Achmea Bank N.V.
Annual Report
2019

KvK 27154399

achmea

Contents

A word from the Chairman

Achmea Bank offers its customers financial solutions for securing their financial future and for purchasing residential property. We do this by means of providing straightforward and transparent mortgage and savings products the Achmea brands Centraal Beheer and Woonfonds.

Pierre Huurman,
Chief Executive Officer

With over 400,000 customers, we play an important role in Achmea's retirement services and in the ambition of Centraal Beheer to become a full financial service provider. In addition, we focus on niche propositions in the mortgage market, for the self-employed and the elderly, as well as by financing buy-to-let residential property.

Important improvements have been made during the past year, both in terms of customer service and in our business operations. We are proud that, despite all the changes, the commitment and level of involvement of our staff remains very high.

Renewal and innovation

Over the last year, together with our partners our focus has been on developing new proposals and providing online services. Our customers' needs are changing all the time. By constantly adjusting our products and services we ensure that they remain relevant for our customers. The steadily ageing population is leading to new needs in housing. For many seniors a large portion of their capital is tied up in the (extra) property value of their house. That is why we introduced the *Krediet Hypotheek* (Revolving Credit Mortgage) in 2019. We also see an increasing demand for buy-to-let mortgages, a product we launched in 2018. In view of the drastic shortage of rooms to rent for students and the high rents being charged, many parents are now buying apartments themselves to rent them out to their children and other students. This solution is an interesting alternative way of investing money next to more traditional forms like saving.

In 2019 we also worked hard on improving our online customer services. Centraal Beheer customers can now see the status of their mortgage application and the details of the mortgage in the Centraal Beheer app, and Woonfonds customers can now use IDEAL to make extra mortgage repayments and can arrange progress payments directly out of their their building deposit. For savings customers of Centraal Beheer we have made it easier to transfer funds from their savings account to their investment account.

We have also made important steps on the way to a 'paperless mortgage'. When applying for a mortgage, customers now have the option of using the Calcasa model-based home appraisal instead of a regular appraisal by a qualified expert (up to 90% LTV). This saves time and money for the customer. In addition, customers can now also submit an income statement issued by the UWV instead of an employer's certificate of income. The disadvantage of an employer's certificate is that customers must always apply for the certificate through their employer. The investments in online services and digitalization have resulted in a better customers services and higher customer satisfaction scores.

Social involvement

As part of a cooperative insurance group, it is in our nature to keep a close watch on the long-term interests of all our stakeholders. Corporate Social Responsibility is the cornerstone of our business operations and strategy. Achmea Bank is aware of its social role and responsibilities.

A word from the Chairman

That also entails that consumers should be more aware of the future affordability of mortgages, including interest-only mortgages. In 2019, together with other banks and insurers, we followed up on the public awareness campaign '*Word ook aflossingsblij*' (dealing with interest-only mortgages). The campaign points out to consumers the possible risks of interest-only mortgages. These risks include the continued affordability of their mortgage when they reach retirement age, when their tax deduction of mortgage interest lapses, or the term of their mortgage term expires.

Achmea Bank believes strongly in the importance of education and guidance aimed at improving the general level of knowledge about financial matters in our society. This will help consumers to make better and more responsible financial decisions. For that reason Achmea Bank contributes to various initiatives. For example, we encourage our employees to give guest lectures for elementary and high school student like '*Bank voor Klas*' ('Classroom Bank') or LEF ('Leven en Financien'). In the course of 2019 Achmea Bank employees gave more than 60 financial guest lectures.

Achmea Bank also joined the platform '*Voor Elkaar*' ('For Each Other') in 2019. '*Voor Elkaar*' is a platform where supply and demand regarding various social issues meet. The initiative was started by the Achmea Foundation whose goal is to help vulnerable social groups. '*Voor Elkaar*' facilitates and encourages Bank employees to do volunteer work in addition to their normal daily work.

Sustainable banking

Sustainability is of great importance to us. As part of Achmea, our goal is that our business operations become carbon-neutral by 2030. Furthermore, we signed the financial sector's Climate Commitment in 2019 and have started taking measurements of the carbon footprint of our mortgage portfolio. Achmea Bank also wants to help its customers increase the sustainability of their homes. That is why we make it possible to finance this through a mortgage. We expanded our policy in 2019 to give customers more room to finance energy-saving measures in their mortgage. Via the Centraal Beheer and Woonfonds brands customers are informed pro-actively about the possibilities of making their homes more sustainable.

Through our brands we are working on new products and services that are relevant for our customers on a daily basis. Continues change remains vital in our operational management. After all, what we do today may not be so self-evident tomorrow. We must work in harmony with our customers, partners, capital providers, and employees. Together, we continuously work towards a bank that is ready for a prosperous and sustainable future.

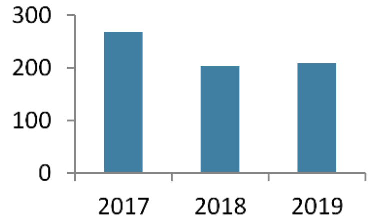
Pierre Huurman
Chief Executive Officer Achmea Bank

Achmea Bank in numbers

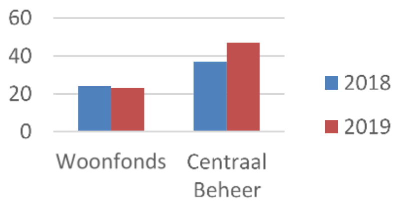
Mission | Achmea Bank believes that everyone should have the financial opportunities to lead a comfortable life, now and in the future.

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

FTE |



NPS score | New costumers

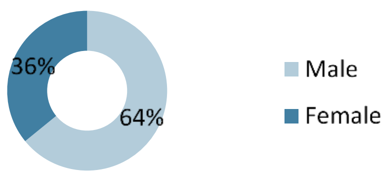


Male – female ratio in senior leading positions

♀ 4

♂ 6

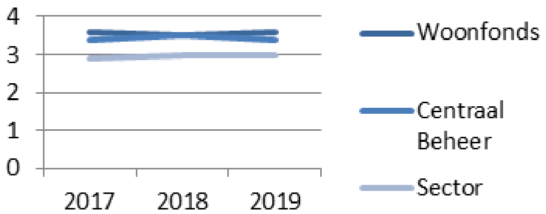
Total male - female ratio



Employee Engagement

7,8 (7,8)	7,7 (7,8)	7,4 (7,4)	7,5 (-)
Involvement	enthusiasm	employability	customer

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



Number of children received guest lectures by Achmea

1600+

Achmea Bank in numbers

Financial highlights

Operational result

€33.9 million

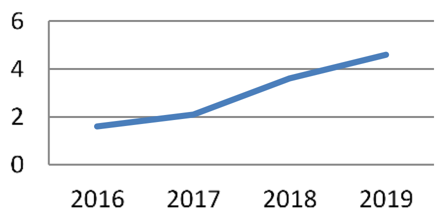
2018: 39.2 million

Total result (before tax)

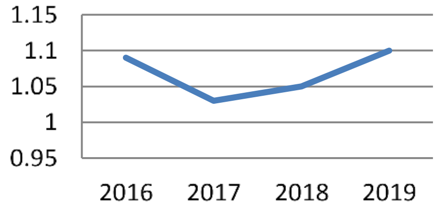
€49.8 million

2018: 38.9 million

Return on average equity | in %



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



Core Equity Tier 1 |

19.2%

2018: 20.8%

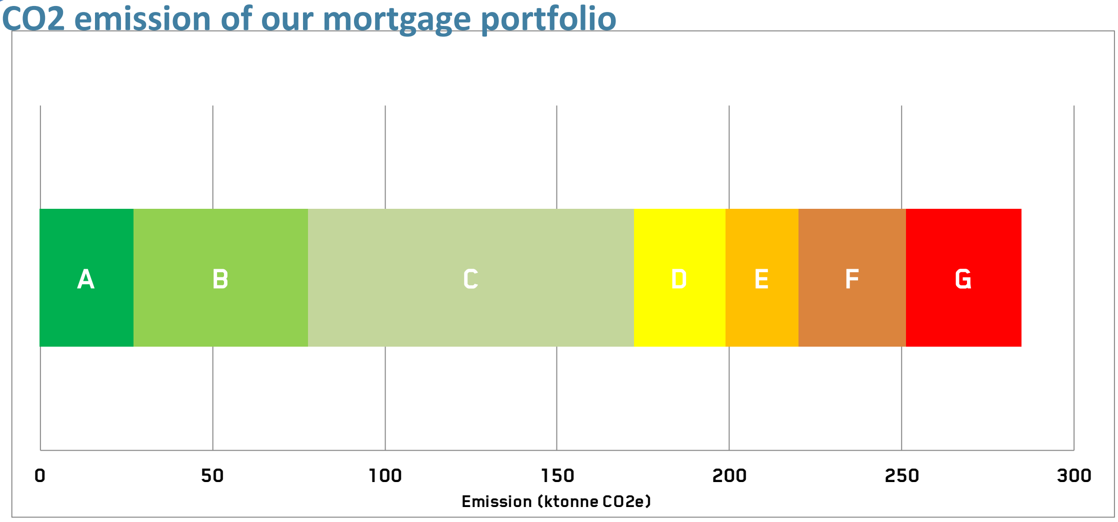
Efficiency ratio (exl. changes in fair value)* |

78.0%

2018: 67.8%

*increase mainly due to policy change with respect to cost allocation within Achmea Group

CO2 emission of our mortgage portfolio



Executive Board Report

About us

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

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

Achmea Bank is a well-established originator of mortgages with over 40 years of experience with high quality mortgage portfolio with a relative low level of delinquencies. We currently originate and service mortgages for both the balance sheets of Achmea Bank and Achmea Pensioen- en Levensverzekeringen N.V.

We develop, market and service the mortgage and retail savings products for the Achmea brands (Centraal Beheer and Woonfonds). Centraal Beheer and Woonfonds employ the distributive power of intermediaries to offer mortgage loans. Furthermore, Centraal Beheer offers mortgage loans online. Within Achmea Bank we also manage and service a former Staalbankiers loan portfolio, better known as ‘Acier’.

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.

Business Model

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

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

Executive Board Report

Achmea Pensioen- en Levensverzekeringen N.V. (AP&L). In 2019 the Bank completed two balance sheet transactions. We acquired a mortgage portfolio from Achmea Pensioen- en Levensverzekeringen of EUR 0.6 billion. Moreover we acquired the mortgage portfolio of ASR Levensverzekering N.V. (hereafter 'a.s.r.' or a.s.r. Bank) with a volume of EUR 1.4 billion.

For savings, we offer flexible and fixed-term products and bank annuities under the Centraal Beheer brand. The broad range of savings products provide funding stability and flexibility to respond when market conditions change. Our savings portfolio grew by EUR 1.5 billion and 125.000 new customers primarily as a result of the acquisitions of the a.s.r. portfolio. This acquisition contributes to a grew our scale of banking services and will enables us to lower costs and further invest in improvements in our service to our customers.

