Achmea Bank N.V.
Pillar III report
2019

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Contents

SUMMARY ANALYSIS 5

Capital management 5
Liquidity management 5

INTRODUCTION 6

ACHMEA BANK 7

Products 7
Strategy 7
Rating agencies 8
Basis of consolidation 8

RISK MANAGEMENT 10

Introduction 10
Risk approach 11
Risk strategy 11
Risk appetite 12
Significant risks and developments 12
Risk management organization 13
Risk decision making 13
Risk governance and risk management committee structure 13
Risk management framework 14
Risk measurement 14
Stress testing 14
Recovery plan 15
(Regulatory) Developments 16
MREL 16
TLAC 16
Basel IV 16

CAPITAL MANAGEMENT 16

Internal capital adequacy requirements 18
Capital contingency 18
Regulatory capital requirements 18
qualifying capital 18
Common equity tier 1 capital 18
Tier 2 capital 18
Capital ratios 19
Total capital ratio 19
SREP ratio 19
Leverage ratio 19

LIQUIDITY MANAGEMENT 20

Internal liquidity adequacy process and requirements 20
Liquidity and funding contingency 20

RISK MEASUREMENT **20**
LIQUIDITY POSITION 20
FUNDING STRATEGY **21**
ENTRUSTED FUNDS (RETAIL) 21
ASSET ENCUMBRANCE (RATIO) **22**

CREDIT RISK **23**

CREDIT RISK MANAGEMENT **23**
CREDIT PORTFOLIO **23**
PRIVATE SECTOR 24
MORTGAGE PORTFOLIO **26**
CREDIT COMMITTEES 26
CREDIT POLICY 26
CREDIT APPROVAL 26
ARREARS MANAGEMENT 26
CREDIT RISK MEASUREMENT 27
CREDIT RISK REPORTING 28
ADVANCED INTERNAL RATING BASED (AIRB) APPROACH 28
SPECIFIC COUNTERPARTY CREDIT RISK **29**
COUNTERPARTY RISK POLICY 29
CREDIT RISK MEASUREMENT 29
QUALIFYING CENTRAL COUNTERPARTIES 29
CREDIT RISK REPORTING 29
ADDITIONAL CONTRACTUAL OBLIGATIONS IN CASE OF A RATING DOWNGRADE 30

SECURITISATIONS **30**

OWN ASSET SECURITISATION **30**
REGULATORY CAPITAL APPROACHES **30**
SIGNIFICANT RISK TRANSFER 31
RISK MEASUREMENT **31**
OWN SECURITISATIONS 31
INVESTING IN THIRD PARTY RMBS 31
STANDARDISED APPROACH 31

OPERATIONAL RISK MANAGEMENT **32**

MARKET RISK **34**

INTEREST RATE RISK BANKING ENVIRONMENT **34**
INTEREST RATE RISK FRAMEWORK 34
RISK MEASUREMENT 34
FOREIGN CURRENCY RISK **35**

REMUNERATION PRINCIPLES AND POLICY **37**

APPENDIX: TABLES **38**

KEY METRICS **38**
BALANCE SHEET **39**

CAPITAL MANAGEMENT **42**
LIQUIDITY MANAGEMENT **45**
CREDIT RISK **48**
COUNTERPARTY CREDIT RISK **52**
OPERATIONAL RISK **55**

SUMMARY ANALYSIS

Common Equity Tier 1 ratio (CET1-ratio) (2018: 20.8%)	Tier 1 Capital ratio (2018: 20.8%)	Total Capital ratio (2018: 20.9%)
19.2%	**19.2%**	**19.2%**

Leverage ratio (2018:6.5%)	Total Risk Weighted Exposure Amount (2018: € 3,728 mln)	Write-offs (2018: € 6,202 mln)
5.8%	**€ 4,042M**	**€ 9,063M**

Liquidity Coverage ratio (LCR) (2018: 364%)	Net Stable Funding ratio (NSFR) (2018: 122%)
249%	**121%**

Capital management

Through consistent monitoring, stress testing and capital projections Achmea Bank has determined that it is adequately capitalized and that the capital position of the bank remains within the internal and external limits for both short and long term. Since the end of 2019 Achmea Bank has an increased (internal) focus on capital optimization, where capital size, composition and costs form important elements.

The Total Capital ratio at 31 December 2019 amounted to 19,2% and is well above the current requirements and limits of the capital (risk) position of Achmea Bank.

Liquidity management

The liquidity risk management of Achmea Bank is adequate. The development of relevant indicators, such as the cash and liquidity position, the survival period and the Liquidity Coverage ratio (LCR) are monitored consistently by the bank. The amount and composition of the liquidity buffers at 31 December 2019 are adequate and enables the bank to continuously meet its payment obligations both under normal and stressed conditions. Achmea Bank complies consistently with internal and external requirements, including healthy balance sheet ratios, e.g. funding mix, asset encumbrance (ratio) and overcollateralization (ratio).

INTRODUCTION

This document presents the consolidated Capital Adequacy and Risk Management report (hereafter referred to as Pillar III report) of Achmea Bank N.V. as at 31 December 2019.

Achmea Bank operates under the CRDIV capital framework which came into force in 2014. CRDIV constitutes the Basel framework which aligns regulatory requirements with the economic principles of risk management. CRDIV is implemented into Dutch law as amendments to the 'Financial Supervision Act' (Wet op het financieel toezicht, Wft) and further accompanying regulations. Pillar III requirements under CRDIV are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. Achmea Bank's 2019 year end disclosures are prepared in accordance with the CRDIV requirements and associated guidelines of the European Banking Authority (EBA) technical standards that came into force.

The implementation of CRDIV is subject to transitional arrangements. By 1 January 2019 all CET1 capital deductions are fully phased in. Consequently, Achmea Bank's capital position is presented by applying the transitional arrangements.

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

This report describes the Bank's:

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

ACHMEA BANK

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

Achmea, one of the largest insurance companies in the Netherlands with a history stretching back more than 200 years, offers its clients a range of insurance and banking products and services. Achmea is an innovative service provider with the ambition to provide financial comfort to its customers. The key brands in the Dutch market are Centraal Beheer and Zilveren Kruis.

At year end the main shareholders of Achmea B.V. were Vereniging Achmea (61%) and Coöperatieve Rabobank U.A. (28%). The percentages reflect the capital rights of the shareholders of Achmea.

Achmea Bank is a wholly owned subsidiary of Achmea 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.

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 an entrepreneurial spirit, are result oriented and have an open and informal culture. Achmea Bank is located in Tilburg and employs around 200 people.

PRODUCTS

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

Achmea Bank also provides savings products to private customers under the Centraal Beheer label. As substantial part of Achmea Bank's funding consists of retail savings. In addition, unsecured and secured money market and capital market funding is used to fund the Bank's activities.

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

STRATEGY

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. 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.

In 2019, Achmea Bank completed two balance sheet transactions. One is the acquisition of the a.s.r. banking activities which includes a savings portfolio of about 125,000 customers with a nominal volume of EUR 1.5 billion and a mortgage portfolio with a nominal volume of EUR 1.4 billion. The other is a mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V. (EUR 0.6 billion). This strategic transaction enables Achmea Bank to attract shorter duration mortgages and originate new longer date mortgages for the mortgage portfolio of Achmea Pensioen-en Levensverzekeringen N.V. Achmea Bank’s acquisition of portfolios is part of Achmea’s strategy to increase it’s (economies of) scale and focus on assets with risk/return characteristics that fit well into the balance sheet of Achmea Bank.

In addition, we have further invested in the positioning of our two strong brands, Centraal Beheer and Woonfonds. Centraal Beheer is developing from a traditional insurer into a broad financial services provider in the field of insurance, saving, investing and mortgages. Through the Woonfonds brand, Achmea Bank focusses on niche propositions to achieve better interest margins over additional volume in the mainstream market.

Achmea Group has the ambition to grow in the mortgage market. In line with this ambition, Achmea will concentrate its operational mortgage activities at one location in Amsterdam. The commercial activities will be concentrated in Apeldoorn. For Achmea Bank this means transferring its mortgage operations activities from Tilburg to Amsterdam and its commercial activities to Apeldoorn.

Rating agencies

Achmea bank has implied public rating by S&P and Fitch. The ratings of both agencies are derived from Achmea’s credit rating. The S&P rating is A-/Stable Outlook since March 2017, the rating was confirmed in April 2019. Since year-end October 2016 Achmea Bank has a Fitch long-term rating of A/Stable Outlook, the rating was confirmed in June 2019. Both agencies apply their own methodologies to assess the capital and the liquidity adequacy of Achmea Bank. Both rating agencies use own methodologies for assessing Achmea Bank's capital and liquidity position. These assessments include the strategic position of the bank within Achmea, its competitive position and Dutch market conditions. The latest reports can be found on Achmea Bank’s website: https://www.achmeabank.nl/investeerders/ratings.

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 and deconsolidated from the date that control ceases.

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

- Dutch Mortgage Portfolio Loans XI B.V. (shares are held by Stichting DMPL XI Holding) *)
- Dutch Mortgage Portfolio Loans XII B.V. (shares are held by Stichting DMPL XII Holding)
- Dutch Residential Mortgage Portfolio I B.V. (shares are held by Stichting Holding DRMP I)
- Dutch Residential Mortgage Portfolio II B.V. (shares are held by Stichting Holding DRMP II)
- Securitised Residential Mortgage Portfolio I B.V. (shares are held by Stichting Holding SRMP I)
- Achmea Conditional Pass-Through Covered Bond Company B.V. (shares are held by Stichting Holding Achmea Conditional Pass-Through Covered Bond Company)
- Stichting Trustee Achmea Bank
- Stichting Incasso Achmea Hypotheken

*) Liquidated after all notes were redeemed at the first optional redemption date in 2019

All consolidated companies have their registered office in Amsterdam except for Stichting Trustee Achmea Bank which has its registered office in The Hague.
These entities (with the exception of Stichting Incasso Achmea Hypotheken, Stichting Trustee Achmea Bank 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.
The shares of Achmea Conditional Pass-Through Covered Bond Company B.V. are held by Stichting Achmea Conditional Pass-Through Covered Bond Company.

