procedures over the impairment of loans and advances to customers started with gaining an understanding of the Group's internal controls over the credit risk management and impairment process. We assessed the model validation work performed by Group Model Validation of Achmea B.V. We assessed the ISAE 3402 type 2 reports of the service organisations with respect to the mortgage processing and administration services as described in the section 'The scope of our group audit'. *Assessment of model-based impairments* With support of our internal credit modelling experts, we performed the following procedures on the model-based impairments as at 1 January 2018 and 31 December 2018: • evaluation of the reasonableness of the applied model methodology (including the assumptions regarding PD, LGD and EAD and the thresholds used to determine significant increases in credit risk/stage transfers) in line with EU-IFRS and market practice; • evaluation of the governance framework over the development, validation, calibration and implementation of the impairment models; • evaluation of the new definition of default by obtaining management approach and assessing the conceptual soundness of management's approach in identifying impaired loans; • evaluation of the macro-economic scenarios and macro-economic variables applied by reconciling these to the minutes of the Asset and Liability Committee and challenging these with observable market data; • testing the input data and data lineage in respect of the critical data elements through testing of IT dependencies and in addition reconciliation of a sample of input data to the external mortgage administrations of Quion and Stater; • challenging management on the reasonableness of their provided explanations and evidence supporting the key model parameters by benchmarking them to other market participants; • partial reperformance of the model validation procedures performed by Group Model Validation of Achmea B.V. focusing on the more significant tests like backtesting procedures on

Key audit matter	*How our audit addressed the matter*
The Group manages its loans through two separate portfolios and as such have divided its loans and advances to customers into those two portfolios: • regular mortgage portfolio (loss allowance €11.2 million as at 1 January 2018 and €7.6 million as at 31 December 2018); • Acier loan portfolio (loss allowance €45.8 million as at 1 January 2018 and €35.5 million as at 31 December 2018). The Group built ECL models for both portfolios as the Acier loan portfolio (gross carrying value €0.9 billion) differs in characteristics from the regular mortgage portfolio (gross carrying value €10.2 billion). The impairment approach for this portfolio is therefore a combination of the results of the ECL tool for the homogeneous parts of the portfolio and an individual assessment for a number of large exposures, the heterogeneous part of the portfolio. *Model methodology and inputs* In the models the Group utilises amongst others probability of default (PD), loss given default (LGD) and exposure at default (EAD). For the definition of these variables, refer to note IV 'expected credit loss' on page 42 of the financial statements. The critical data elements as input for these models are retrieved from the core banking source systems. Next to these elements, three global macro-economic scenarios (base, up and down) are incorporated into the models and the probability of the scenarios is weighted in order to determine the expected credit losses. When specific macro-economic exposures are not sufficiently covered by the models or when data limitations or other inherent model limitations are identified, expert judgement is applied to the model outputs. *Loan by loan impairment allowance Acier portfolio* For the larger exposures in the Acier portfolio, the Group compares the outcome of the model with its individual assessment. The account manager determines the loan by loan impairment amount based on the most likely scenario taking into account timely identification of impairment triggers, expected future cash flows (including the value and recoverability of the corresponding collateral) and discount rates. *Judgements and estimation uncertainty* The judgements and estimation uncertainty in the impairment allowance of loans and advances to customers are primarily linked to the following aspects: • the identification of impaired loans including the assessment for which loans credit risk has significantly (de)/increased since inception (indicating stage transfers); • the determination of the future cash flows based on the appropriate use of key parameters (such as forward looking information) and the valuation of the recoverable collateral for the specific loan by loan impairment allowance. Furthermore, the probability weighting of each impairment scenario in this category is inherently subjective in nature; • the assumptions regarding the PDs, LGDs and EADs applied including the assumptions applied in respective overlay models	key model parameters; and • challenging management judgement applied on the model outcomes of the regular mortgage portfolio by obtaining evidence that these adjustments were necessary to balance underlying model and data limitations. Based on the above we assessed the methodology and inputs to be in line with market and industry practice. *Assessment of loan by loan impairment allowance Acier portfolio (stage 3)* Considering the inherent estimation risk of individually impaired loans in the Acier portfolio, we performed risk-based sample testing and considered whether the key judgements applied in the impairment allowance are acceptable for both the balance as at 1 January 2018 and 31 December 2018 and the portfolio composition during the year. We specifically performed the following procedures: • assessing the classification as a performing or non-performing loan based on the (non-)existence of triggering events; • assessing the revision proposals and discussed individual items with management; • reconciliation of the valuation of the corresponding collateral to underlying appraisal reports and/or other information and the inspection of legal agreements and supporting documentation in order to confirm the existence and legal right to collateral; and • recalculation of the loan loss allowance. We noted some immaterial differences, which have been discussed with management and subsequently corrected. Finally, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, to assess compliance with the disclosure requirements included in EU-IFRS.