Mission

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

Strategy

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

Goals

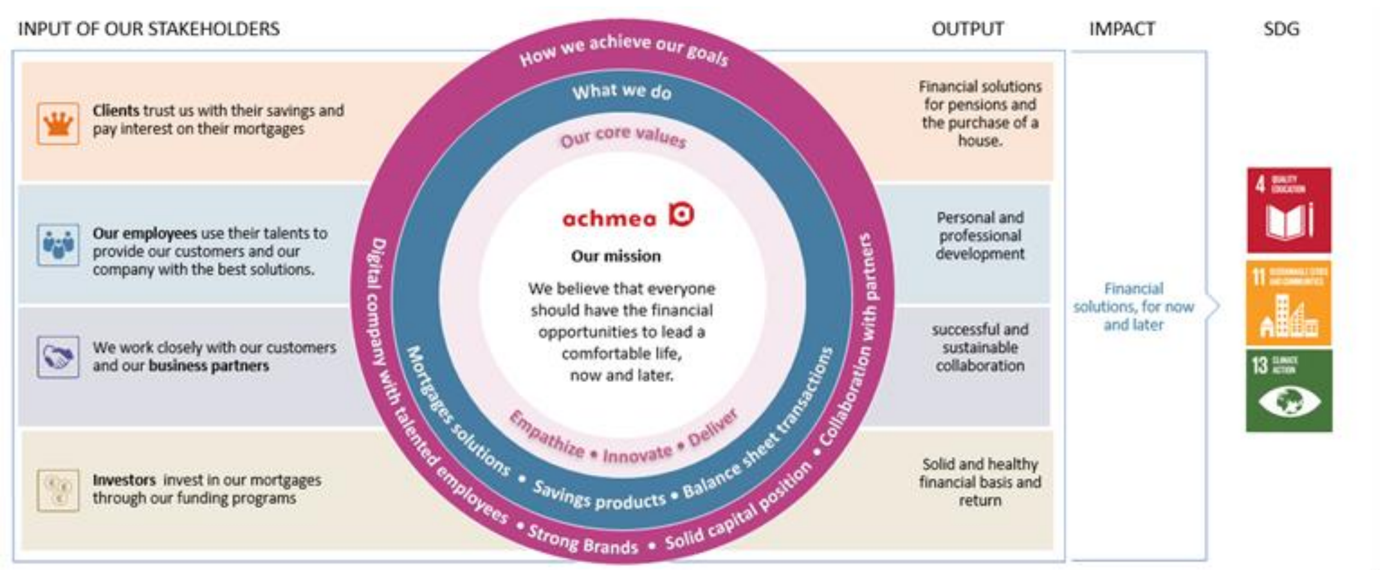
To improve interest margins and realize profitable growth, we are developing new propositions for specific segments of the mortgage market which offer higher returns, while at the same time respecting our moderate risk profile. In 2019, Achmea Bank introduced a new niche proposition, the revolving credit mortgage, next to the existing Buy-to-Let and self-employed propositions. Furthermore, we will continue to look for opportunities for balance sheet transactions.

We aim for a high level of customer satisfaction. Customers expect outstanding service quality, simple and intuitive processes, 24/7 availability, self-service, transparency of products and pricing, personalization and tailoring, and a consistent approach across channels. We strive to offer our customers an excellent digital customer experience. In 2019 we have continued to invest in online services and portals for both Centraal Beheer and Woonfonds.

Identity

Customer interest is a central theme in Achmea Bank's business culture, as is the duty of care. The duty of care to our customers is anchored in everything we do. This forms an integral part of our identity, vision and daily business operations. The interests of all stakeholders are taken into account. Our employees are honest, knowledgeable and experts in their field. In all our actions, integrity is seen as vital to securing confidence in the Bank on a lasting basis.
To this end, Achmea Bank nurtures a culture of openness in which people are able to raise integrity issues.
We have a Code of Conduct in which we outline how we treat each other and how we deal with information, resolve conflicts of interest, manage incidents and handle complaints. In addition to the internal rules of conduct, external codes of conduct also apply for our employees, including the banker's oath.

Executive Board Report



Market developments

Driven by the combination of economic growth, low interest rates and scarcity, housing prices continued to rise in the Netherlands. Consequently in 2019 the volume of the Dutch mortgage market increased to approximately EUR 533 billion by the end of 2019. Competition from new market entrants in the Dutch mortgage market continues to put pressure on margins for mainstream mortgage loans. We therefore chose to target clients in underserved segments with tailored products such as Buy-to-Let and mortgage loans for the self-employed. The persistently low interest rates have also led to increased demand for mortgage loans with longer fixed-interest terms (20 and even 30 years). Through our AP&L mandate, we serve customers in this segment through the AP&L balance for fee business purposes. Despite the low interest rates, saving is still popular. However, driven by the low interest rates, savings clients give preference to on-demand accounts over fixed-term deposits. In 2019 the savings market grew by EUR 14 billion, from EUR 354 billion by the end of 2018 tot EUR 368 billion by the end of 2019.

Financial performance

IN MILLIONS OF EUROS	2019	2018	CHANGE
Interest Income	343	382	−10%
Interest expense	218	272	−20%
Interest margin	**125**	**110**	**14%**
Changes in fair value of financial instruments	16	–	-
Interest margin and changes in fair value of financial instruments	**141**	**110**	**28%**
Other income	2	2	-
Fees and commission income and expense	8	4	100%
Operating income	**151**	**116**	**30%**
Impairment of financial instruments and other assets	−4	−2	−100%
Operating expenses	105	79	33%
Total expenses	**101**	**77**	**31%**
Operating profit before income taxes	**50**	**39**	**28%**
Income tax expense	13	10	30%
Net profit	**37**	**29**	**28%**
Operating profit excluding exceptional items and fair value result	34	39	−13%

RATIOS	2019	2018	
Return on average equity	4.6%	3.6%	
Efficiency ratio (operating expenses/interest margin, fees and other income)*	78.0%	67.8%	
Common Equity Tier 1 Capital Ratio	19.2%	20.8%	
Total Capital Ratio	19.2%	20.9%	
Leverage ratio	5.7%	6.5%	
Net Stable Funding Ratio	121%	121%	
Liquidity Coverage Ratio	249%	364%	

*increase mainly due to policy change with respect to cost allocation within Achmea Group

Achmea Bank reported a profit before tax of EUR 50 million in 2019 (2018 EUR 39 million). This result includes an accounting result of EUR 18 million, which relates to the a.s.r. transaction.

The operating result for 2019, excluding this accounting result and fair value result, declined from EUR 39 million in 2018 to EUR 34 million in 2019. The decline in the operational result is mainly due to higher operating expenses of EUR 26 million partly compensated by higher interest margin of EUR 15 million and increased fee income of EUR 4 million. EUR 15 million of the higher operating expenses is due to a policy change by Achmea with respect to cost allocation within the group, EUR 5 million is due to increased project costs.

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. The expected reorganisation costs of EUR 3 million are provisioned for and included in the operating expenses of 2019.

The savings portfolio increased to EUR 7.1 billion (2018 EUR 5.7 billion), mainly driven by the acquisition of the a.s.r. saving portfolio of EUR 1.5 billion. In 2019 Achmea Bank redeemed EUR 0.6 billion RMBS notes and issued a conditional pass through covered bond of EUR 0.5 billion. The Bank has a diversified funding mix and retained its sound liquidity position with liquidity ratios well above internal and external limits. The Bank uses retail financing as well as unsecured and secured wholesale financing. In addition the Bank maintains different maturity profiles in its funding instruments to prevent potential future refinancing concentration risk.

In line with the dividend policy, Achmea Bank proposes to pay out a total dividend of EUR 23 million.

Banking Code

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

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

Risk management

As part of an ongoing internal risk management process, the Bank has embedded key risks and controls defined for its primary processes in the entire organisation. The Bank continuously reviews and fine-tunes the monitoring and management of its financial and non-financial risks, including compliance related issues as Anti-Money Laundering and Customer Due Diligence. More detailed information about financial risk (management) can be found in the section ‘Capital and Financial Risk Management’. Overall the Bank has shown further improvement in 2019 of its operational risk and Balance Sheet & Financial Risk management.

Capital position

The Total Capital ratio remained strong at 19.2% (2018: 20.9%). The Common Equity Tier 1 (CET1) Capital ratio decreased to 19.2% as per December 2019 (20.8% at the end of 2018), mainly due to the acquired mortgage portfolios. Achmea Bank currently applies the standardized approach to calculate the risk weighting of its assets. Achmea Bank is working towards the implementation of Advanced Internal Rating Based (AIRB) models.

The Leverage Ratio (LR) is a regulatory capital adequacy measure under CRD IV/CRR. The LR is calculated as an institution's capital divided by that institution's total non-risk weighted exposures, expressed as a percentage. Achmea Bank complies with the internal minimum requirement for 2019 of 3.5% and the (expected future) external minimum requirements; the LR at 31 December 2019 was 5.7% (2018: 6.5%).

Executive Board Report

Liquidity position

Achmea Bank manages its liquidity positions prudently. The most important metrics used to monitor liquidity risk are the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Survival Period. The aim of the LCR is to ensure that the bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The aim of the NSFR is to ensure that long-term assets are financed with stable, longer term funding. The aim of the Survival Period is to ensure the bank holds sufficient liquidity to survive the most severe internal stress scenario for at least six months.

The Bank complies with all external and internal minimum liquidity requirements in 2019. At year-end 2019 the LCR was 249% (2018: 364%),the NSFR was 121% (2018: 121%) and the SP was greater than 12 months (2018: greater than 12 months).

Outlook

In 2020, the Bank continues to optimise its organisation, with the intention to reduce costs. We expect to be able to further improve the interest margin supported in particular by the positive effect of the a.s.r. transaction and the acquired portfolio of Achmea Pensioen- en Levensverzekeringen N.V. We expect the number of defaults in the regular mortgage portfolio to continue to be low. Given the specific nature of the Acier portfolio, coupled with the macro-economic uncertainty, predictions regarding loan impairments in the Acier portfolio and fair value effects are difficult. The outbreak of Coronavirus disease (Covid-19) may have a severe impact on the Dutch, European and global economic prospects and therefore on Achmea Bank. However, it is too early to predict the scope and extent of the consequences of the outbreak of the Coronavirus and the consequences of the measures taken in relation to the Coronavirus and conditions may worsen and measures may become more restrictive in the future. It is currently unclear how the financial markets will develop in the near future. Frequent monitoring of the financial risks such as liquidity and capital is an integral part of the Bank’s risk management system. Achmea Bank closely monitors developments in the Bank’s liquidity and capital position. Furthermore, the developments on these risks are closely monitored by the Banks’s supervisors, the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). Achmea Bank concludes that its capital and liquidity position is adequate to support the going concern assumption.

Tilburg, 27 March 2020

The Executive Board,

P.J. (Pierre) Huurman
M.J.M. (Mark) Geubbels

Supervisory Board Report




The supervisory board

Mr. Huub Arendse (Chair), Mr. Jan Molenaar, Mr. Robert Otto, Mr. Henny te Beest

Main developments in 2019

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

The Supervisory Board convened on seven occasions in 2019, five ordinary meetings and two extra meetings. Important items on the agenda included the full-year and half-year figures, progress on implementation of strategy, the status of strategic projects - such as the acquired portfolios, Achmea project to optimize its operational mortgage activities, the change in the Executive Board, the project care for our customers, new product development, the positioning of our brands, capital and funding plans, compliance, outsourcing, risk appetite, strategic personnel planning and the ambition of Achmea Group to grow in the mortgage market and the concentration of its operational mortgage activities at one location.