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 Bank as collateral for liabilities of and funds entrusted to the Bank.

The Stichting Incasso Achmea Hypotheken has been set up to collect and distribute payments on the mortgage receivables to the Bank and related group companies mentioned above.
The above-mentioned companies are consolidated based on an evaluation of the substance of their relationship with the Bank and the entity's risks and rewards. If one of the following circumstances is applicable, the Bank controls and consequently consolidates an entity:

- The entity's activities 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 recognised under profit or loss. Any interest retained in the former subsidiary is measured at fair value once control is lost.

RISK MANAGEMENT

INTRODUCTION

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

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

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

The minimum requirement for own funds and eligible liabilities (MREL) will be set on a case-by-case basis (bank specific). DNB in its capacity as the National Resolution Authority has not determined a formal MREL requirement (if any) for Achmea bank yet.

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

KEY METRICS SUMMARY

IN MILLIONS OF EUROS	2019	2018
Common Equity Tier 1 (CET1)	776	775
Tier 1	776	775
Total capital	777	778
Total risk-weighted assets (RWA)	4,042	3,728
Common Equity Tier 1 ratio	19.2%	20.8%
Tier 1 ratio	19.2%	20.8%
Total capital ratio	19.2%	20.9%
Additional CET1 buffers		
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	0.0%	0.0%
Bank GSIB and/or DSIB	0.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%
TLAC requirements	0.0%	0.0%
Leverage ratio		
leverage ratio exposure	13,363	11,933
Leverage ratio	5.8%	6.5%
Liquidity Coverage Ratio		
Total HQLA	515	691
Total Net Cash Outflow	207	190
LCR ratio	249%	364%
Net Stable Funding Ratio		
Total Available Stable funding	11,398	10,427
Total Required Stable funding	9,384	8,578
NSFR ratio	121%	122%

RISK APPROACH

Risk strategy

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

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

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

Risk appetite

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

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

A further explanation of these items is provided in the following paragraphs, including the limits per individual risk type.

The risk appetite is a general policy which is reviewed at least annually. The department Balance Sheet Management & Financial Risk is responsible for the Risk Appetite Statement. The statement is approved by the Asset and Liability Committee (ALCo), the Finance and Risk Committee (F&RC), the Executive Board and ultimately the Supervisory Board.

Significant risks and developments

Achmea Bank identifies the following types of material risks:

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

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

RISK MANAGEMENT ORGANIZATION

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

Risk decision making

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

Risk governance and risk management committee structure

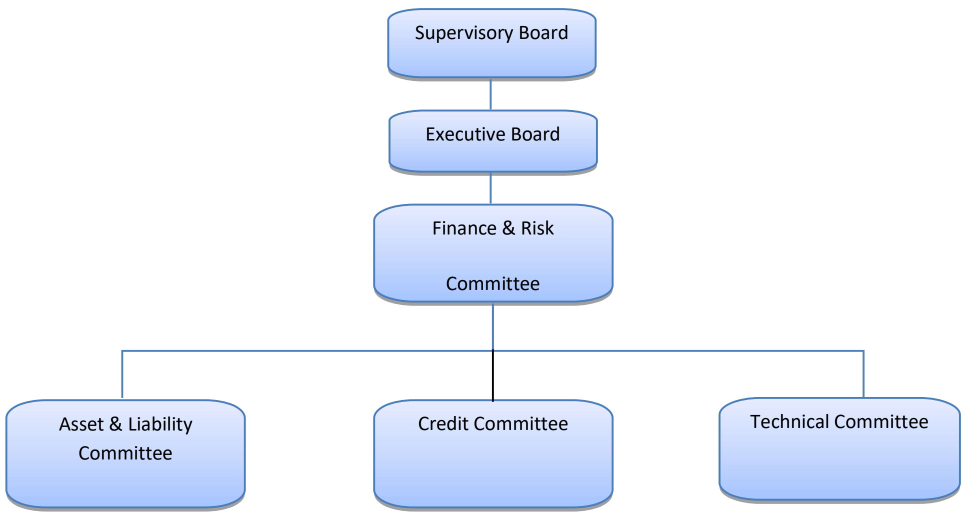
The Bank aims to achieve an optimal balance between risk and return. Adequate risk management is key in order to support and monitor the Bank's core activities.

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

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

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

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



RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

The third line of defence is performed by Internal Audit:

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

RISK MEASUREMENT

Achmea Bank applies the Standardised approach to determine credit risk and the Basic Indicator approach to determine operational risk capital requirements. The Bank applies an internal model to determine interest rate risk in the banking book. Achmea Bank has the ambition to become an AIRB (Advanced Internal Rating-Based) compliant bank in the near future and started the AIRB project per the end of 2018. The project is now well underway. Our goal is to receive AIRB permission in 2023.

Stress testing

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

Stress testing is an integral part of risk management at Achmea Bank. Achmea Bank has drawn up a stress testing policy and several scenarios for stress testing solvency and liquidity. The stress testing policy describes the governance, the stress methodology and the application of stress testing in the capital and liquidity planning process. The risk parameters for liquidity and capital are described in the corresponding stress test policies. The same holds for sensitivity analysis and the various scenarios for stress testing.

The purpose of the policy is to outline the framework for the identification, measurement, assessment, implementation and control of stress testing of Achmea Bank, which includes appropriate internal and external reporting and consistent safeguarding compliance to relevant regulation. These documents are reviewed at least annually.

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

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

Capital management
Achmea Bank has defined four scenarios using scenario planning. The stress scenario is defined by the impact of each scenario on the Bank. This has resulted in four stress scenarios. The impact of the stress scenarios is calculated/ assessed after the approval of the F&RC. The impact of the two most serve stress scenarios is calculated on a quarterly basis and reported to the ALCo. Both scenarios do not breach the minimum risk appetite limit at the key date of 31 December 2019. This means that Achmea Bank can withstand the amount of stress.

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

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

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

Recovery plan

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

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

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

Achmea Bank defines four crisis levels:

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

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

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

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

(REGULATORY) DEVELOPMENTS

MREL

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

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

In the first half of 2020 the National Resolution Authority (NRA) has decided that the preferred resolution strategy in case of failure is liquidation of the bank through normal insolvency proceedings. DNB expects to set the MREL requirement via a separate decision in the second half of 2020 and expects this requirement to be in line with current supervisory requirements.

TLAC

The TLAC (Total Loss Absorbing Capacity) is a measure similar to MREL, however, the TLAC requirement is only applicable for Globally and systematically important banks (G-SIBs). Achmea Bank is not a G-SIB, hence the TLAC requirement does not apply.

Basel IV

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

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

CAPITAL MANAGEMENT

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

The Dutch Central Bank (DNB) sets overall (capital) limits based on the outcomes of its annual Supervisory Review and Evaluation Process (SREP). The Bank complied with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 19.2% and a Total Capital Ratio of 19.2% at 31 December 2019, which are well above the internally applied target for the minimum capital ratio level. For 2019 the Executive Board set the internal target for the minimum capital ratio level at SREP requirement plus the Pillar 2 Guidance plus the combined buffer requirement plus a management buffer of at least 1%.

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

COMPOSITION OF REGULATORY CAPITAL

IN THOUSANDS OF EUROS	AMOUNTS	SOURCES BASED TO REGULATORY SCOPE
Directly issued qualifying common share capital plus related stock surplus	523,761	(b) + (c)
Retained earnings	252,508	(d) minus result of 2019
Accumulated other comprehensive income	–	(d)
Common Equity Tier 1 capital before regulatory adjustments	**776,269**	
Prudential valuation	111	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	–	
Other transitional adjustments to CET1 Capital	–	(Revaluation) (d)
Total regulatory adjustment to CET1	**111**	
Common Equity Tier 1 Capital (CET1)	**776,158**	
Paid up capital instruments and subordinated loans	1,088	(a) including amortisation
Tier 2 Capital	**1,088**	
Total regulatory capital	**777,246**	
Total risk weighted assets	**4,041,971**	
Common Equity Tier 1 ratio	19.2%	
Tier 1 ratio	19.2%	
Total Capital Ratio	19.2%	
Institution specific buffer requirement	2.5%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	0.0%	
Common Equity Tier 1 available to meet buffers after meeting the banks' minimum capital requirements	10.10%	

The total regulatory capital of EUR 777 million consists mainly of core equity tier 1 and is more than sufficient to cover the total pillar 1 capital requirements of EUR 323 million[2].

Dividend

In line with Achmea Group's policy to manage excess capital at group level, Achmea Bank has drawn up a dividend policy in 2017 whereby dividend can be paid out if the Bank's Total Capital Ratio exceeds a minimum limit. In addition to this limit Achmea Bank aims to prevent deviating substantially from its peers when taking into account the levels of the CET1 ratio, TCR and Maximum Distributable Amount (MDA). In accordance with this policy and with the market, and given its solid capital position, the clear and lower than expected impact of both Basel IV and IFRS 9 and positive developments in the Acier portfolio, Achmea Bank proposed a total dividend of EUR 23 million.

Achmea Bank N.V. has decided to withdrawn this proposal due to the uncertainty, regarding the impact of Covid-19. By taking this action, the company follows the call from the European Central Bank (ECB) and the Dutch Central Bank (DNB).