Key audit matter	*How our audit addressed the matter*
in the model-based impairment allowances (stages 1, 2 and 3); and • any management judgement applied next to the model-based impairment allowances impacting the overall resulting allowance (stages 1 and 2). The significance of the number of accounting policy choices, judgements taken by management and the inherent limitations to data inputs required by the loan impairment models, increases the risks of material misstatement. Therefore, we consider this a key audit matter in our audit.	
Fair value measurement of derivatives and application of hedge accounting *See note H on page 26 of the summary of significant accounting policies 'recognition, derecognition and measurement – fair value measurement', paragraph 'fair value derivatives' on page 31 of the critical estimates and judgements used in applying the accounting policies, note J on page 50 'fair value financial assets and liabilities' and note 9 on page 58 'changes in fair value of financial instruments, derivatives and hedge accounting'.* The Group has designated derivatives held for risk management in two hedging strategies: fair value hedges on interest rate risk in its mortgage portfolio (macro hedge) and interest rate risk and currency risk related to debt securities issued (micro hedges). The derivatives are measured at fair value through profit or loss and amount to €82.6 million of assets and €470.5 million of liabilities. *Models and assumptions* The fair value of the derivatives may fluctuate considerably from time to time due to fluctuations in market rates. The Group applies a valuation model to fair value these positions. Although the valuation model makes maximum use of observable market inputs and limits, there is still a considerable level of judgement to be made by management for relevant unobservable inputs. Consequently, determining the fair value of these types of instruments is considered to be complex and subject to judgements and estimation uncertainty. As required by EU-IFRS, the Group has hedge accounting documentation in place describing the relationship between the hedging instrument(s) and the hedged item(s), as well as the risk management objective and strategy at the inception of the transaction. The Group formally records whether the derivatives used in the hedge relationships are effective in offsetting changes in the fair value of the hedged items, both at the start and for the duration of the hedge relationship. This is done via prospective and retrospective testing. Given the subjectivity around fair valuation, the size of the derivatives portfolio held for risk management and the complexity of the hedge accounting standards included in EU-IFRS, we considered this to be a significant element of our audit.	*Control design and operation effectiveness* Our audit included testing of the Group's internal controls over the valuation process and analysis of validation procedures performed by management over the relevant model inputs. We also tested the Group's internal controls with respect to their hedge accounting strategies and relevant hedge accounting documentation and calculation. We determined that we could rely on these controls for the purpose of our audit. *Substantive audit procedures* Our substantive audit procedures were focused on the following areas: • reconciliation of the source data used in the Group's valuation model that is critical in determining the fair value (e.g. cash flows, maturities and notional values) to the underlying source systems; • challenging the assumptions applied with respect to the unobservable inputs by comparing these to market data; • performing a sensitivity analysis; and • assisted by our valuation specialists, performing an independent valuation of the derivative position. Although our own valuation tools and techniques also provide inherently judgemental outcomes, we considered this to be an appropriate basis for challenging management's outcomes. We found that management's outcomes derived from the model used for the fair value of the derivatives, fell within a reasonable and acceptable range of outcomes. We have considered the prospective and retrospective effectiveness testing to assess whether the hedge relationships are effective and for a selection that the hedge effectiveness has been calculated accurately. We found the outcome of the effectiveness testing to be consistent with our own calculations and the methodology applied in line with the technical requirements. Furthermore, we have reconciled the outcome of the retrospective effectiveness testing resulting in an ineffectiveness which, as required by EU-IFRS, has been recorded as hedge adjustment in the statement of comprehensive income. We tested, for a selection of items, whether the hedge documentation as prepared by management meets the requirements of IAS 39 and whether the interest rate swaps are eligible for hedge accounting. We determined the hedge relationships to be supported by

Key audit matter	How our audit addressed the matter
	appropriate documentation and other supporting evidence. Finally, we assessed the completeness and accuracy of the disclosures relating to derivatives and hedge accounting to assess compliance with disclosure requirements included in EU-IFRS.

Report on the other information included in the annual report

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Our appointment

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

No prohibited non-audit services

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

Services rendered

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

Responsibilities for the financial statements and the audit

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

The executive board is responsible for:

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 14 March 2019
PricewaterhouseCoopers Accountants N.V.

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

Appendix to our auditor's report on the financial statements 2018 of Achmea Bank N.V.

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

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

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

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

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

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

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

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

Colophon and contact information

Colophon

This is the English version of our 2018 annual report. There is no Dutch version of this report. The annual report can be downloaded from our website achmeabank.com.

We are happy to receive your reaction concerning this annual report via the address mentioned below.

Visiting address
Achmea Bank N.V.
Spoorlaan 298
5017 JZ Tilburg

Mailing address
Achmea Bank N.V.
Postbus 54
7300 AB Apeldoorn

www.achmeabank.com

Investors relations
Rudi Kramer
+316 532 64 552, or

Abhishek Dutta
+316 224 96 980

Press Officers
Fleur Bello
+316 317 493 50, or

Marco Simmers
+316 534 387 18