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

Audit & Risk Committee

The Audit & Risk Committee is composed of all the members of the Supervisory Board, chaired by Mr Henny te Beest and is attended by the Executive Board, Internal Audit and the independent auditor. The Audit & Risk Committee convened on five occasions in 2019. At the meetings the following subjects were discussed: risk analysis, risk policies, risk appetite with focus on credit risk, market risk, capital and liquidity adequacy, operational risk, cybersecurity, compliance risk and strategic risk and outsourced risks. The Audit & Risk Committee also approved and monitored the internal and external audit plan and the progress made in the resolution of audit issues including IT and compliance related issues. The Audit & Risk Committee discussed the key financials, including the policy change with respect to cost allocation within Achmea Group. Furthermore, the Audit & Risk Committee discussed the reports of the specific audits of the internal auditors and the independent auditor and reports of DNB and AFM.

Permanent education

Every year the members of the Supervisory Board and Executive Board attend a number of permanent education (PE) meetings. In 2019 several permanent education sessions were organized for Supervisory Board members. The main topics covered in 2019 in these sessions were strategic portfolio management, impact negative interest on savings and IT (Artificial Intelligence, Cloud, Cyber risk, Data and Blockchain).

Supervisory Board Report

Attendance rates

The table to the right provides an overview of the attendance rates of the ordinary meetings of each individual board member. To avoid a possible conflict of interest between the Executive Board Achmea B.V. role and the Supervisory Board role, Bianca Tetteroo attended two meetings (or parts of those meetings) of the Supervisory Board as Executive Board member of Achmea BV.

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

Finance and risk

The Supervisory Board and the Audit & Risk Committee discussed Achmea Bank's financial situation based on the interim and yearly results, in addition to discussing and approving the Annual Report for 2018. The Supervisory Board supported the Executive Board's commitment to achieve its financial ambitions: further cost reductions while continuing to invest in excellent (digital) customer service, innovations and strategic initiatives to increase financial return in the long term. The discussions on the annual and interim reporting were also attended by the independent auditor. The Supervisory Board approved the proposal of the Executive Board to the General Meeting of Shareholders to pay dividends of EUR 29 million for 2018 to its shareholder (Achmea B.V).

Composition of the Executive Board

At 6th of September the Chief Financial & Risk Officer Pieter Emmen choose to leave Achmea Bank. During his tenure Pieter Emmen made a significant contribution to the further improvement of the financial departments, demand & supply and the financial results of Achmea Bank. The position of Chief Financial & Risk Officer was temporary replaced, without statutory responsibilities, by Mark Geubbels during the period 1st October – 15th of December. Mark Geubbels has been appointed as statutory Chief Financial & Risk Officer as per 16 December.

Composition of the Supervisory Board

Members of the Supervisory Board are selected based on a profile which involves the required professional background, education, international experience, skills, diversity and independence. The composition of the Supervisory Board is such that the members can perform their duties properly because of the appropriate mix of experience and expertise. Henny te Beest has been reappointed as a member of the Supervisory Board per 18th of November. Robert Otto has been appointed as a member of the Supervisory Board of Achmea Bank as of 21 January 2020. Robert Otto succeeds Bianca Tetteroo who stepped down at the same time. Bianca Tetteroo has been a member of the Executive Board of Achmea Group since June 2015. She was appointed vice-chair in January 2020. She was a member of the Achmea Bank Supervisory Board since August 2017.

The current composition of the Supervisory Board and Executive Board does not meet the minimum criteria with respect to diversity, which is partly due to the limited size of the Boards and the succession of Bianca Tetteroo by Robert Otto in the Supervisory Board. Achmea bank will actively consider the diversity criteria for future appointments.

The Supervisory Board would like to thank Pieter and Bianca for their important contribution to the Bank during their membership of the (Supervisory) Board over the past years.

Self-assessment of the Supervisory Board

The Supervisory Board conducts an annual self-assessment of its own performance. In accordance with the Banking Code and best practices, the 2019 assessment was conducted under the supervision of an external consultant.

The process consisted of a tailor-made questionnaire and in-depth interviews with the Supervisory Board members, the members of the Executive Board and a number of other important officers. The results have been extensively discussed within the Supervisory Board. The following topics were addressed in this assessment: the composition and role of the Supervisory Board, governance and processes, organizational structure, the effectiveness of the supervision and of the committee as a whole, mutual relationships, corporate culture and developments, and the fulfilment of the employer and advisory role of the Supervisory Board.

The overall conclusion of the evaluation is positive and a further encouragement for the Supervisory Board to continue along the same lines. The Supervisory Board functions well and cooperation among the board members is excellent. The dialogue with the Executive Board is open and transparent.

The most important point of attention is the intended merger of the operational mortgage activities of the Achmea Group.

The board's advisory role can be expanded through even closer dialogue with the Executive Board about current developments and long-term value creation and the accompanying dilemmas and risks. Suggestions for further improvement include a better understanding of outsourcing risks and commercial and business topics.

Supervisory Board Report

Remuneration Committee

In 2018 the Supervisory Board decided that remuneration issues would be discussed by the entire board rather than in a separate Remuneration Committee. The implementation of the remuneration policy was evaluated in 2019. The Supervisory Board provided input regarding the achievements of the Executive Board. The remuneration of the Executive Board members and the senior staff of Achmea Bank for 2019 was approved. The Supervisory Board evaluates remunerations in the context of the remuneration policy of Achmea Group. More details regarding remuneration policies can be found in the Remuneration Report and on www.achmea.nl or www.achmea.com.

Name	Nationality	seks	Function	Term	Next reappointment
H. Arendse *(1958)*	Dutch	Male	Chairman	First	2021
H.W. te Beest *(1950)*	Dutch	Male	Member	Second	
J..B.J.M. Molenaar *(1950)*	Dutch	Male	Member	Third	-
R. Otto (1967)	Dutch	Male	Member	First	

Tilburg, 27 March 2020

The Supervisory Board,

Mr. H. (Huub) Arendse, Chair
Mr. H.W. (Henny) te Beest
Mr. J.B.J.M. (Jan) Molenaar
Mr. R. (Robert) Otto (as of 21 January 2020)

Corporate Social Responsibility

How we give back to society

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

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

To which Sustainable Development Goals does Achmea Bank contribute?

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

Increasing financial self-reliance through education;

Making a positive contribution to the sustainability of homes; and

Lowering our own carbon footprint

Financial education

Financial education is generally not part of the Dutch education curriculum. Therefore banks have a responsibility in this matter. Achmea Bank is committed to financial education and increasing the general level of knowledge about money matters in society. Through information on the websites of our brands such as the Mortgage Academy of Centraal Beheer, we enable consumers to make informed choices. In addition, our employees give guest lessons in schools during the ´Week of Money´. During the European Money week Achmea Bank employees engage in more than 60 guest lessons reaching over 1,600 children.

Sustainable working

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

Corporate Social Responsibility

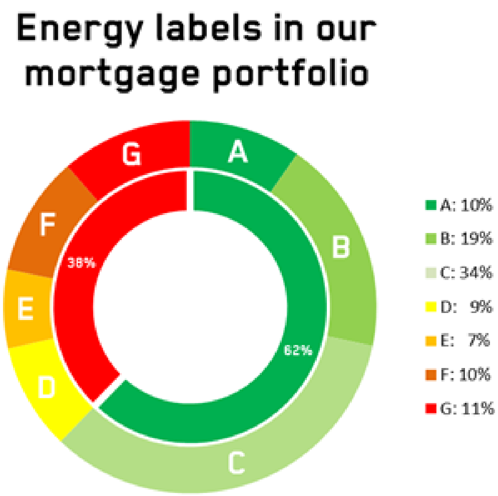
We work with flexible workplaces, sometimes we work at home or at one of the Achmea locations. Working from home helps to reduce traffic congestion and so reduce CO2 emission. Moreover, this flexibility offers our employees the opportunity to better coordinate their work-life balance. From 2011 Achmea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

Sustainable living

A significant part of the carbon emissions in the Netherlands are caused by households. In order to realize the ambitions of the Paris climate agreement, a large part of the Dutch housing stock needs to be made more sustainable. As a mortgage provider, we have a social responsibility to contribute to the reduction of greenhouse gas emission stemming from houses we finance. That is why we offer financing options to make homes more sustainable. We also encourage our customers to reduce emission by making their homes more sustainable. In 2019 we started monitoring the CO2 emissions of our mortgage portfolio. Achmea Bank publishes its carbon footprint report on www.achmeabank.com.

Energy labels

As regulated by EU policy, The Netherlands has implemented energy labels based on the energy efficiency of a house. We collect the energy labels from Calcasa. On a quarterly basis, the Calcasa database is matched on addresses to the mortgage portfolio of Achmea Bank. About 21% of matched addresses has a definitive energy label. If no definitive energy label is present, the provisional label is linked to a household. There is a small portion of the mortgage portfolio for which no energy label is available, like monuments, or the match could not be made due to data quality issues, for instance due to differences in suffix notation in addresses. For this small portion, the same composition of energy labels is assumed as for the rest of the mortgage portfolio. For 2,77% of the mortgages the energy label is not available. This leads to a division of energy labels in our portfolio as shown in the figure below.



Climate Agreement of the Dutch Financial sector

The banks in the Netherlands, united in the Dutch Banking Association (NVB), have drawn up a climate statement committing themselves to the Paris Agreement and the Climate Agreement of the Dutch government. Achmea Bank has also signed this Agreement . In doing so we committed ourselves to report on the climate impact of our financing and we will make action plans in place to reduce the CO^2 emissions of our financing. Contributing to reducing climate change has been high on Achmea's strategic agenda for many years and it is one of the focus areas its SDG strategy.

Achmea Bank N.V.