[2] Sources based to regulatory scope: reference to balance sheet on page 39. Overview of RWA can be found in the appendix.

Internal capital adequacy requirements

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

Capital contingency

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

REGULATORY CAPITAL REQUIREMENTS

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

QUALIFYING CAPITAL

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

The available qualifying capital of EUR 777 million that the Bank retains to compensate for potential losses, is well above the level of the total external and internal capital requirements. This underlines the financial solidity of Achmea Bank.

Common equity tier 1 capital

In 2019 Tier 1 capital increased by EUR 1 million from EUR 775 million to EUR 776 million, mainly as a result of the positive change of the revaluation reserve. As the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its common tier 1 capital. The deductions in the table below mainly relate to the revaluation reserve and prudent valuation (2019: EUR 0.1 million).

Tier 2 capital

As of 31 December 2019 an amount of EUR 1 million (2018: EUR 3 million) qualifies as Lower Tier 2 and consists of subordinated loans.

Risk weighted assets

The Bank reports the risk weighted exposure amounts in line with the CRR and CRD IV. In 2019 the total risk exposure amount increased with EUR 314 million from EUR 3,728 million to EUR 4,042 million, mainly due to acquisition of the a.s.r. mortgage portfolio and a mortgage portfolio of Achmea Pensioen & Levensverzekeringen N.V.

CAPITAL RATIOS

Total capital ratio

The increase of risk weighted assets leads to a net decrease of the Total Capital Ratio (TCR) of 1.6% (to 19.2%) compared to December 2018. In May 2019 Achmea Bank paid a dividend of EUR 29 million to, and in conjunction with, its shareholder Achmea B.V. This equals the net result of 2018 and doesn't affect the Total Capital Ratio.

SREP ratio

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

Leverage ratio

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

The Leverage Ratio is a regulatory capital adequacy measure under CRD IV/CRR. The LR is calculated as an institution's capital divided by the institution's total non-risk weighted exposures, expressed as a percentage. Achmea Bank complies with the internal minimum requirement for 2019 of 3.3% and the (expected future) external minimum requirements; the LR at 31 December 2019 was 5.8% (2018: 6.5%). The LR decreased during 2019 due to a higher balance sheet total of roughly EUR 1,400 million, mainly caused by the acquisition of the a.s.r. mortgage portfolio and a mortgage portfolio of Achmea Pensioen & Levensverzekeringen N.V.

Processes to manage the risk of excessive leverage

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

LIQUIDITY MANAGEMENT

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

Liquidity risk consists of two basic types of risk:

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

Internal liquidity adequacy process and requirements

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

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

Liquidity and funding contingency

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

RISK MEASUREMENT

Liquidity position

Liquidity buffer and liquidity ratios

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

- A material withdrawal of retail (on demand) savings: "bank run";
- 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.

In 2015 the Bank entered into an Asset Switch agreement with Achmea Pensioen- en Leven N.V. (AP&L) in order to improve its liquidity position. The Bank legally (i.e. not commercially/economically) exchanged mortgages for government bonds held by AP&L at a market value ratio of 110:100. Due to the higher liquidity treatment of government bonds, this enhances the liquidity position of the Bank and provides more flexibility in the timing of new funding transactions in connection with managing the liquidity and the survival period of the Bank. The target amount of the Asset Switch is EUR 0.5 billion. At year-end 2019 EUR 561 million (2018: EUR 565 million) of mortgages at nominal value were exchanged for EUR 487 million (2018: EUR 517 million) of Dutch 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 held approximately EUR 29 million cash available on demand at the Dutch Central Bank (excluding the mandatory cash reserve). Furthermore the Bank had a portfolio of liquid debt securities amounting to EUR 1.057 million at year-end 2019 (2018: EUR 1.554 million), comprising of retained RMBS notes (A-notes SRMP-I) and Dutch government bonds. In addition, the Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V., which was renewed and aligned with the new Achmea facility in 2019. The facility will mature on 7 March 2024.

The day-to-day cash management is the responsibility of Achmea Treasury, which monitors the daily minimum cash position. Liquidity risk monitoring and reporting, which includes actual and forecasted figures, is the responsibility of the Balance Sheet Management & Financial Risk department (2nd line of defence). Furthermore, ALCo monitors Achmea Bank's liquidity risks on a monthly basis. The Bank is required to hold a sufficient liquidity buffer that ensures the bank's survival for at least six months.

In 2015 two new regulatory liquidity measures were introduced in the CRD IV/CRR: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The LCR is managed in the form of an LCR surplus (i.e. HQLA minus net cash outflow) and the internal limit is set at a surplus of EUR 10 million for 2019. The NSFR aims to ensure that long-term assets are financed with stable, longer term funding. Achmea Bank has set its internal minimum target for the NSFR at 105% for 2019. Both limits are higher than the minimum external requirements. The Bank complies with all external and internal minimum requirements in 2019. At year-end 2019 the LCR was 249 % (2018: 364%) and the NSFR was 121% (2018: 122%).

FUNDING STRATEGY

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

Entrusted funds (retail)

Achmea Bank attracts consumer savings under the Centraal Beheer label. The total savings portfolio consists of 50% available on demand accounts and 50% term deposits, excluding an amount of EUR 0.7 billion saving deposits linked to mortgages.

Secured wholesale funding

Securitisations

One of the Bank's funding sources is securitisation of residential mortgages (RMBS). As of 31 December 2019 the Bank has three outstanding securitisation transactions, with a total outstanding amount of EUR 1.2 billion (2018: EUR 1.8 billion), excluding retained notes for an amount of EUR 1.1 billion (2018: EUR 1.3 billion). In 2019 Achmea Bank redeemed EUR 0.6 billion RMBS notes. EUR 0.4 billion of the RMBS notes are held by other Achmea entities (2018: EUR 0.8 billion).

For RMBS transactions, 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 (ACPTCBC), 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 ACPTCBC 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. In 2019 Achmea Bank issued Conditional Pass Through Covered Bonds of EUR 0.5 billion. The total outstanding amount at year-end 2019 was EUR 1.0 billion (2018: 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 Trustee guarantee amounts to EUR 53 million (2018: EUR 52 million).

The Secured EMTN Programme is used to fund a limited portion of the mortgage portfolio. As at 31 December 2019 a total of EUR 10 million was outstanding (2018: EUR 10 million). The notes are listed on Société de la Bourse de Luxembourg.

Unsecured wholesale funding

Unsecured MTN Programme

Since 2012 the Bank has a EUR 10 billion Unsecured Medium Term Note programme. The total outstanding amount under the Programme was EUR 2.1 billion at year-end 2019 (2018: EUR 2.1 billion), of which EUR 0.4 billion was in private placements (2018: EUR 0.4 billion) and includes CHF denominated loans for an amount of CHF 0.4 billion (2018: CHF 0.4 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. The total outstanding amount under the programme was EUR 172 million as at year-end 2019 (2018: EUR 290 million).

ASSET ENCUMBRANCE (RATIO)

EBA states that an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balancesheet or off-balancesheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered. At year-end 2019, EUR 3.8 billion of total assets were encumbered, resulting in an asset encumbrance ratio per year-end 2019 of 27.1% (2018: 30.7%), taking the unencumbered received collateral assets into account.

ENCUMBERED AND UNENCUMBERED ASSETS 2019

IN THOUSANDS OF EUROS*

	CARRYING AMOUNT OF ENCUMBERED ASSETS		FAIR VALUE OF ENCUMBERED ASSETS		CARRYING AMOUNT OF UNENCUMBERED ASSETS		FAIR VALUE OF UNENCUMBERED ASSETS	
		OF WHICH NOTIONALLY ELLIGIBLE EHQLA AND HQLA		OF WHICH NOTIONALLY ELLIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA		**OF WHICH EHQLA AND HQLA**
	010	030	040	050	060	080	090	**100**
Assets of the reporting institution	**3,867,444**	**-**			**8,567,750**	**196,530**		
Equity instruments	-	-			-	-		
Debt securities	-	-	-	-	196,530	196,530	196,530	196,530
of which: covered bonds	-	-	-	-	-	-	-	-
of which: asset-backed securities	-	-	-	-	196,530	196,530	196,530	196,530
of which: issued by general governments	-	-	-	-	-	-	-	-
of which: issued by financial corporations	-	-	-	-	196,530	196,530	196,530	196,530
of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
Other assets	**3,867,444**	**-**			**8,402,639**	**-**		
of which: mortgage loans	3,301,699	-			7,039,084	-		

*) The figures are based on the median value of the four quarters in the financial year.

CREDIT RISK

CREDIT RISK MANAGEMENT

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

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

CREDIT PORTFOLIO

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

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

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

- The private sector (retail credit risk);

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

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

Private sector

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

Achmea Bank mortgage portfolio

The total Achmea Bank mortgage portfolio amounted at year-end EUR 12.2 billion nominal. The mortgage portfolio consists of the regular Achmea Bank portfolio (EUR 9.4 billion) and the acquired Acier loan portfolio (EUR 0.8 billion), a.s.r. mortgage portfolio (EUR 1.34 billion) and Achmea Pensioen- en Levensverzekeringen N.V. mortgage portfolio (EUR 0,6 billion).

The regular Achmea Bank mortgage portfolio consists of residential, owner occupied property loans and a proposition which allows buy-to-let. Collateral for these loans consists of residential property, pledged life insurance policies or savings and security accounts.

In 2019 the regular Achmea Bank portfolio decreased with EUR 0.8 billion to EUR 9.4 billion at year-end (2018 YE: EUR 10.2 billion).

Acquired portfolios

In December 2019, Achmea Bank completed the acquisition of the a.s.r. banking activities which includes a mortgage portfolio (EUR 1.36 billion nominal). Furthermore, Achmea Bank acquired in 2019 a mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V. (EUR 0.6 billion nominal) in 2019.

Acier loan portfolio

In 2019 the Acier loan portfolio decreased with EUR 74 million to EUR 790 million at year-end (2018: EUR 886 million). As at December 2019 the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 21.7 million (2018: EUR 35.5 million), which is a decrease of EUR 13.8 million compared to December 2019. Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited. In 2019 all credit losses on the Acier portfolio above 8 basis points were compensated by this guarantee. This threshold will be increased to 20 basis points as from 2021 onwards. The total amount of claims submitted to this guarantee is recognised on the balance sheet as a receivable on Achmea B.V. The majority of the collateral of the Acier loan portfolio is concentrated in the Netherlands. A minor part of collateral is in the rest of Europe.

Consumer and corporate credit portfolio

Consumer credit is credit used by the borrower to finance consumer expenditure. The main forms of consumer credit are revolving credit facilities and personal loans. Achmea Bank has been active in consumer credit via various distribution channels until mid-2009. No new loans have been granted since then. A substantial part of the revolving credit and personal loan portfolio was sold to a third party in December 2010. A small remaining part of the revolving credit and personal loan portfolio is still being managed by Achmea Bank (EUR 20 million). Part of the Acier portfolio also consists of loans with an exposure to non-households (corporations). Achmea Bank defines these loans as corporate credit (EUR 58 million).

Professional counterparties

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

Contingent liabilities, commitments and other risks

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

LEGAL PROCEEDINGS

In the course of 2019 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 2019.

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 2019, the total amount claimed by Achmea Bank is EUR 20 million (2018: EUR 19.6 million).

CONTRACTUAL OBLIGATIONS

At year-end 2019 the Bank had contractual obligations for the coming year with Achmea Group companies amounting to EUR 36.1 million (2018: EUR 39.1 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 10.1 million (2018: EUR 8.5 million) in connection with outsourcing of the servicing of the regular mortgage portfolio, EUR 2.2 million (2018: EUR 2.2 million) in contractual obligations to Able for the servicing of the saving portfolio, EUR 2.6 million in contractual obligations for the servicing of the acquired mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V. and EUR 2.5 million in contractual obligations to a.s.r. for the servicing of the a.s.r. 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 148 million (2018: EUR 199 million), construction accounts of EUR 34 million (2018: EUR 39 million) and undrawn credit facilities of credit mortgages of EUR 10 million (2018: EUR 8.5 million).

FISCAL UNITY

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

POST FORECLOSURE CLAIM

Achmea Bank has a residual claim after write-off of mortgage receivables of EUR 42 million (2018: EUR 44 million). The expected net recovery of this exposure is limited.

MORTGAGE PORTFOLIO

Credit committees

Achmea Bank has two credit committees, one committee dedicated to the Achmea Bank retail portfolio and one committee dedicated to the Acier loan portfolio. Both Credit Committees are chaired by the CFRO, other members of the Credit Committees (not limited) are the following department's managers: Balance Sheet & Financial Risk Management, Operations, Product Management and 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, by means of the Credit Risk Policy it is governed that the first line works according to these policies and performance is measured. 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.

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 more than two deviations from the underwriting criteria, applications > EUR 1.000.000,- 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 chaired by the CFRO accepts loan applications, which are by the nature of the closed book character.

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 15 days. Customers with a high risk and high LTV are the first to go through the department. If regular customer contact fails, a physical house call will be made within 35 days in arrears. In case of no contact and 3 sent reminders, the transfer will take place at 2 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 mainly from residential mortgages. There are two measures which have an impact on the financial position of the bank, i.e. the provision (IFRS 9) and the capital charge (Standardized Approach). Achmea Bank has the ambition to become an Advanced Internal Rating Based (AIRB) compliant bank in the near future. In 2018 the Bank started the project to realize that ambition.

Definition of default

In 2017, during the IFRS 9 project to introduce the expected credit loss model for the provision of impaired loans, the definition of default has been updated. Defaults are recognized earlier and have a probation period which makes sure the clients will get proper attention. The definition is broadly in line with the new standard as laid down in the latest EBA Guideline (EBA GL Default definition (EBA-GL-2016-07) (2016)). This new Definition of Default is also used in the calculation of the IFRS 9 provision as of January 2018. At the end of 2020 another update of the definition of default will be made in order to be fully compliant with the relevant EBA guidelines.

Forbearance

Forbearance measures may be applied in situations in which the borrower is considered unable to meet the terms and conditions of the contract due to financial difficulties. Depending on the nature of those difficulties, Achmea Bank may decide to modify the terms and conditions of the contract to maximise collection opportunities and minimise the risk of default. As from mid-2015 the Bank has been applying the following modifications:

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

As at 31 December 2019 the forborne exposure amounted to EUR 308 million (2018: EUR 272 million), of which EUR 193 million relates to performing forborne exposures (2018: EUR 143 million). The remaining part of EUR 115 million (2018: EUR 129 million) relates to non-performing forborne exposures. The increase in forborne exposures is partly due to the improvement of the forbearance definition and the improvement of its recording in the bank's systems. The registration of the forbearance measures of the acquired portfolios takes place with the issuing party. The relevant information for both portfolios is added to the banking systems of Achmea Bank.

Impairment and past due loans

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

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

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

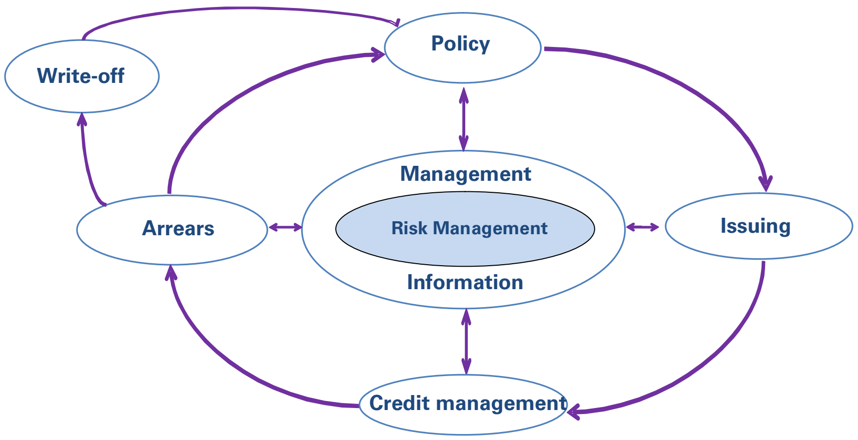
The ECL models for the regular and Acier portfolio consist of several sub-models which are common in the banking world. The sub-models are amongst others: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Discounting. All models are validated by Group Model Validation,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

For 2019 the total write offs for the regular retail portfolio amounted EUR 0.8 million (2018: EUR 2.0 million). For the Acier portfolio the write offs amounted EUR 8.3 million (2018: EUR 4.2 million). Achmea Bank has a (capped) guarantee of Achmea B.V. to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited.

Credit risk measurement

Credit risk measurement framework

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



Risk classification and internal rating system

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

Credit risk reporting

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

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

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

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

Advanced Internal Rating Based (AIRB) approach

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

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

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

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

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

SPECIFIC COUNTERPARTY CREDIT RISK

Counterparty risk policy

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

Credit risk measurement

The Bank uses both Credit Support Annexes (CSA) and central clearing to reduce counterparty risk on its derivative exposures by means of (cash) collateral. No impairments on counterparty positions occurred in 2019. As at 31 December there are no concentrations of credit risk above the internally applied concentration targets.

The total net exposure mainly consists of the exposures on the top 10 professional counterparties (financial institutions). As at year-end the total net exposure for the top 10 amounted to EUR 319 million (2018: EUR 347 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 2019 the net exposure for the derivative exposures amounted to EUR 35 million (2018: EUR 56 million) and consisted of the total fair value of the derivatives versus the collateral position, initial margin for central clearing and independent amounts for the Back to Back swaps.

The credit risk on the other financial assets of the Bank (investments and derivatives) are managed by means of the external credit ratings of the counterparties (Achmea middle rating: Standard & Poor's, Moody's, DBRS and Fitch):

The lowest rating at year-end 2019 was BBB (EUR 22 million) (year-end 2018: rating BBB, EUR 69 million). The unrated exposure consists of the exposure to London Clearing House Limited. Most of the collateral positions are included in the category loans and advances to banks. At year-end 2019 part of the collateral position (EUR 18 million) is reported as liability and recognised under deposits from banks (credit rating A) (2018: EUR 30 million).

Qualifying central counterparties

Following regulatory requirements, Achmea Bank clears all new derivatives (IRS) through a qualifying central counterparty (QCCP) , via its clearing members. For QCCPs appropriate limits are set in the Bank's counterparty risk policy. Achmea Bank's exposure to QCCPs at year-end 2019 amounts to EUR 76 million (2018: 22 million).

Credit risk reporting

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

Additional contractual obligations in case of a rating downgrade

In the event of a rating downgrade of a specific counterparty, Achmea bank could be required to post additional collateral. These potential collateral requirements are connected to the rating triggers in Back-to-Back swap arrangements of the securitisation transactions of Achmea Bank. In case of a rating downgrade of three notches for all swap counterparties the additional collateral to be posted was EUR 29 million at year-end 2019.