Financial Statements

Consolidated statement of financial position

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

BEFORE APPROPRIATION OF RESULT			
IN THOUSANDS OF EUROS			
AS AT		31 DECEMBER 2019	31 DECEMBER 2018
	NOTE		
Assets			
Cash and balances with Central Banks	11	72,366	115,781
Derivative assets held for risk management	10	90,513	82,575
Loans and advances to banks	12	713,350	758,361
Loans and advances to public sector	13	675	699
Loans and advances to customers	6	12,640,791	11,056,321
Interest-bearing securities	14	–	201,168
Prepayments and other receivables	15	147,468	70,912
Total Assets		**13,665,163**	**12,285,817**
Liabilities			
Derivative liabilities held for risk management	10	464,969	470,479
Deposits from banks	16	197,749	202,148
Funds entrusted	8	7,507,919	5,859,866
Debt securities issued	7	4,574,111	4,858,361
Provisions	17	3,600	150
Current tax liabilities	21	23,753	34,102
Deferred tax liabilities	20	3,028	1,632
Accruals and other liabilities	19	68,138	45,562
Subordinated liabilities	18	8,336	8,336
Total Liabilities		**12,851,603**	**11,480,636**
Share Capital		18,152	18,152
Share premium		505,609	505,609
Reserves		252,508	251,948
Net profit		37,291	29,472
Total Equity	**22**	**813,560**	**805,181**
Total Equity and Liabilities		**13,665,163**	**12,285,817**

Consolidated statement of comprehensive income

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

IN THOUSANDS OF EUROS			
FOR THE YEAR ENDED 31 DECEMBER		2019	2018
	Note(s)		
Interest income (amortised cost items)		342,858	381,781
Interest income (other)		494	960
Interest expenses		218,494	272,242
Interest margin	**9**	**124,858**	**110,499**
Changes in fair value of financial instruments	10	15,922	−288
Interest margin and changes in fair value of financial instruments		**140,780**	**110,211**
Other income	23	1,675	1,876
Fees and commission income and expense	24	8,025	4,211
Operating income		**150,480**	**116,298**
Impairment of financial instruments and other assets	6	−4,330	−1,678
Operating expenses	25/26	104,998	79,027
Operating profit before taxes		**49,812**	**38,949**
Income tax expense	28	12,521	9,477
Net profit		**37,291**	**29,472**
Other comprehensive income/expense (non-permanent part of Equity)			
Fair value adjustments on items classified as fair value through Other comprehensive income	22	−2,133	−2,133
Tax effect on Net fair value adjustments on items classified as fair value through Other comprehensive income		2,693	503
Other comprehensive income/expense net of income tax (non-permanent part of Equity)		**560**	**−1,630**
Total comprehensive income for the period		**37,851**	**27,842**
Net profit:			
Attributable to owners of the parent		37,291	29,472
Net profit for the period		**37,291**	**29,472**
Total comprehensive income:			
Attributable to owners of the parent		37,851	27,842
Total comprehensive income for the period		**37,851**	**27,842**

Consolidated statement of changes in equity

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED	SHARE CAPITAL	SHARE PREMIUM	FAIR VALUE RESERVE	PROFIT FOR THE YEAR	OTHER RESERVES	TOTAL EQUITY
IN THOUSANDS OF EUROS						
Balance at 31 December 2018	**18,152**	**505,609**	**–560**	**29,472**	**252,508**	**805,181**
Total comprehensive income for the period						
Net profit	–	–	–	37,291	–	37,291
Other comprehensive income/expense, net of income tax						
Fair value reserve:	**–**	**–**	**–**	**–**	**–**	**–**
Change in fair value net of income tax (will be fully recycled through P&L) (note 14)	–	–	560	–	–	560
Total comprehensive income for the period	**–**	**–**	**560**	**37,291**	**–**	**37,851**
Transaction with owners, recognised directly in equity						
Dividends paid	–	–	–	–29,472	–	–29,472
Appropriation of profit 2018	–	–	–	–	–	–
Capital contribution	–	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**–29,472**	**–**	**–29,472**
Balance at 31 December 2019 (note 22)	**18,152**	**505,609**	**–**	**37,291**	**252,508**	**813,560**
Balance at 31 December 2017	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**
Impact of adopting IFRS 9 at 1 January 2018	**–**	**–**	**61**	**–**	**–13,197**	**–13,136**
Restated balance as at 1 January 2018	18,152	505,609	1,070	17,724	284,784	827,339
Total comprehensive income for the period						
Net profit	–	–	–	29,472	–	29,472
Other comprehensive income/expense, net of income tax						
Fair value reserve:	–	–	–	–	–	–
Change in fair value net of income tax (will be fully recycled through P&L) (note 14)	–	–	–1,630	–	–	–1,630
Total comprehensive income for the period	–	–	–1,630	29,472	–	27,842
Transaction with owners, recognised directly in equity						
Contributions by and distributions to owners						
Dividends paid	–	–	–	–17,724	–32,276	–50,000
Appropriation of profit 2017	–	–	–	–	–	–
Capital contribution	–	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**–17,724**	**–32,276**	**–50,000**
Balance at 31 December 2018 (note 22)	**18,152**	**505,609**	**–560**	**29,472**	**252,508**	**805,181**

Consolidated statement of cash flows

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER			
IN THOUSANDS OF EUROS		2019	2018
Cash flow generated from operating activities	**Note(s)**		
Net profit		**37,291**	**29,472**
Adjustments for non-cash items in the result:			
Impairment on financial instruments and other assets	6	−4,330	−1,678
Net interest and other income		−126,533	−112,376
Changes in fair value of financial instruments	10	3,620	288
Other non-cash items		−19,948	−4,696
Income tax expense	28	12,521	9,414
		−97,379	**−79,576**
Changes in operating assets and liabilities:			
Loans and advances to banks	12	34,695	191,770
Loans and advances to public sector	13	23	23
Loans and advances to customers	6	533,067	604,098
Prepayments and other receivables	15	−80,745	6,462
Deposits from banks	16	−4,572	57,700
Funds entrusted	8	102,910	−332,136
Accruals and other liabilities	19	26,346	−13,191
Provisions	17	−376	–
Interest received	9	331,450	365,748
Interest paid	9	−215,315	−262,762
Income tax received	28	–	–
Income tax paid	28	−21,661	−4,196
		705,822	**613,516**
Net cash flow generated from operating activities (1)		**608,443**	**533,940**
Cash flow generated from investing activities			
Investments in mortgages and savings		−513,898	−132,148
Interest-bearing securities sold	14	202,056	332,037
Net cash flow generated from/(used in) investing activities (2)		**−311,842**	**199,889**
Cash flow generated from financing activities			
Repayments of Debt securities issued	7	−990,787	−1,999,985
Issues of Debt securities issued	7	669,931	498,841
	7	**−320,856**	**−1,501,144**
Dividend Payment		−29,472	−50,000
Net cash flow used in financing activities (3)		**−350,328**	**−1,551,144**
Net cash flow (1) + (2) + (3)		**−53,727**	**−817,315**
Cash and cash equivalents as at 1 January		127,083	944,398
Cash and cash equivalents as at 31 December		73,357	127,083
Movements in cash and cash equivalents		**−53,727**	**−817,315**
Reconciliation of movement in Cash and cash equivalents			
Cash and balances with Central Banks	11	−43,415	−774,282
Loans and advances to banks on demand	12	−10,312	−43,033
		−53,727	**−817,315**

Notes To The Consolidated Financial Statements

General

1. GENERAL INFORMATION

Achmea Bank N.V. is located at Spoorlaan 298, Tilburg (the Netherlands) with its registered office in The Hague (the Netherlands). It is registered at the Chamber of Commerce under number 27154399. The number of employees was 209 FTEs on 31 December 2019 (2018: 203 FTEs). The core products of Achmea Bank N.V. (‘the Bank’ or ‘Achmea Bank’) consist of savings products for private individuals and residential mortgage loans for properties in the Netherlands. The shares of the Bank are held by Achmea B.V. At year-end 2019 the main shareholders of Achmea B.V. were Vereniging Achmea (61%) and Coöperatieve Rabobank U.A. (28%).

The Bank’s consolidated financial statements for 2019 consist of the financial statements of all group companies in which the Bank has a controlling interest. Reference is made to paragraph 2D Basis of consolidation for an overview of the group companies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A AUTHORIZATION FINANCIAL STATEMENTS

The Bank´s consolidated financial statements for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Executive Board on 27 March 2020. At the same date, the Supervisory Board gave its advice to the General Meeting of Achmea Bank to adopt the financial statements. The Executive Board may decide to amend the financial statements as long as these have not been adopted by the General Meeting. The General Meeting may decide not to adopt the financial statements, but may not amend these.

B BASIS OF PRESENTATION

The Bank´s consolidated financial statements 2019, including the 2018 comparative figures, have been prepared in accordance with the International Financial Reporting Standards - including International Accounting Standards (IAS) and Interpretations - as adopted by the European Union (hereafter EU and EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements have been prepared on a historical cost basis, except for the following:
- derivative assets and liabilities held for risk management
- Interest-bearing securities.

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

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

Notes To The Consolidated Financial Statements

C INITIAL APPLICATION OF ACCOUNTING POLICIES

In 2019 the following amendments to Standards and Interpretations issued by the International Accounting Standard Board (IASB) were adopted:

- Amendments to IFRS 9: Prepayment features with negative compensation (further explanation of the requirements of the valuation of prepayment features in specific financial assets).
- Amendments to IAS 19: Plan amendment, curtailment of settlements (further explanation of the requirements for the accounting treatment of changes in defined contribution pension plans).
- Amendments to IAS 28: Long-term interest in associates and joint ventures (further explanation of the valuation of specific long term interest in associates and joint ventures.
- Annual improvements to IFRSs 2015-2017 cycle (several small changes).
- IFRIC 23 Uncertainty over income tax treatments (further explanation regarding the accounting treatment of uncertainties in tax positions).
- IFRS 16 Leases
- Amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement(*) and IFRS 7 Financial Instruments: Disclosures - Interest Rate Benchmark Reform

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

CHANGES IN STANDARDS AND AMENDMENTS WITH FUTURE APPLICATION DATE

The following standards or amendments were issued in 2019 or prior years and are not early adopted by Achmea Bank in preparing its Consolidated Financial Statements 2019:

- IFRS 17 Insurance contracts (implementation date 1 January 2023)
- IFRS 3 Business Combinations: Definition of a Business (implementation date 1 January 2020)
- IAS 1 and IAS 8: Definition of Material (amendments, implementation date 1 January 2020)

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

AMENDMENTS RELATED TO PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

There are no prior period corrections or changes in presentation.

D BASIS OF CONSOLIDATION

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

*) Called and liquidated 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.

Notes To The Consolidated Financial Statements

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.

Achmea Bank set up a EUR 5 billion Conditional Pass Through Covered Bond Programme in 2017 ("ACPTCB") to replace its soft bullet covered bond programme which was terminated in October 2017. The shares of Achmea Conditional Pass-Through Covered Bond Company B.V. are held by Stichting Achmea Conditional Pass-Through Covered Bond Company.

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

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

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

E ELIMINATION OF INTERGROUP TRANSACTIONS AND ACCOUNTS

Intragroup accounts and any unrealised gains and losses on transactions within the Bank or income and expenses from such transactions are eliminated.

F SEGMENT INFORMATION

In the internal reports used by the Executive Board to allocate resources and monitor performance targets to the operating segment, Achmea Bank is managed as a single operating segment. In 2019, Achmea Bank completed two balance sheet transactions. One is the acquisition of the a.s.r. banking activities which includes a mortgage portfolio, the other is a mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V. Based on a detailed assessment on risk characteristics as well as underlying collateral of the portfolios, the bank concluded that the portfolios are not materially different from its main mortgage portfolio. The Acier loan portfolio differs in characteristics from the typical Achmea Bank mortgages, this portfolio is classified as so called a non-core portfolio. The risk management paragraph and the notes to the Consolidated Financial Statements include separate information about the credit risk, mortgages and provisions for impairment of this portfolio.

G CONSOLIDATED STATEMENT OF CASH FLOWS

The Consolidated Statement of Cash Flows has been set up according to the indirect method. Cash and cash equivalents comprise cash, bank balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of Achmea Bank's cash management processes are recognised as a component of Cash and cash equivalents.

Notes To The Consolidated Financial Statements

H RECOGNITION, DERECOGNITION AND MEASUREMENT

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

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

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

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

Measurement

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

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

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

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is amortised over the remaining economic life of the instrument.

Amortised cost measurement

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

Fair value measurement

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

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

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

Notes To The Consolidated Financial Statements

instrument. The Bank calibrates valuation techniques and validates them by using prices from observable current market transactions in the same instrument.