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS	NOTIONAL	REPLACEMENT COST/ CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EAD POST CRM	RWAS
Mark to market	–	–	–	–	–
Original exposure	–	–	–	–	–
Current Exposure Method (CEM for derivatives)	11,122,524	75,118	66,817	141,936	33,288
IMM (for derivatives and SFTs)	–	–	–	–	–
Of which securities financing transactions	–	–	–	–	–
Of which derivatives and long settlement transactions	–	–	–	–	–
Of which from contractual cross-product netting	–	–	–	–	–
Financial collateral simple method (for SFTs)	–	–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–	–	–
VaR for SFTs	–	–	–	–	–
Total	**11,122,524**	**75,118**	**66,817**	**141,936**	**33,288**

SECURITISATIONS

OWN ASSET SECURITISATION

Achmea Bank uses securitisation (RMBS) as part of its funding mix. At year-end 2019 there are four outstanding transactions: DMPL XII, DRMP I, DRMP II and SRMP I. For one transaction, SRMP I, all notes are retained by Achmea Bank. The class A notes of SRMPI are ECB eligible and can be used as collateral for e.g. central bank funding. The total amount was EUR 559 million (SRMP I A notes) as per 31 December 2019.

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

REGULATORY CAPITAL APPROACHES

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

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

Significant risk transfer

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

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

The table below provides an overview of the current securitisations (as per 31 December 2019) of Achmea Bank.

SECURITISATION EXPOSURES IN THE BANKING BOOK

IN THOUSANDS OF EUROS

	BANK ACTS AS ORIGINATOR			BANK ACTS AS SPONSOR			BANK ACTS AS INVESTOR		
	TRADITIONAL	SYNTHETIC	SUB-TOTAL	TRADITIONAL	SYNTHETIC	SUB-TOTAL	TRADITIONAL	SYNTHETIC	SUB-TOTAL
Retail (total); of which	**88,586**	**–**	**88,586**	**–**	**–**	**–**	**–**	**–**	**–**
residential mortgages	88,586	–	88,586	–	–	–	–	–	–
credit cards	–	–	–	–	–	–	–	–	–
other retail exposures	–	–	–	–	–	–	–	–	–
re-securitisation	–	–	–	–	–	–	–	–	–
Wholesale (total); of which	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
loans to corporates	–	–	–	–	–	–	–	–	–
commercial mortgages	–	–	–	–	–	–	–	–	–
lease and receivables	–	–	–	–	–	–	–	–	–
other wholesale	–	–	–	–	–	–	–	–	–
re-securitisation	–	–	–	–	–	–	–	–	–

RISK MEASUREMENT

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

Own securitisations

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

Investing in third party RMBS

Achmea Bank can also act as an investor in RMBS. These assets are then used as part of a buffer of liquid assets held to manage liquidity risk. In 2019 the Bank sold its investment portfolio and currently has no RMBS investments.

Standardised approach

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

OPERATIONAL RISK MANAGEMENT

Operational risk is defined as the risk of loss arising from inadequate or failing internal processes, employees or systems, or from external events. This can lead to a financial loss, but also to reputational damage. Reputational risk is not seen as a separate risk category, but as a form of damage that can arise from the risks that Achmea Bank runs.

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 on 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 operational and commercial departments (first line of defense).

The most important operational risks are the risks related to information security and cyber- crime, risks associated with the digitization and outsourcing of our services and liability claims from products and services. The risks for cyber-crime are high, due to malware and ransomware attacks by cyber criminals using changing techniques. Risks concerning the security of websites and privacy-sensitive information also remain high. This is due to the digitization of our services whereby changes are made to our websites and IT environment. The risk of irresponsible handling of big data is increasing in a world where data plays an increasingly important role. The reputation of banks as part of the financial sector is still under pressure. Everything that a bank does is assessed in a social context.

Risk control measures

The operational risk policy describes how the operational risk is managed. For specific risk events, additional policies and procedures also apply, such as for information security, business continuity and outsourcing:

- Information security: The whole of activities that focus on the permanent realization of an optimal level of availability, integrity and confidentiality of information and information systems in order not to jeopardize business continuity, not to harm the interests of customers, to protect and prevent financial damage and image damage. comply with laws and regulations. Control measures have been included for this in the Internal Control Framework, focusing on the following themes: Cyber security, IT Architecture, Data center Facilities, IT Operations, Logical access security and change management.
- Business Continuity Management (BCM): This includes recognizing threats and their potential impact, determining the minimum required level of services to customers and other stakeholders, and implementing and testing measures to prevent major disruptions of business-critical chains and the impact of the disruptions is limited to an acceptable proportion. Control measures have been included for this purpose in the Internal Control Framework, aimed at preventing long-term system failure and back-up and recovery of data and systems.
- Outsourcing: Outsourcing processes must take place carefully and in a controlled manner, based on a risk / return assessment and written documentation of mutual obligations. To this end, the Internal Control Framework contains control measures aimed at contracting, compliance with Service Level Agreements and registration of outsourcing.

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.

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

MARKET RISK

INTEREST RATE RISK BANKING ENVIRONMENT

Interest rate risk framework

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

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

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

Governance of management interest rate risk in the banking book

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

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

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

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

Risk measurement

Effects of a change in interest rates on total equity

The impact on total equity is based on the market value of all financial instruments. 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.

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	2019	2018
Duration of equity	2.49	1.81

SENSITIVITY ANALYSIS

IN MILLIONS OF EUROS	2019	2018
Parallel shift in the yield curve of 200 basis points downward	−8.9	−12.0
Parallel shift in the yield curve of 200 basis points upward	−58.1	−44.9

The effect of a 200 basis point upward shift of the yield curve on total equity value is EUR -58 million at 31 December 2019, compared to EUR -45 million at 31 December 2018. 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 remain longer on the balance sheet. In itself a decrease in prepayment rate for mortgages with (on average) a high coupon is positive for the Bank. However in 2019 the average mortgage coupon has decreased and the benefits from a decrease in prepayment rate have therefore lower impact.

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 -200 basis point (in line with EBA guidelines), with a time horizon of one year.

INTEREST RATE RISK EXPOSURE

IN MILLIONS OF EUROS	2019	2018
Income at Risk	−11.5	−12.7

The decrease in the Income at Risk is mainly due to changing gaps in the first year and negative interest rates. Furthermore, because of persistent low rates, clients have been shifting towards longer tenors, thus there is a reduction in both floating mortgages and in mortgage resetting within 12 months.

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 2019 is limited to the CHF mortgage portfolio as part of the Acier loan portfolio and a CHF bank account.

Part of the Acier loan portfolio is denominated in CHF (EUR 412 million at year-end 2018). This position is partly hedged by unsecured wholesale funding of CHF 400 million in total. The remaining CHF exposure is fully hedged on a monthly basis via foreign exchange derivatives (FX swaps).

All foreign exchange (CHF) positions are being hedged. The remaining open CHF position is EUR 7.6 million short. Therefore Achmea Bank does not calculate a capital charge for market risk.

FOREIGN CURRENCY EXPOSURE

IN THOUSANDS OF EUROS	2019			2018		
		Notional amounts of			Notional amounts of	
	Total exposure	hedging instruments	Net exposure	Total exposure	hedging instruments	Net exposure
Assets						
Swiss Franc	411,783	−419,392	−7,609	440,243	−440,057	186
	411,783	**−419,392**	**−7,609**	**440,243**	**−440,057**	**186**
Liabilities						
Swiss Franc	–	–	–	–	–	–
	–	–	–	–	–	–
Net						
Swiss Franc	411,783	−419,392	−7,609	440,243	−440,057	186
	411,783	**−419,392**	**−7,609**	**440,243**	**−440,057**	**186**

REMUNERATION PRINCIPLES AND POLICY

The Supervisory Board approved the remuneration of the Executive Board members and the senior staff of Achmea Bank. The Supervisory Board evaluates remunerations in the context of the remuneration policy of Achmea Group. More details regarding remuneration policies can be found in the Remuneration Report and on www.achmea.nl or www.achmea.com.

Achmea Bank N.V. had decided to suspend variable remuneration based on 2019 until there is a greater clarity regarding the impact of the COVID-19. By taking this action, the company follows the call from the European Central Bank (ECB) and the Dutch Central Bank (DNB).

RENUMERATION AWARDED DURING THE FINANCIAL YEAR

IN THOUSANDS OF EUROS

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

DEFERRED REMUNERATION

IN THOUSANDS OF EUROS

DEFERRED AND RETAINED REMUNERATION	TOTAL AMOUNT OF OUTSTANDING DEFERRED REMUNERATION	OF WHICH: TOTAL AMOUNT OF OUTSTANDING DEFERRED AND RETAINED REMUNERATION EXPOSED TO EX POST EXPLICIT AND/OR IMPLICIT ADJUSTMENT	TOTAL AMOUNT OF AMENDMENT DURING THE YEAR DUE TO EX POST EXPLICIT ADJUSTMENTS	TOTAL AMOUNT OF AMENDMENT DURING THE YEAR DUE TO EX POST IMPLICIT ADJUSTMENTS	TOTAL AMOUNT OF DEFERRED REMUNERATION PAID OUT IN THE FINANCIAL YEAR
Senior management					
Cash	163	163	0	50.5	56
Shares					
Cash-linked instruments					
Other					
Other material risk-takers					
Cash					
Shares					
Cash-linked instruments					
Other					
Total	**163**	**163**	**0**	**50.5**	**56**