Fair value through OCI measurement

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

I CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

Achmea Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVtPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost

A financial asset is measured at amortised cost when it meets both of the following conditions and is not designated at FVtPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only when it meets both of the following conditions and is not designated at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level as this best reflects the way the business is managed and information is provided to management. The information considered includes:

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

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

Notes To The Consolidated Financial Statements

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

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

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

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

J MODIFICATION

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

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

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

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

K IMPAIRMENT OF FINANCIAL ASSETS

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

The highlights of the three stage model for impairment are:

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

Notes To The Consolidated Financial Statements

- Undrawn loan commitments: the present value of the contractual cash flows that are due to the Bank and expect to receive if the commitment is drawn down.

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

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

L USE OF ESTIMATES AND ASSUMPTIONS

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

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

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

M OFFSETTING OF FINANCIAL INSTRUMENTS

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

N FOREIGN CURRENCY

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

Notes To The Consolidated Financial Statements

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

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

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

Fair value derivatives
The fair value of the derivatives held for risk management may fluctuate significantly from time to time due to fluctuations in market rates and is calculated by using a valuation model. Although the valuation model makes maximum use of observable market inputs and limits the use of estimates made by the Bank, determining fair value for these type of instruments is considered to be complex and subject to management estimates in choosing the appropriate observable market inputs and deriving indirect price indices for unobservable elements. The fair value related to the Back-to-back swaps and derivative of the a.s.r. acquisition are based on the valuation of the underlying assets and liabilities.

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

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

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

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

Notes To The Consolidated Financial Statements

Notes to significant balance sheet and income statement items

4. ACQUISITIONS

ACCOUNTING POLICIES ACQUISITIONS

In 2019 Achmea Bank acquired two mortgage portfolios and a saving portfolio. Both acquisitions are treated as an acquisition of assets and liabilities. Achmea Bank identified and recognised the individual identifiable assets and liabilities acquired. The cost of the portfolios are allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

Initial recognition of the mortgage- and savings portfolio is at fair value, subsequent measurement is at amortised cost. The amortised cost of the financial asset or financial liability is defined as the amount at which the financial asset or financial liability is measured at initial recognition plus or minus any difference between that initial amount and the notional amount. Difference between fair value at initial recognition and the notional amount should be amortised over the instrument's expected life or, where applicable, a shorter period.

The transaction price was determined at signing date with a.s.r.. For the period between signing and closing date, Achmea Bank entered, according to the definition of IFRS, into a financial instrument, with the characteristics of a derivative. The fair value of this financial instrument relates to the fair value movements of the underlying mortgage portfolio and savings portfolio. Although the valuation model for both portfolios makes maximum use of observable market inputs and limits the use of estimates made by the Bank, determining fair value for these type of instruments is considered to be complex and subject to management estimates in choosing the appropriate observable market inputs and deriving indirect price indices for unobservable elements. This derivative must be recognised at fair value with value changes in the statement of profit and loss.

ACQUISITON OF THE BANKING OPERATIONS OF A.S.R. BANK

In December 2019, Achmea Bank completed the acquisition of the a.s.r. banking activities which includes a savings portfolio of about 125,000 customers and a volume of nominal EUR 1.5 billion and a mortgage portfolio with a volume of nominal EUR 1.4 billion. From that moment on, customers with a former savings product from a.s.r. bank are transferred to the savings product of Achmea Bank.

For the loan portfolio, a.s.r. will remain the servicer of the portfolio and has outsourced most of the activities to Stater N.V., an external mortgage service provider.

Achmea Bank’s acquisition of the portfolios is part of Achmea’s strategy to expand with financial products and services.

The Bank analysed the deal characteristics in relation to the relevant IFRS guidelines as mentioned in IFRS 3, the Bank concludes that the acquisition of the mortgage and savings portfolio qualified as a single identifiable asset and liability transaction. The initial recognition of both portfolios is at fair value, subsequent measurement is at amortised cost. The difference between fair value and outstanding amount is amortised over the remaining period of the underlying portfolio.

The 2019 result includes an accounting result of EUR 18 million. The transaction prices for the mortgages and savings were set at signing date (21 March 2019) with the exception of the impact of interest rate movements that are offset against the value development of the derivatives that were part of the transaction to hedge this interest rate risk. The accounting result mainly reflects the increased fair value of the acquired mortgages due to increased competition and related pressure on mortgage rates in the period from signing (21 March 2019) to closing (1 December 2019) of the transaction. The accounting result will be added to the legal reserve.

After initial recognition, the transaction prices of the acquired portfolios differed from the calculated fair value. This initial gain is separately recognised as part of Loans and advances and customers and funds entrusted. This day one gains of EUR 16 million will be amortised over expected life of both portfolios.

Notes To The Consolidated Financial Statements

ACQUISITON MORTGAGE PORTFOLIO OF ACHMEA PENSIOEN EN LEVENSVERZEKERINGEN N.V.

Furthermore, Achmea Bank acquired a mortgage portfolio from Achmea Pensioen en Levensverzekeringen N.V. an Achmea B.V. company, with a carrying amount of EUR 0.7 billion. The nominal value amounts to EUR 0.6 million. The portfolio consists of mortgages backed by residential properties in the Netherlands. The portfolio is serviced by Obvion N.V., who has in turn sub outsourced most of its activities to Stater N.V.

IMPACT ON THE BALANCE SHEET OF BOTH ACQUISITIONS

The impact of both portfolios on the balance sheet at transaction date is presented in the table below:

IMPACT ON THE BALANCE SHEET OF BOTH ACQUISITIONS

IN THOUSANDS OF EUROS

AS AT INITAL RECOGNITION	A.S.R.	ACHMEA PENSIOEN EN LEVENSVERZEKERINGEN N.V.	TOTAL ACQUISITIONS
Loans and advances to customers			
Loans and advances to customers at amortised cost	1,427,667	673,757	2,101,424
Less: Provision of impairment at initial recognition	−484	−263	−746
Cash and cash equivalents			
Cash balances	159,597	−673,494	−513,897
Total Assets	**1,586,780**	**–**	**1,586,780**
Funds entrusted			
Savings	−1,567,237	–	−1,567,237
Total Liabilities	**−1,567,237**	**–**	**−1,567,237**
Changes in fair value of financial instruments	19,543	–	19,543
Total income statement	**19,543**	**–**	**19,543**

Notes To The Consolidated Financial Statements

5. RISK MANAGEMENT

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

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

This chapter describes the Bank's:

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

A RISK STRATEGY

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

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

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

B RISK APPETITE

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

Notes To The Consolidated Financial Statements

C RISK GOVERNANCE

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

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

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

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

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

The ALCo focuses on the management of interest rate risk, market risk, professional counterparty risk (retail counterparty risk is the focus of the Credit Risk Committee), liquidity risk, funding risk and capital management. The ALCo bases its decisions partly on standard reports in which actual as well as forecasted figures with several (stress) scenarios are represented. Recent developments as the outbreak of Coronavirus as disclosed in the outlook are part of these scenarios. In addition the ALCo supervises compliance with the relevant regulatory guidelines, especially with regard to solvency, funding, liquidity and market risk. The ALCo is chaired by the CFRO of Achmea Bank. Other members of the ALCo are representatives of Balance Sheet Management & Financial Risk, Control, (Group) Corporate Finance and (Group) Treasury. In 2019 the Data Quality Board was installed, which will be formally placed under the F&RC when the governance of Achmea Bank is updated.

D SOLVENCY RISK

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

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence in order to sustain the future development of the business. Achmea Bank currently applies the standardized approach to calculate the risk weighting of its assets. Achmea Bank is working towards the implementation of Advanced Internal Rating Based (AIRB) models.

The Dutch Central Bank (DNB) sets overall (capital) limits, based on its annual Supervisory Review and Evaluation Process (SREP). The Bank complied with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 19.2% and a Total Capital Ratio of 19.2% at 31 December 2019, which is, also well above the internal minimum requirements.

QUALIFYING CAPITAL AND CAPITAL RATIO

Risk weighted assets

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

Notes To The Consolidated Financial Statements

Dividend

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.

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 core 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.

QUALIFYING CAPITAL AND CAPITAL RATIO

IN MILLIONS OF EUROS	2019	2018
Share capital	18	18
Share premium reserve	506	506
Reserves	252	252
Deductions	–	–1
Common Equity Tier 1 Capital	**776**	**775**
Lower Tier 2	1	3
Total own funds	**777**	**778**
Total risk exposure amount	**4,042**	**3,728**
Common Equity Tier 1 Capital Ratio	**19.2%**	**20.8%**
Total Capital Ratio	**19.2%**	**20.9%**

Internal capital adequacy requirements

The Bank has implemented internal processes to align the required capital for the risks the Bank faces. These processes are described in the Internal Capital & Liquidity Adequacy Assessment Process (ICLAAP) manual. Among other things, the manual describes the governance structure, procedures, assumptions and methods used to determine the required capital. The Internal Capital Adequacy Assessment Process (ICAAP) safeguards that the Bank is able to meet and maintain both the current and future capital adequacy of the Bank on a continuous basis.

Capital contingency

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

E LIQUIDITY RISK

The main purpose of liquidity risk management is to ensure that the Bank can meet its financial obligations at all times, i.e. both in going-concern and in periods of stress, at acceptable costs. Liquidity risk comprises two basic types of risk:

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

Notes To The Consolidated Financial Statements

Balance Sheet Management & Financial Risk (2nd line of defense) is responsible for monitoring and reporting liquidity risk. Furthermore the ALCo monitors liquidity risk on a monthly basis. The most important metrics used to monitor liquidity risk are the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Survival Period (SP). The SP reflects the period that the bank's liquidity position remains positive in the most severe internal stress scenario. Additionally the Bank performs a set of liquidity stress tests on a quarterly basis. The Bank manages its liquidity position prudently and complies with the minimum regulatory and internal requirements.

LIQUIDITY BUFFER

As part of adequate liquidity management it is necessary for banks to have a sufficient liquidity buffer to sustain unforeseen liquidity stress situations. The Bank has a strong liquidity stress testing framework which includes an idiosyncratic, a market-wide, a combined stress scenario and reverse stress testing. Some of the most important stress factors are:

- A bank run, resulting in a material outflow of retail savings;
- A large outflow of cash due to collateral calls on (interest rate) derivatives in an adverse interest rate scenario; and
- No access to the unsecured wholesale markets for a prolonged period.

As part of these stress tests the adequacy of the volume and composition of the liquidity buffer is frequently tested.

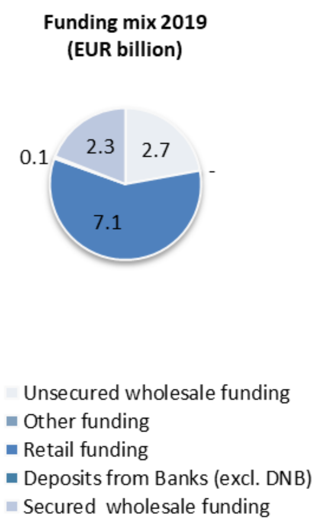
The Bank's liquidity buffer mainly consists of on-demand Central Bank deposits and a portfolio of unencumbered high-quality liquid assets. At year-end the Bank held approximately EUR 29 million cash available on demand at the Dutch Central Bank (excluding the mandatory cash reserve). Furthermore the 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. The latter are part of an Asset Switch agreement with Achmea Pensioen- en Levensverzekeringen N.V. in which the Bank transfers the legal ownership of a portfolio of Dutch mortgages to Achmea Pensioen- en Levensverzekeringen N.V. in exchange for a portfolio of government bonds 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).These debt securities can easily be posted as collateral or sold.