APPENDIX: TABLES

KEY METRICS

KEY METRICS

IN MILLIONS OF EUROS	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018
Available capital (amounts)					
Common Equity Tier 1 (CET1)	776	777	777	776	775
Tier 1	776	777	777	776	775
Total capital	777	778	778	778	778
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	4,042	3,643	3,642	3,709	3,728
Risk-based capital ratios					
Common Equity Tier 1 ratio	19.2%	21.3%	21.3%	20.9%	20.8%
Tier 1 ratio	19.2%	21.3%	21.3%	20.9%	20.8%
Total capital ratio	19.2%	21.4%	21.4%	21.0%	20.9%
Additional CET1 buffers					
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%	2.5%
Countercyclical buffer	0.0%	0.0%	0.0%	0.0%	0.0%
Bank GSIB and/or DSIB charge	0.0%	0.0%	0.0%	0.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%	0.0%	0.0%	0.0%
TLAC requirements	0.0%	0.0%	0.0%	0.0%	0.0%
Leverage ratio					
leverage ratio exposure	13,363	12,045	11,776	12,693	11,933
Leverage ratio	5.8%	6.4%	6.6%	6.1%	6.5%
Liquidity Coverage Ratio (LCR)					
Total HQLA	515	520	703	1,038	691
Total Net Cash Outflow	207	195	342	269	190
LCR	249%	267%	206%	387%	364%
Net Stable Funding Ratio (NSFR)					
Total Available Stable funding	11,398	10,374	10,417	10,723	10,427
Total Required Stable funding	9,384	8,269	8,305	8,783	8,578
NSFR	121%	125%	125%	122%	122%

BALANCE SHEET

RECONCILIATION OF REGULATORY CAPITAL TO BALANCE SHEET

IN THOUSANDS OF EUROS

	BALANCE SHEET AS IN PUBLISHED STATEMENTS	REFERENCE
Cash and balances with Central Banks	72,366	
Derivative assets held for risk management	90,513	
Loans and advances to banks	713,350	
Loans and advances to public sector	675	
Loans and advances to customers	12,640,791	
Interest-bearing securities	–	
Current tax assets	–	
Deferred tax assets	–	
Prepayments and other receivables	147,468	
Total Assets	**13,665,163**	
Derivative liabilities held for risk management	464,969	
Deposits from banks	197,749	
Funds entrusted	7,507,919	
Debt securities issued	4,574,111	
Provisions	3,600	
Current tax liabilities	23,753	
Deferred tax liabilities	3,028	
Accruals and other liabilities	68,138	
Subordinated liabilities	8,336	a
Total Liabilities	**12,851,603**	
Share Capital	18,152	b
Share premium	505,609	c
Reserves	289,799	d
Total shareholders' equity	**813,560**	
Total Equity and Liabilities	**13,665,163**	

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION

CARRYING VALUES IN MILLIONS OF EUROS			OF WHICH:		
	FINANCIAL STATEMENT	REGULATORY REPORTS	CREDIT RISK	COUNTERPARTY CREDIT RISK	SECURITISATION FRAMEWORK
Cash and balances with Central Banks	72	72	72	–	–
Derivative assets held for risk management	91	91	–	91	–
Loans and advances to banks	713	713	713	–	–
Loans and advances to public sector	1	1	1	–	–
Loans and advances to customers	12,641	12,641	12,123	–	518
Interest-bearing securities	–	–	–	–	–
Current tax assets	–	–	–	–	–
Deferred tax assets	–	–	–	–	–
Prepayments and other receivables	147	147	147	–	–
Assets held for sale and discontinued operations	–	–	–	–	–
Total assets	**13,665**	**13,665**	**13,057**	**91**	**518**

MAIN SOURCES OF DIFFERENCES FOR 2019

IN MILLIONS OF EUROS	TOTAL	CREDIT RISK	SECURITISATION	COUNTERPARTY CREDIT RISK
Asset carrying value amount under scope of regulatory consolidation	13,665	13,057	518	91
Liabilities carrying value amount under the regulatory scope of consolidation	–	–	–	–
Total net amount under the regulatory scope of consolidation	**13,665**	**13,057**	**518**	**91**
Off-balance sheet amounts	192	41	–	–
Differences due to different netting rules for derivatives	−15	–	–	−15
Differences due to valuation of derivatives (add on for potential future exposure)	67	–	–	67
Differences due to the application of Significant Risk Transfer	−429	–	−429	–
Exposure amounts considered for regulatory purposes	**13,480**	**13,098**	**89**	**142**

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

PRUDENT VALUATION ADJUSTMENTS FOR 2019

IN THOUSANDS OF EUROS	INTEREST RATES	FX	CREDIT	COMMODITIES	TOTAL	OF WHICH: IN THE BANKING BOOK
Close-out uncertainty, of which:	111	–	–	–	111	111
Mid-market value	111	–	–	–	111	111
Close-out cost	–	–	–	–	–	–
Concentration	–	–	–	–	–	–
Early termination	–	–	–	–	–	–
Model risk	–	–	–	–	–	–
Operational risk	–	–	–	–	–	–
Future administrative costs	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total adjustment	**111**	**–**	**–**	**–**	**111**	**111**

DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

AS PER 31/12/2019		METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	FULL CONSOLIDATION	PROPORTIONAL CONSOLIDATION	NEITHER CONSOLIDATED OR DEDUCTED	DEDUCTED	
DMPL XII B.V.	Full consolidation	X				Special purpose vehicle
SRMP I B.V.	Full consolidation	X				Special purpose vehicle
DRMP I B.V.	Full consolidation	X				Special purpose vehicle
DRMPII B.V.	Full consolidation	X				Special purpose vehicle
Stichting Trustee Achmea Hypotheekbank	Full consolidation	X				Special purpose vehicle
Stichting Incasso Achmea Hypotheken	Full consolidation	X				
Achmea Conditional Pass-Through Covered Bond Company B.V.	Full consolidation	X				

CAPITAL MANAGEMENT

OVERVIEW OF RWA

IN MILLIONS OF EUROS	RWA 2019	RWA 2018	MINIMUM CAPITAL REQUIREMENTS 2019
Credit risk (excl. counterparty credit risk)	3,639	3,127	291
Of which Standardised approach	3,639	3,127	291
Of which internal rating-based approach	–	–	–
Counterparty credit risk	33	29	3
Of which mark to market	–	–	–
Of which original exposure	–	–	–
Of which the standardised approach	33	29	3
Of which internal model method	–	–	–
Of which risk exposure amount for contribution to default fund of a CCP	–	–	–
Of which CVA	–	–	–
Settlement risk	–	–	–
Securitisation exposure in banking book	148	360	12
Of which securitisation internal rating-based approach	–	–	–
Of which securitisation external rating-based approach	–	–	–
Of which securitisation standardised approach	148	360	12
Market risk	–	–	–
Of which Standardised approach	–	–	–
Of which internal model approach	–	–	–
Large exposures	–	–	–
Operational risk	222	208	18
Of which basic indicator approach	222	208	18
Of which standardised approach	–	–	–
Of which advanced measurement approach	–	–	–
Credit valuation adjustment	–	4	–
Amounts below the threshold for deduction (subject to 250% risk weight)	–	–	–
Floor adjustment	–	–	–
Total	4,042	3,728	323

In 2018 the total risk exposure amount increased by EUR 314 million from EUR 3,728 million to EUR 4,042 million, mainly due to the the acquisitions of the a.s.r and the former Achmea Pensioen- & Levensverzekering N.V. portfolio.

LEVERAGE RATIO COMMON DISCLOSURE

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

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

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

IN MILLIONS OF EUROS	2019	2018
Total assets	**13,665**	**12,286**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure)	–	–
Adjustments for derivative financial instruments	67	45
Adjustments for securities financing transactions "SFTs"	–	–
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	41	52
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure)	–	–
(Adjustment for exposures excluded from the leverage ratio exposure measure)	–	–
Other adjustments	−410	−450
Total leverage ratio exposure	**13,363**	**11,933**

LIQUIDITY MANAGEMENT

IN THOUSANDS OF EUROS	TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
QUARTER ENDING ON (DD MONTH YYY)	31/12/2019	30/09/2019	30/06/2019	31/03/2019	31/12/2019	30/09/2019	30/06/2019	31/03/2019
Number of data points used in the calculation of averages	3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					581,556	505,479	800,065	972,559
CASH – OUTFLOWS								
Retail deposits and deposits from small business customers	**3,315,353**	**2,861,419**	**2,841,147**	**2,832,679**	**204,353**	**163,205**	**162,145**	**163,257**
of which stable deposits	2,659,454	2,550,963	2,533,242	2,514,919	132,973	127,548	126,662	125,746
of which less stable deposits	655,899	310,456	307,904	317,760	71,380	35,656	35,482	37,511
Unsecured wholesale funding	**19,458**	**44,433**	**103,912**	**77,740**	**19,384**	**44,433**	**103,912**	**77,740**
of which operational deposits and bank deposits	–	–	–	–	–	–	–	–
of which non operational deposits	19,171	29,238	44,018	45,058	19,098	29,238	44,018	45,058
of which unsecured debt	286	15,194	59,894	32,682	286	15,194	59,894	32,682
Secured wholesale funding					**375**	**51**	**44**	**249**
Additional requirements	**145,564**	**141,462**	**290,738**	**152,088**	**104,101**	**98,987**	**247,292**	**108,243**
of which outflows related to derivatives and collateral	82,123	80,332	85,118	79,609	83,973	81,233	85,118	80,046
of which outflows related to loss of funding	17,848	15,471	159,887	25,867	17,848	15,471	159,887	25,867
of which credit and liquidity facilities	45,593	45,659	45,733	46,613	2,280	2,283	2,287	2,331
Other contractual funding obligations	**393,149**	**529,261**	**461,616**	**451,025**	**177,639**	**226,653**	**206,303**	**273,227**
Other contingent funding obligations	**89,118**	**82,295**	**112,759**	**81,744**	**3,565**	**2,469**	**4,064**	**4,087**
TOTAL CASH OUTFLOWS					**509,416**	**535,798**	**723,760**	**626,803**
CASH – INFLOWS								
Secured lening (eg reverse repos)	–	–	–	–	–	–	–	–
Inflows from fully performing exposures	**182,589**	**158,308**	**161,580**	**160,706**	**182,537**	**158,186**	**161,569**	**160,514**
Other cash inflows	**266,767**	**293,972**	**288,793**	**291,879**	**146,767**	**173,972**	**168,793**	**171,879**
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					–	–	–	–
(Excess inflows from a related specialised credit institution)					–	–	–	–
TOTAL CASH INFLOWS	**449,356**	**452,280**	**450,373**	**452,584**	**329,303**	**332,158**	**330,363**	**332,392**
Fully exempt inflows	–	–	–	–	–	–	–	–
Inflows subject to 90% cap	–	–	–	–	–	–	–	–
Inflows subject to 75% cap	**449,356**	**452,280**	**450,373**	**452,584**	**329,303**	**332,158**	**330,363**	**332,392**
					TOTAL ADJUSTED VALUE			
Liquidity buffer					**576,970**	**440,724**	**766,671**	**957,226**
Total net cash outflows					**180,113**	**203,640**	**393,398**	**294,411**
Liquidity Coverage ratio (%)					**320%**	**216%**	**195%**	**325%**