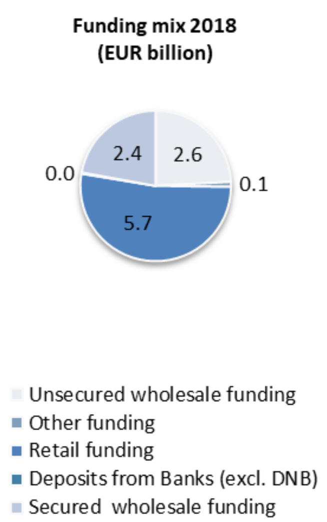
In addition, the Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V., which was renewed and aligned with the new Achmea facility in 2019. The facility will mature on 7 March 2024.

FUNDING STRATEGY

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

The following graph shows the Bank's funding mix, excluding derivatives.





Notes To The Consolidated Financial Statements

Retail funding

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).

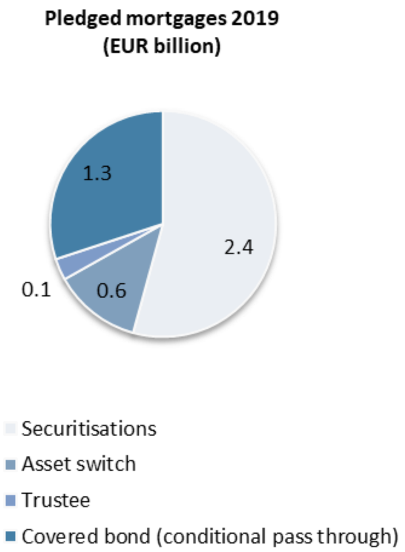
French commercial paper programme
In 2013 the Bank set up a French commercial paper programme of EUR 1.5 billion. With this programme the Bank is able to access the international money markets in order to further diversify its funding mix. The total outstanding amount under the programme was EUR 172 million as at year-end 2019 (2018: EUR 290 million).

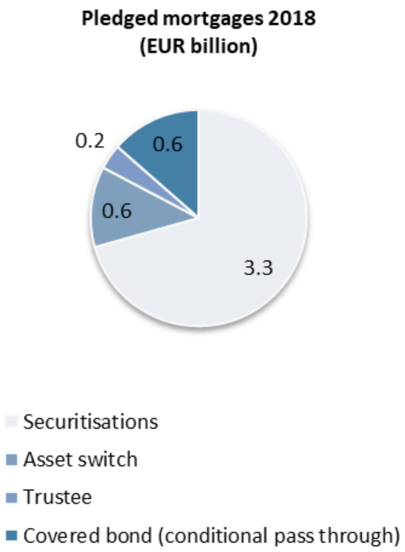
Notes To The Consolidated Financial Statements

PLEDGED MORTGAGES

In the ordinary course of business, Achmea Bank enters into transactions that result in the transfer of loans and advances to customers. The transferred financial assets continue to be recognised in their entirety or to the extent of the Bank's continuing involvement, or are derecognised in their entirety. The pledges by trust arrangements and the covered bond programme are not classified as transferred assets per IFRS paragraph 7.42d.

The pledges are as follows:





Securitisations

OVERVIEW OF PLEDGED MORTGAGES PER SECURITISATION TRANSACTION

	2019		2018	
IN THOUSANDS OF EUROS	LOANS AND ADVANCES TO CUSTOMERS	RELATED DEBT SECURITIES	LOANS AND ADVANCES TO CUSTOMERS	RELATED DEBT SECURITIES
Dutch Mortgage Portfolio Loans XI B.V. *	–	–	514,024	438,688
Dutch Mortgage Portfolio Loans XII B.V. (DMPL XII)	496,576	376,128	565,393	444,817
Dutch Residential Mortgage Portfolio I B.V. (DRMP I)	594,804	433,389	680,400	524,110
Dutch Residential Mortgage Portfolio II B.V. (DRMP II)	449,950	357,892	528,466	439,734
Securitised Residential Mortgage Portfolio I B.V. (SRMP I)	882,539	–	1,016,935	–
	2,423,869	**1,167,409**	**3,305,218**	**1,847,349**

*) This company was called and liquidated in 2019.

The net position (differences between Loans and advances to customers and related debt securities) consists mainly of the notes of the SPVs which are held by the Bank. The total exposure for the Bank on the transferred assets and liabilities amounted to EUR 1,160 million (2018: EUR 1,376 million) and is defined as the total value of the notes of the SPVs which are held by the Bank and the receivables on subsidiaries (SPVs). All the bonds issued by SRMP I B.V. and the B and C tranches of the bonds issued by DMPL XII B.V., DRMPI B.V. and DRMPII B.V. are held by the Bank.

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

Transfer of Parts
As of December 2019, Achmea Bank entered into a Transfer of Parts agreement with Achmea Pensioen- en Levensverzekeringen N.V. The purpose of this agreement is to reduce the credit risk of Achmea Pensioen- en Levensverzekeringen N.V. on Achmea Bank related to the saving deposits which are linked to mortgages of Achmea Bank. Within this agreement, only the legal ownership of the mortgages for the size of the saving deposits is transferred to Achmea Pensioen- en Levensverzekeringen N.V. and therefore continues to be recognised at the balance sheet of Achmea Bank. As per December 2019 the total amount of transferred mortgages is EUR 0.4 billion.

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

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

LIQUIDITY CONTINGENCY PLAN

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

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

UNDISCOUNTED CONTRACTUAL CASH FLOWS OF THE LIABILITIES

AS AT 31 DECEMBER 2019	< 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	BETWEEN 1 AND 5 YEARS	> 5 YEARS	TOTAL	TOTAL CARRYING AMOUNT
IN THOUSANDS OF EUROS						
Deposits from banks	143,485	35,433	15,588	3,187	197,693	197,749
Funds entrusted	4,212,517	440,149	1,633,150	1,843,436	8,129,252	7,507,919
Debt securities issued	44,771	1,012,425	2,681,698	957,453	4,696,347	4,574,111
Subordinated liabilities	7,249	–	1,392	–	8,641	8,336
Derivative liabilities held for risk management	13,020	77,912	227,457	142,217	460,606	464,969
Total cashflows	**4,421,042**	**1,565,919**	**4,559,285**	**2,946,293**	**13,492,539**	**12,753,084**

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

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

F CREDIT RISK

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

LOAN PORTFOLIO

The loan portfolio consists of loans and advances to banks, public sector, retail customers 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.

RETAIL CREDIT RISK

Achmea Banks credit risk originates from residential mortgages. There are two measures which have an impact on the financial position of the bank, i.e. the provision (IFRS 9) and the capital charge (Standardized Approach). Achmea Bank currently applies the standardized approach to calculate the risk weighting of its assets. Achmea Bank is working towards the implementation of Advanced Internal Rating Based (AIRB) models.

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.

Regular Achmea Bank mortgage portfolio

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.

Acquired portfolios

In December 2019, Achmea Bank completed the acquisition of the a.s.r. banking activities which includes a mortgage portfolio (EUR 1.4 billion nominal). Furthermore, Achmea Bank acquired in 2019 a mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V. (EUR 0.6 billion nominal).

Acier loan portfolio

The Acier loan portfolio differs in characteristics from the regular Achmea Bank mortgage portfolio. This portfolio may be defined as a run-off portfolio and is managed as such. The portfolio is managed by the former Achmea entity Staalbankiers credit department that was transferred to Achmea Bank simultaneously with the first transaction on 1 July 2015 and is now completely integrated into Achmea Bank.

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

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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.

CREDIT RISK MANAGEMENT

Credit Committees

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

Credit policy

Achmea Bank's policy on credit risk revolves primarily around counterparty risks associated with residential mortgage loans. Appropriate underwriting criteria for new clients and active credit risk management for existing clients safeguard the quality of the mortgage loan portfolio. Achmea Bank manages credit risk by applying strict policies for underwriting, for regular management of existing clients and for arrears management. Product Management is responsible for the annual update and/or revision of the first two aforementioned policies, the Special asset management department is responsible for the latter. The Mid-Office and Special Asset Management department are responsible for the implementation of, and being compliant with, the underwriting policy and supplementary credit risk management measures. Balance Sheet & Financial Risk Management is responsible for the review of the updated and/or revised policies as part of their 2nd line of defense role. Credit risk is monitored by the Credit Committee.

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.

Credit risk management acquired portfolios

The credit risk management of the new portfolios is outsourced to the parties that have issued the mortgages. Achmea Bank received ISAE 3402 reports of both organisations.

Forbearance

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

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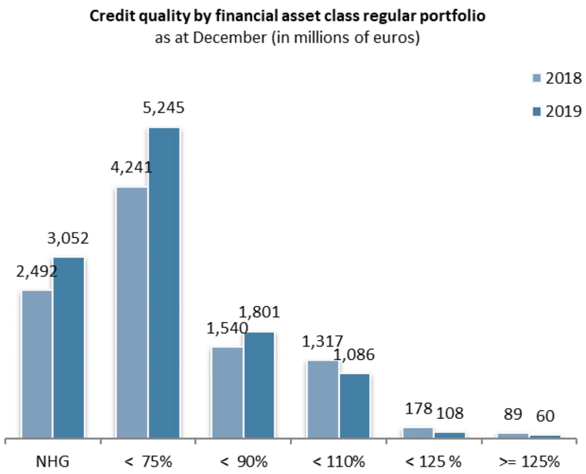
- temporary payment holidays;
- temporary lowering of interest rate;
- interest or cost forgiveness;
- restructuring and/or extension of the loan; and/or
- partial debt write-off.

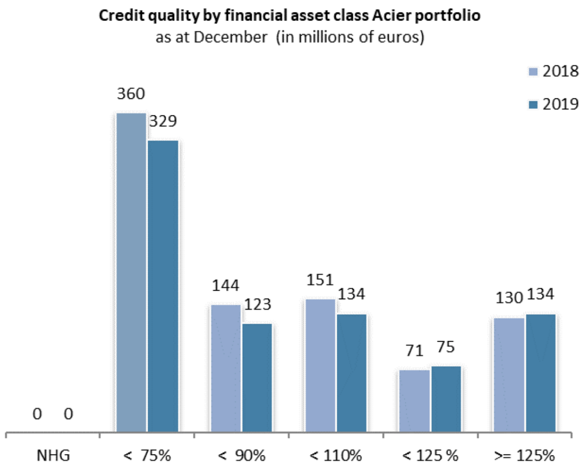
As at 31 December 2019 the forborne exposure amounted to EUR 308 million (2018: EUR 272 million), of which EUR 193 million relates to performing forborne exposures (2018: EUR 143 million). The remaining part of EUR 115 million (2018: EUR 129 million) relates to non-performing forborne exposures. The 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.

CREDIT QUALITY BY FINANCIAL ASSET CLASS

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

The graphs below are based on notional values of the mortgages.





The carrying amount of loans and advances to customers is disclosed in note 6. For the regular mortgage portfolio, Achmea Bank uses Calcasa for the valuation of the underlying collateral in the residential mortgage portfolio.

During 2019, the credit quality of the financial assets of both portfolios slightly increased mainly due to increased house prices.

COUNTERPARTY CREDIT RISK

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

The Bank uses Credit Support Annexes (CSA) to reduce counterparty risk exposure on derivatives by means of (cash) collateral; for new over-the-counter derivatives -e.g. plain vanilla interest rate swaps- the European Market Infrastructure Regulation (EMIR) applies. No impairments on counterparty positions occurred in 2019. Furthermore, as at 31 December there are no concentrations of credit risk above the internally applied concentration limit.

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

CREDIT RISK ON OTHER FINANCIAL ASSETS

AS AT 31 DECEMBER 2019

IN THOUSANDS OF EUROS

FINANCIAL ASSETS CATEGORISED PER MIDDLE RATING

	→ A	< A	NOT RATED	TOTAL
Cash and balances with Central Banks	72,366	–	–	72,366
Derivative assets held for risk management	13,301	41,287	35,925	90,513
Loans and advances to banks	178,003	487,660	47,687	713,350
Loans and advances to public sector	–	675	–	675
Interest-bearing securities	–	–	–	–
	263,670	**529,622**	**83,612**	**876,904**

AS AT 31 DECEMBER 2018

IN THOUSANDS OF EUROS

FINANCIAL ASSETS CATEGORISED PER MIDDLE RATING

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

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).

EXPECTED CREDIT LOSS

Achmea Bank applies IFRS 9 for the impairment calculations. The IFRS 9 criteria for the recognition of credit losses is based on an expected loss model. Fundamental elements of IFRS 9 impairments are a) the calculation methodology of 12 Month and lifetime expected credit losses and b) the breakdown of all financial assets in three stages: 12 Month expected credit losses for performing loans (stage 1), life time expected credit losses for financial assets which shows a significant deterioration of credit risk relative to initial recognition (stage 2) and life time expected credit losses for credit impaired financial assets (stage 3).

The Expected Credit Loss (ECL) models for the Regular and Acier portfolio consist of several sub-models which are common in the banking world. The sub-models are amongst others: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Discounting. All models are validated by Group Model Validation. The model development continued to follow the model lifecycle and the second annual in-depth review (which can trigger changes or redevelopment) was performed. The lifecycle of the ECL model is broken down in five generic key process stages (Origination, Design, Implementation, Operations, In-Depth review). A model cycle typically takes one year. Depending on regulatory requirements and business value the frequency could be higher or lower; however more than two cycles per year would not suit the governance and less than one cycle in three years would introduce a risk of loss of expertise and potentially unacceptable model risk.

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

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

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

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

According to this logic, if a facility is in default, it is allocated to Stage 3. Performing assets are assigned to Stage 2 if there has been significant increase in credit risk since initial recognition. Two criteria are taken into account to identify facilities with significant increase in credit risk:
- Quantitative criterion: if a facility's rating grade calculated based on one-year probability of default at reporting date is equal to or worse than the threshold rating grade for its initial rating grade, such facility is allocated to Stage 2;
- Qualitative criterion, or backstop: if a facility is 30 days past due or more, such facility is allocated to Stage 2.

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

Acier portfolio
The ECL model for the Acier portfolio is based on the same general principles and model building blocks as described above for the regular portfolio. However, the Acier loan portfolio differs in characteristics from the regular Achmea Bank mortgage portfolio. Therefore, a different model design and calibration is used for Acier. The impairment approach for this portfolio is a combination of the results of the ECL for the homogenous parts of the portfolio via the ECL model and an individual assessment for a number of large exposures. The homogenous part of the Acier portfolio consists of mortgages with the same characteristics. Achmea B.V. issued a capped guarantee to cover credit risk and legal claims related to this portfolio. Based on this contract Achmea Bank can claim a part of the credit losses and legal claims on the Acier portfolio from Achmea B.V.

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

Acquired portfolios
In 2019 Achmea Bank acquired two mortgage portfolios. Reference is made to chapter 4 Acquisitions for more details regarding the acquisition. The calculation of the expected credit losses for both portfolio's is based on the same assumptions as for the regular portfolio. For both portfolios Achmea Bank carried out a representativeness analysis. The representativeness framework consists of five building blocks on which the portfolios are assessed. These are scope of application, risk characteristics, market conditions, standards and policies and definition of default.
Based on this analysis Achmea Bank conclude that both portfolios are sufficiently homogeneous to use the same assumptions for the calculation of the impairment charges as for the regular portfolio and that for the IFRS 9 calculation purposes no adjustment is required: the expected credit losses model for the regular portfolio could be used (and is used) as best estimate values undue cost and effort.

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Measuring ECL

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

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

Definition of default

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

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

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

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

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

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

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

Forward looking information

The assessment of Significant increase in credit risk (SICR) and the calculation of the ECL both incorporate macro-economic information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Forecast of these economic variables are updated via an expert panel on a semi-annual basis and provide the best estimate of the economy over the next three years and a longer period. The most significant period-end assumptions used for the ECL estimate as at 31 December 2019 are set out below. The scenario´s base, up and down were used for the regular mortgage portfolio as well as the Acier portfolio. The up and down scenarios are expressed as deltas on top of the base scenario. Sensitivity analysis on the most important variables are included at the end of this paragraph.

BASE SCENARIO

SUBJECT	BASE 2019	BASE 2020	BASE 2021	BASE 2022	LT (10JR)
House price index (yoy%) (Regular mortgage portfolio)	6.0%	3.0%	2.5%	2.0%	1.5%
House price index (yoy%) (Acier)	5.0%	2.0%	2.0%	2.0%	1.5%
GDP (yoy%)	1.7%	1.5%	1.4%	1.4%	1.0%
Unemployment rate (level)	3.4%	3.6%	4.0%	4.0%	5.0%

DOWN SCENARIO (RELATIVE TO BASE SCENARIO)

SUBJECT	DOWN 2019	DOWN 2020	DOWN 2021	DOWN 2022
House price index (yoy%) (Regular mortgage portfolio)	−3.0%	−4.0%	−8.0%	−8.0%
House price index (yoy%) (Acier)	−3.0%	−4.0%	−8.0%	−8.0%
GDP (yoy%)	−1.0%	−1.5%	−1.4%	−1.4%
Unemployment (level)	0.7%	1.0%	1.5%	1.0%

Notes To The Consolidated Financial Statements

UP SCENARIO (RELATIVE TO BASE SCENARIO)

SUBJECT	UP 2019	UP 2020	UP 2021	UP 2022
House price index (yoy%) (Regular mortgage portfolio)	2.0%	2.0%	2.0%	2.0%
House price index (yoy%) (Acier)	2.0%	2.0%	2.0%	2.0%
GDP (yoy%)	0.5%	0.5%	0.5%	0.5%
Unemployment (level)	−0.2%	−0.2%	−0.2%	−0.2%

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

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

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

BREAKDOWN OF THE LOSS ALLOWANCES OF FINANCIAL INSTRUMENTS IN STAGES

IN MILLIONS OF EUROS	PER DECEMBER 2019				PER DECEMBER 2018			
	STAGE 1	STAGE 2	STAGE 3	TOTAL IMPAIRMENT	STAGE 1	STAGE 2	STAGE 3	TOTAL IMPAIRMENT
Cash and balances with Central Banks	–	–	–	–	–	–	–	–
Loans and advances to banks	0.0	–	–	0.0	0.1	–	–	0.1
Loans and advances to public sector	–	–	–	–	–	–	–	–
Loans and advances to customers	1.8	13.9	14.7	30.4	1.2	16.2	25.6	43.0
Interest-bearing securities	–	–	–	–	–	–	–	–
Prepayments and other receivables	0.1	–	–	0.1	0.1	–	–	0.1
Total	**1.9**	**13.9**	**14.7**	**30.5**	**1.4**	**16.2**	**25.6**	**43.2**

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

TRANSFERS BETWEEN IMPAIRMENT STAGES (GROSS BASIS PRESENTATION)

GROSS CARRYING AMOUNT / NOMINAL AMOUNT

	TRANSFERS BETWEEN STAGE 1 AND STAGE 2		TRANSFERS BETWEEN STAGE 2 AND STAGE 3		TRANSFERS BETWEEN STAGE 1 AND STAGE 3	
IN MILLIONS OF EUROS	TO STAGE 2 FROM STAGE 1	TO STAGE 1 FROM STAGE 2	TO STAGE 3 FROM STAGE 2	TO STAGE 2 FROM STAGE 3	TO STAGE 3 FROM STAGE 1	TO STAGE 1 FROM STAGE 3
2019						
Loans and advances to customers	102.9	135.8	17.7	51.5	19.4	6.6
Total	**102.9**	**135.8**	**17.7**	**51.5**	**19.4**	**6.6**
2018						
Loans and advances to customers	104.8	176.4	20.0	49.0	30.8	9.6
Total	**104.8**	**176.4**	**20.0**	**49.0**	**30.8**	**9.6**

The breakdown of gross carrying amount in stages, as per 31 December 2019, is EUR 11.5 billion for stage 1, EUR 0.5 billion in stage 2 and EUR 0.1 billion in stage 3. (31 December 2018: EUR 10.0 billion for stage 1, EUR 0.5 billion in stage 2 and EUR 0.2 billion in stage 3). The following table show the reconciliation from the opening to the closing balance of the loss allowances.

Notes To The Consolidated Financial Statements

LOSS ALLOWANCE LOANS AND ADVANCES TO CUSTOMERS REGULAR PORTFOLIO

IN THOUSANDS OF EUROS	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	
Loss allowance as at 31 December 2018	**591**	**2,895**	**4,077**	**7,564**
Movements with P&L impact				
Transfers:				
Of which, transfer from stage 1 to stage 2	−39	1,141	–	1,102
Of which, transfer from stage 1 to stage 3	−7	–	685	678
Of which, transfer from stage 2 to stage 1	38	−1,071	–	−1,033
Of which, transfer from stage 2 to stage 3	–	−230	643	413
Of which, transfer from stage 3 to stage 1	1	–	−83	−82
Of which, transfer from stage 3 to stage 2	–	618	−1,563	−945
Movements due to recognition/derecognition	233	−483	−786	−1,036
Other movements	448	723	930	2,101
total net P&L charge during the period	**674**	**698**	**−174**	**1,198**
Movements with no P&L impact				
Acquired mortgage portfolios	253	115	377	745
Write-offs	−46	–	−736	−782
Loss allowance as at 31 December 2019	**1,472**	**3,708**	**3,545**	**8,725**

	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	
Loss allowance as at 1 January 2018	1,107	4,379	5,679	11,165
Movements with P&L impact				
Transfers:				
Of which, transfer from stage 1 to stage 2	−43	1,058	–	1,015
Of which, transfer from stage 1 to stage 3	−5	–	1,329	1,324
Of which, transfer from stage 2 to stage 1	17	−1,158	–	−1,141
Of which, transfer from stage 2 to stage 3	–	−293	904	611
Of which, transfer from stage 3 to stage 1	2	–	−166	−165
Of which, transfer from stage 3 to stage 2	–	508	−1,708	−1,199
Movements due to recognition/derecognition	465	−326	−1,133	−994
Other movements	−741	−1,269	927	−1,083
total net P&L charge during the period	**−305**	**−1,480**	**153**	**−1,632**
Movements with no P&L impact				
Write-offs	−210	−4	−1,755	−1,968
Loss allowance as at 31 December 2018	**591**	**2,896**	**4,077**	**7,564**