NET STABLE FUNDING RATIO

IN THOUSANDS OF EUROS	UNWEIGHTED VALUE BY RESIDUAL MATURITY				WEIGHTED VALUE
	NO MATURITY	← 6 MONTHS	6 MONTHS TO ← 1YR	→ 1 YR	
AVAILABLE STABLE FUNDING (ASF) item					
Regulatory capital	777,246	–	–	–	777,246
Other capital instruments	–	6,992	–	256	256
Capital	777,246	6,992	–	256	777,502
Stable deposits	2,668,409	153,768	142,636	1,383,557	4,655,216
Less stable deposits	1,212,353	110,315	48,432	751,250	1,530,153
Retail deposits and deposits from small business customers	3,880,762	264,083	191,068	2,134,807	6,185,369
Operational deposits	–	–	–	–	–
Other wholesale funding	–	1,370,812	164,574	4,255,791	4,414,129
Wholesale funding	–	1,370,812	164,574	4,255,791	4,414,129
Liabilities with matching interdependent assets	–	–	–	–	–
NSFR derivative liabilities	–	6,066	7,303	5,090	–
All other liabilities and equity	2,310	109,244	12,441	14,340	20,560
Other liabilities	2,310	115,310	19,744	19,430	20,560
TOTAL AVAILABLE STABLE FUNDING	**4,660,317**	**1,757,197**	**375,387**	**6,410,284**	**11,397,560**
REQUIRED STABLE FUNDING(RSF) item					
Total NSFR high quality liquid assets (HQLA)	72,366	–	–	–	–
Deposits held at other financial institutions for operational purpose	–	–	–	–	–
Performing loans and securities; of which	896	342,910	88,580	12,392,338	8,959,796
Performing loans to financial institutions secured by Level 1 HQLA	–	–	–	–	–
Performing loans to financial institutions secured by non-level 1 HQLA	896	260,266	–	39,689	78,875
Performing loans to non-financial corporate clients, retail, sovereigns and central banks; of which	–	101	1,208	114,037	97,369
with a risk weight of less than or equal to 35% (SA credit risk)	–	–	–	1,089	708
Performing residential mortgages; of which	–	82,542	87,372	12,238,611	8,783,551
with a risk weight of less than or equal to 35% (SA credit risk)	–	76,918	80,087	11,067,308	7,828,306
Securities that are not in default and do not qualify as HQLA	–	–	–	–	–
Assets with matching interdependent liabilities	–	–	–	–	–
Assets posted as intitial margin for derivative contracts and contibutions to default funds of CCP's	–	–	–	–	–
NSFR derivative assets	–	5,972	–	2,385	–
NSFR derivative liabities before deduction of variation margin posted	–	11,644	7,379	379,258	79,574
All other assets	48,271	117,274	1,058	131,547	334,592
Other assets	48,271	123,245	1,058	133,932	414,166
Off balance sheet items	–	192,365	–	–	9,618
TOTAL REQUIRED STABLE FUNDING	**121,533**	**658,520**	**89,638**	**12,526,270**	**9,383,579**
Net Stable Funding Ratio	**121,533**	**466,155**	**89,638**	**12,526,270**	**121%**

SOURCES OF ENCUMBRANCE 2019

IN THOUSANDS OF EUROS*	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
	010	030
Carrying amount of selected financial liabilities	**3,124,099**	**3,499,085**
of which: Derivatives	514,890	460,807
of which: Deposits	347,899	370,592
of which: Debt securities issued	2,299,974	2,732,420
*) The figures are based on the median value of the four quarters in the financial year.		

COLLATERAL RECEIVED 2019

IN THOUSANDS OF EUROS*	ENCUMBERED		UNENCUMBERED	
	FAIR VALUE OF ENCUMBERED COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED		FAIR VALUE OF COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED AVAILABLE FOR ENCUMBRANCE	
		OF WHICH NOTIONALLY ELLIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA
	010	030	040	060
Collateral received by the reporting institution	**458,605**	**458,605**	**269,564**	**269,564**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	**458,605**	**458,605**	**269,564**	**269,564**
of which: covered bonds	-	-	-	-
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	458,605	458,605	269,564	269,564
of which: issued by financial corporations	-	-	-	-
of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**4,095,941**	**458,605**		
*) The figures are based on the median value of the four quarters in the financial year.				

CREDIT RISK

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

TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

IN THOUSANDS OF EUROS

	Net value of exposure an end of the period	Average net exposures over the period
Central governments or central banks	72,515	382,351
Institutions	855,286	840,556
Corporates	106,227	110,868
Retail	1,351,241	1,251,703
Secured by mortgages on immovable property	10,767,305	9,492,665
Exposures in default	91,109	89,500
Other exposures	147,468	143,092
Total standardised approach	**13,391,150**	**12,310,735**

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

CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

IN THOUSANDS OF EUROS

	GROSS CARRYING VALUE OF				
	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Central governments or central banks	–	72,515	–	–	72,515
Institutions	–	855,324	–	38	855,286
Corporates	–	110,082	–	3,855	106,227
Retail	–	1,354,883	–	3,642	1,351,241
Secured by mortgages on immovable property	–	10,775,406	–	8,101	10,767,305
Exposures in default	105,737	0	14,628	–	91,109
Other exposures	0	147,520	–	52	147,468
Total standardised approach	**105,737**	**13,315,730**	**14,628**	**15,688**	**13,391,150**
Of which: Loans and advances	105,737	12,761,543	14,628	15,636	12,837,016
Of which: Debt securities	0	0	–	–	–
Of which: Off-balance-sheet exposures	0	192,365	–	–	192,365

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

MATURITY OF EXPOSURES

IN THOUSANDS OF EUROS NET EXPOSURE VALUE	ON DEMAND	<= 1 YEAR	> 1 YEAR <= 5 YEARS	> 5 YEARS	NO STATED MATURITY	TOTAL
Central governments or central banks	72,366			149		72,515
Institutions	928	332,590	265,065	256,702	–	855,286
Corporates		1,245	8,889	96,092		106,226
Retail		73,744	126,031	1,151,466		1,351,241
Secured by mortgages on immovable property		187,062	468,191	10,112,053		10,767,306
Exposures in default		5,475	2,694	82,940		91,109
Other exposures		147,468	–		–	147,468
Total standardised approach	**73,294**	**747,584**	**870,871**	**11,699,403**	**–**	**13,391,151**

CONCENTRATION OF EXPOSURE BY COUNTERPARTY TYPES

IN THOUSANDS OF EUROS NET VALUE	FINANCIAL SECTOR	NON FINANCIAL SECTOR	TOTAL
Central governments or central banks	72,366	149	72,515
Institutions	855,286	–	855,286
Corporates	–	106,227	106,227
Retail	–	1,351,241	1,351,241
Secured by mortgages on immovable property	–	10,767,305	10,767,305
Exposures in default	–	91,109	91,109
Other exposures	101,619	45,849	147,468
Total standardised approach	**1,029,271**	**12,361,879**	**13,391,150**

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

CREDIT QUALITY OF EXPOSURES BY COUNTERPARTY TYPES

IN THOUSANDS OF EUROS GROSS CARRYING VALUE OF	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Financial sector	–	1,029,361	–	90	1,029,271
Non financial sector	105,737	12,286,369	14,628	15,598	12,361,879
Total	**105,737**	**13,315,730**	**14,628**	**15,688**	**13,391,150**

GEOGRAPHICAL BREAKDOWN OF EXPOSURES

IN THOUSANDS OF EUROS NET VALUE	NETHERLANDS	UNITED KINGDOM	GERMANY	FRANCE	DENMARK	OTHER COUNTRIES	TOTAL
Central governments or central banks	72,366					149	72,515
Institutions	388,417	193,022	34,168	31,575	191,734	16,370	855,286
Corporates	105,165					1,062	106,227
Retail	1,349,725					1,516	1,351,241
Secured by mortgages on immovable property	10,755,155					12,150	10,767,305
Exposures in default	91,109					–	91,109
Other exposures	147,468						147,468
Total standardised approach	**12,909,405**	**193,022**	**34,168**	**31,575**	**191,734**	**31,246**	**13,391,150**

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

CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

IN THOUSANDS OF EUROS GROSS CARRYING VALUE OF	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Netherlands	105,737	12,833,969	14,628	15,672	12,909,405
United Kingdom	–	193,030	0	8	193,022
Germany	–	34,174	0	6	34,168
France	–	31,575	0	–	31,575
Denmark	–	191,734	0	–	191,734
Other Countries	–	31,248	0	2	31,246
Total	**105,737**	**13,315,730**	**14,628**	**15,688**	**13,391,150**

AGEING OF PAST-DUE EXPOSURES

IN THOUSANDS OF EUROS CARRYING VALUES	< 30 DAYS	30 DAYS < 60 DAYS	→ 60 DAYS < 90 DAYS	UNLIKELY TO PAY THAT ARE NOT PAST-DUE OR PAST-DUE <= 90 DAYS	→ 90 DAYS < 180 DAYS	→ 180 DAYS < 1 YEAR	→ 1 YEAR
Loans and advances	34173	12,235	8665	118,129	10,403	7,111	26,157
Debt securities	0	0	0	0	0	0	0
Total exposures	**34,173**	**12,235**	**8,665**	**118,129**	**10,403**	**7,111**	**26,157**

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

CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

IN THOUSANDS OF EUROS	GROSS CARRYING VALUE DEFAULTED EXPOSURES
Opening balance	**172,187**
Loans and debt securities that have defaulted since the last reporting period	49,688
Returned to non-defaulted status	−95,699
Amounts written off	−9,047
Other changes	−11,392
Closing balance	**105,737**

NON-PERFORMING AND FORBORNE EXPOSURES

IN THOUSANDS OF EUROS							
GROSS CARRYING VALUES							
		OF WHICH: PERFORMING BUT PAST DUE → 30 DAYS AND ←= 90 DAYS	OF WHICH: PERFORMING FORBORNE	OF WHICH: NON PERFORMING			
					OF WHICH: DEFAULTED	OF WHICH: IMPAIRED	OF WHICH: FORBORNE
Debt securities	–	0	0	0	0	0	0
Loans and advances	13,229,101	7,512	193,096	161,800	105,737	105,737	114,491
Off-balance sheet exposures	192,365	–	–	–	–	–	–

NON-PERFORMING AND FORBORNE EXPOSURES

IN THOUSANDS OF EUROS						
GROSS CARRYING VALUES	ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
	ON PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES	OF WHICH FORBORNE EXPOSURES
		OF WHICH: FORBORNE		OF WHICH: FORBORNE		
Debt securities		0	0	0	0	0
Loans and advances	15,636	828	14,628	3,612	145,410	300,870
Off-balance sheet exposures	–	–	–	–	–	–

CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

IN THOUSANDS OF EUROS	ACCUMULATED SPECIFIC CREDIT RISK ADJUSTMENT	ACCUMULATED GENERAL CREDIT RISK ADJUSTMENT
Opening balance	**25,756**	**16,961**
First time adoption IFRS9	–	–
Increases due to recognition	418	700
Decreases due to derecognition	−7,275	−1,102
Changes due to change in credit risk (net)	4,057	1,950
Changes due to modifications without derecognition (net)	304	−433
Decrease in allowance account due to write-offs	−9,008	−54
Business combinations, including acquisitions and disposals of subsidiaries	–	–
Other adjustments	375	−2,334
Closing balance	**14,628**	**15,688**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–	–
Specific credit risk adjustments directly recorded to the statement of profit or loss	–	–

CREDIT RISK MITIGATION TECHNIQUES

IN THOUSANDS OF EUROS				
CARRYING AMOUNT			OF WHICH	
	EXPOSURES UNSECURED	EXPOSURES SECURED	SECURED BY COLLATERAL	SECURED BY CREDIT DERIVATIVES
Total loans and advances	333,939	12,503,077	12,503,077	–
Total debt securities	–	–	–	–
Total exposures	**333,939**	**12,503,077**	**12,503,077**	**–**
Of which: defaulted	–	91,109	91,109	–

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION EFFECTS

IN THOUSANDS OF EUROS						
	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
EXPOSURE CLASSES	ON-BALANCE	OFF-BALANCE	ON-BALANCE	OFF-BALANCE	RWA	RWA DENSITY
Central governments or central banks	72,515	–	2,465,722	3,536	30	0.0%
Institutions	855,286	–	475,875	–	99,096	11.6%
Corporates	106,227	–	100,629	–	100,629	94.7%
Retail	1,295,353	55,888	581,082	13,265	445,760	33.0%
Secured by mortgages on immovable property	10,630,828	136,477	8,249,546	24,537	2,896,110	26.9%
Exposures in default	91,109	–	70,039	–	72,425	79.5%
Other items	147,468	–	1,255,894	–	57,728	39.1%
Total	**13,198,785**	**192,365**	**13,198,785**	**41,338**	**3,671,778**	**27.4%**

COUNTERPARTY CREDIT RISK

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS	NOTIONAL	REPLACEMENT COST/ CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EAD POST CRM	RWAS
Mark to market	–	–	–	–	–
Original exposure	–	–	–	–	–
Current Exposure Method (CEM for derivatives)	11,122,524	75,118	66,817	141,936	33,288
IMM (for derivatives and SFTs)	–	–	–	–	–
Of which securities financing transactions	–	–	–	–	–
Of which derivatives and long settlement transactions	–	–	–	–	–
Of which from contractual cross-product netting	–	–	–	–	–
Financial collateral simple method (for SFTs)	–	–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–	–	–
VaR for SFTs	–	–	–	–	–
Total	**11,122,524**	**75,118**	**66,817**	**141,936**	**33,288**

CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

IN THOUSANDS OF EUROS	Exposure value	RWAs
All portfolios subject to the Standardised method	–	–
Based on the original exposure method	–	–
Total subject to CVA capital charge	**–**	**–**

CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

IN THOUSANDS OF EUROS Exposure classes	0%	4%	20%	35%	50%	75%	100%	150%	Other	Total
Central governments or central banks	–	–	–	–	–	–	–	–	–	–
Regional government or local authorities	–	–	–	–	–	–	–	–	–	–
Public sector entities	–	–	–	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–	–	–
Institutions	–	76,300	8,607	–	57,029	–	–	–	–	141,936
Corporates	–	–	–	–	–	–	–	–	–	–
Retail	–	–	–	–	–	–	–	–	–	–
Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–	–	–	–
Total	**–**	**76,300**	**8,607**	**–**	**57,029**	**–**	**–**	**–**	**–**	**141,936**

IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

IN THOUSANDS OF EUROS	GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT	NETTING BENEFITS	NETTED CURRENT CREDIT EXPOSURE	COLLATERAL HELD	NET CREDIT EXPOSURE
Derivatives	90,513	22,481	68,032	15,480	52,552
SFTs	–	–	–	–	–
Cross-product netting	–	–	–	–	–
Total	**90,513**	**22,481**	**68,032**	**15,480**	**52,552**

EXPOSURES TO CENTRAL COUNTERPARTIES

IN THOUSANDS OF EUROS	EAD POST-CRM	RWAS
Exposures for trades at QCCP's (ex. Initial margin and default fund); of which	76,300	3,052
- OTC derivatives	76,300	3,052
- Exchange-traded derivatives	–	–
- Securities financing transactions	–	–
- Netting sets where cross-product netting has been approved	–	–
Segregated initial margin	–	–
Non-segregated initial margin	47,687	1,907
Prefunded default fund contributions	–	–
Alternative calculation of own funds requirements for exposures	–	–
Total Exposures to QCCP's	**123,986**	**4,959**

COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR

IN THOUSANDS OF EUROS

	COLLATERAL USED IN DERIVATIVE TRANSACTIONS			
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF POSTED COLLATERAL	
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED
Cash- domestic currency	–	17,790	–	427,513
Cash- other currency	–	–	–	–
Domestic sovereign debt	–	–	–	–
Other sovereign debt	–	–	–	–
Government agency debt	–	–	–	–
Corporate bonds	–	–	–	–
Equity securities	–	–	–	–
Other collateral	–	–	–	–
Total	**–**	**17,790**	**–**	**427,513**

SECURITISATION EXPOSURES AND CAPITAL REQUIREMENTS

IN THOUSANDS OF EUROS

	EXPOSURE VALUES					EXPOSURE VALUES (BY REGULATORY APPROACH)		RWA (BY REGULATORY APPROACH)		CAPITAL CHARGE AFTER CAP	
	← 20% RW	→ 20% TO 50% RW	→ 50% TO 100% RW	→ 100% TO 1250% RW	1250% RW	SA/SSFA	12.5	SA/SSFA	12.5	SA/SSFA	12.5
Bank acting as originator											
Traditional securitisation	–	79,900	–	–	8,686	88,586	8,686	39,950	108,575	3,196	8,686
Of which securitisation	–	79,900	–	–	8,686	88,586	8,686	39,950	108,575	3,196	8,686
Of which retail underlying	–	79,900	–	–	8,686	88,586	8,686	39,950	108,575	3,196	8,686
Of which wholesale	–	–	–	–	–	–	–	–	–	–	–
Bank acting as investor											
Traditional securitisation	–	–	–	–	–	–	–	–	–	–	–
Of which securitisation	–	–	–	–	–	–	–	–	–	–	–
Of which retail underlying	–	–	–	–	–	–	–	–	–	–	–
Of which wholesale	–	–	–	–	–	–	–	–	–	–	–

OPERATIONAL RISK

BUSINESS INDICATOR FOR OPERATIONAL RISK

IN THOUSANDS OF EUROS

	2019	2018
Interest income	343,056	382,327
Interest expense	218,494	272,112
Interest	**124,562**	**110,215**
Fee income	8,136	4,381
Fee expenses	111	170
Other operating income	–	–
Other operating expense	–	–
Services	8,025	4,211
Net P&L on Banking Book	–	–
Financial	–	–
Total exposure for operational risk	**132,587**	**114,426**

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