LOSS ALLOWANCE LOANS AND ADVANCES TO CUSTOMERS ACIER PORTFOLIO

	STAGE 1	STAGE 2	STAGE 3	TOTAL
	12-MONTH ECL	LIFETIME ECL	LIFETIME ECL	
Loss allowance as at 31 December 2018	**622**	**13,267**	**21,568**	**35,457**
Movements with P&L impact				
Transfers:				
Of which, transfer from stage 1 to stage 2	−717	717	–	–
Of which, transfer from stage 1 to stage 3	–	–	–	–
Of which, transfer from stage 2 to stage 1	19	−19	–	–
Of which, transfer from stage 2 to stage 3	–	−19	64	45
Of which, transfer from stage 3 to stage 1	–	–	−8	−8

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Of which, transfer from stage 3 to stage 2	–	3	−17	−14
Movements due to recognition/derecognition	−9	−506	−6,448	−6,963
Other movements	474	−3,290	4,296	1,480
total net P&L charge during the period	**−233**	**−3,114**	**−2,113**	**−5,460**
Movements with no P&L impact				
Write-offs	−8	–	−8,273	−8,281
Loss allowance as at 31 December 2019	**381**	**10,153**	**11,182**	**21,716**

	STAGE 1 12-MONTH ECL	STAGE 2 LIFETIME ECL	STAGE 3 LIFETIME ECL	TOTAL
Loss allowance as at 1 January 2018	**205**	**15,556**	**30,075**	**45,836**
Movements with P&L impact				
Transfers:				
Of which, transfer from stage 1 to stage 2	−3	57	–	54
Of which, transfer from stage 1 to stage 3	−1	–	8	7
Of which, transfer from stage 2 to stage 1	59	−1,559	–	−1,500
Of which, transfer from stage 2 to stage 3	–	−19	–	−19
Of which, transfer from stage 3 to stage 1	–	–	–	–
Of which, transfer from stage 3 to stage 2	–	366	−2,558	−2,192
Movements due to recognition/derecognition	15	1,483	−2,335	−837
Other movements	505	−2,616	454	−1,657
total net P&L charge during the period	**575**	**−2,288**	**−4,431**	**−6,144**
Movements with no P&L impact				
Write-offs	−157	–	−4,077	−4,234
Loss allowance as at 31 December 2018	**622**	**13,267**	**21,568**	**35,457**

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

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

SENSITIVITY ANALYSIS ON EXPECTED CREDIT LOSSES

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

The main drivers for the regular mortgage portfolio are:

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

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

PER DECEMBER 2019						
IN MILLIONS OF EUROS						
SCENARIO	ORIGINAL SITUATION	STAGE 1	STAGE 2	STAGE 3	TOTAL	CHANGE
Base		1.3	2.4	3.1	6.8	
Unemployment rate +1%	4%	1.8	2.5	3.1	7.5	0.6
House prices index -13%	3%	1.5	2.7	3.5	7.8	0.9
House prices index -1%	3%	1.3	2.4	3.2	6.9	0.1

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

The 2019 sensitivity figures includes the acquired portfolio's, which have a limited impact.

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

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

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

PER DECEMBER 2019						
IN MILLIONS OF EUROS						
SCENARIO	ORIGINAL SITUATION	STAGE 1	STAGE 2	STAGE 3	TOTAL	CHANGE
Base scenario		0.4	9.4	11.2	21.0	
PD drivers weights 75;15;10	weights: 33;33;33	0.4	7.7	11.2	19.3	−1.7
PD drivers weights 50;30;20	weights: 33;33;33	0.4	8.3	11.2	19.9	−1.1
PD drivers weights 60;25;15	weights: 33;33;33	0.4	7.9	11.2	19.5	−1.5
Cure rate for base/ LTV < 100% / Enforcement (50/100/0)	25/50/0	0.4	8.0	11.2	19.5	−1.5
Cure rate for base/ LTV < 100% / Enforcement (40/80/0)	25/50/0	0.4	8.6	11.2	20.2	−0.8
Haircut 15%	20%	0.4	8.9	10.8	20.2	−0.8
Haircut 25%	20%	0.4	10.5	11.6	22.5	1.5
Haircut 30%	20%	0.5	11.4	11.9	23.8	2.8
house prices for year 1/2/3/>3 (scenario 5%/5%/5%/2%)	5%/3%/2%/2%	0.4	8.4	11.2	20.1	−0.9
house prices for year 1/2/3/>3 (scenario 5%/5%/5%/0%)	5%/3%/2%/2%	0.4	9.4	11.2	21.0	0.0

PER DECEMBER 2018						
IN MILLIONS OF EUROS						
BASE SCENARIO	ORIGINAL SITUATION	STAGE 1	STAGE 2	STAGE 3	TOTAL	CHANGE
Base		0.6	13.3	21.6	35.5	
PD drivers weights 75;15;10	weights: 33;33;33	0.2	9.7	21.6	31.5	−4.0
PD drivers weights 50;30;20	weights: 33;33;33	0.4	10.9	21.6	32.9	−2.7
PD drivers weights 60;25;15	weights: 33;33;33	0.4	11.7	21.6	33.7	−1.8

Notes To The Consolidated Financial Statements

Cure rate for base/ LTV < 100% / Enforcement (50/100/0)	25/50/0	0.5	10.7	21.3	32.5	−3.0
Cure rate for base/ LTV < 100% / Enforcement (40/80/0)	25/50/0	0.5	11.7	21.4	33.6	−1.9
Haircut 15%	20%	0.6	12.0	21.1	33.7	−1.8
Haircut 25%	20%	0.7	14.7	22.0	37.4	1.9
Haircut 30%	20%	0.7	16.3	22.6	39.6	4.0
house prices for year 1/2/3/>3 (scenario 5%/5%/5%/2%)	5%/3%/2%/2%	0.6	12.1	21.6	34.3	−1.2
house prices for year 1/2/3/>3 (scenario 5%/5%/5%/0%)	5%/3%/2%/2%	0.6	15.3	21.6	37.5	2.0

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

MODIFICATION

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

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

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

During 2019 the Bank has no financial assets with lifetime expected credit losses whose cash flows were significantly modified.

G MARKET RISK

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

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

The Bank does not engage in proprietary trading.

INTEREST RATE RISK

Introduction

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

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

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

Notes To The Consolidated Financial Statements

Effects of a change in the interest rate on total equity

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

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

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

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

DURATION

IN YEARS	2019	2018
Equity Duration	2.49	1.81

The table above shows that the duration of total equity of Achmea Bank increased from 1.81 years as at 31 December 2018 to 2.49 years as at 31 December 2019.

SENSITIVITY ANALYSIS

IN THOUSANDS OF EUROS	2018	2018
Change in the interest rate of 200 basis points negative	−8,867	−11,955
Change in the interest rate of 200 basis points positive	−58,104	−44,901

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 in the Acier loan portfolio.

Part of the Acier loan portfolio is denominated in CHF (EUR 412 million at year-end 2019). This position is partly hedged by CHF 400 million (EUR 369 million) unsecured loans. The remaining CHF exposure is hedged on a monthly basis via foreign exchange derivatives (forward contracts). The net currency effect of 2019 amounts to EUR 0.2 million gain (2018: EUR 0.3 million gain) and is recognised in changes in fair value of financial instruments.

Notes To The Consolidated Financial Statements

FOREIGN CURRENCY EXPOSURE

IN THOUSANDS OF EUROS	2019			2018		
	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**

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

The following exchange rates have been used:

	CLOSING RATE		AVERAGE RATE	
	2019	2018	2019	2018
Swiss Franc	1.0854	1.1269	1.1062	1.1485

H OPERATIONAL RISK (INCLUDING CYBER SECURITY AND PRIVACY RISKS)

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 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.

Notes To The Consolidated Financial Statements

- 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 loss or damage occur as a result of instances of fraud.

I FAIR VALUE FINANCIAL ASSETS AND LIABILITIES

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

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

FAIR VALUE FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST

IN THOUSANDS OF EUROS	CARRYING AMOUNT 2019	FAIR VALUE 2019	CARRYING AMOUNT 2018	FAIR VALUE 2018
Financial assets				
Loans and advances to banks	713,350	713,350	758,361	758,361
Loans and advances to customers and public sector	12,641,466	13,002,360	11,057,020	11,297,822
Financial liabilities				
Deposits from banks	197,749	197,820	202,148	202,500
Funds entrusted	7,507,919	7,751,917	5,859,866	5,942,056
Debt securities issued	4,574,111	4,630,575	4,858,361	4,926,707
Subordinated liabilities	8,336	8,665	8,336	9,091

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

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

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

Notes To The Consolidated Financial Statements

Principles for determining fair value:

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

The fair value for Cash and Cash equivalents, prepayments and other receivables and accruals and other liabilities are in line with the carrying amount.

NOTES TO ESTIMATION OF THE FAIR VALUES

Loans and advances to banks (Level 2)

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

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

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

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

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

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

Subordinated liabilities (level 2)

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

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

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J FAIR VALUE HIERARCHY

FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

AS AT 31 DECEMBER 2019 IN THOUSANDS OF EUROS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative assets held for risk management				
Interest rate swaps	–	83,408	–	83,408
Foreign exchange derivatives	–	18	–	18
Back-to-back swaps and interest caps	–	7,087	–	7,087
	–	**90,513**	**–**	**90,513**
Financial assets held for sale				
Interest-bearing securities	–	–	–	–
	–	**90,513**	**–**	**90,513**
Financial liabilities				
Derivative liabilities held for risk management				
Interest rate swaps	–	457,435	–	457,435
Foreign exchange derivatives	–	447	–	447
Back-to-back swaps and interest caps	–	7,087	–	7,087
	–	**464,969**	**–**	**464,969**

AS AT 31 DECEMBER 2018 IN THOUSANDS OF EUROS	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative assets held for risk management				
Interest rate swaps	–	50,833	–	50,833
Foreign exchange derivatives	–	–	–	–
Back-to-back swaps and interest caps	–	31,742	–	31,742
	–	**82,575**	**–**	**82,575**
Financial assets designated at fair value				
through profit or loss				
Loans and advances to customers	–	–	–	–
	–	**–**	**–**	**–**
Financial assets held for sale				
Interest-bearing securities	201,168	–	–	201,168
	201,168	**82,575**	**–**	**283,743**
Financial liabilities				
Derivative liabilities held for risk management				
Interest rate swaps	–	438,500	–	438,500
Foreign exchange derivatives	–	237	–	237
Back-to-back swaps and interest caps	–	31,742	–	31,742
	–	**470,479**	**–**	**470,479**

Notes To The Consolidated Financial Statements

Explanation of the levels:

- Level 1:

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

- Level 2:

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

- Level 3:

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

Changes in the fair value hierarchy in 2019

During 2019 no changes were made in classification of fair value hierarchy.

NOTES TO THE FAIR VALUE HIERARCHY

Interest-bearing securities (level 1)

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

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

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

Interest rate derivatives (level 2)

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

Foreign exchange derivatives (level 2)

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

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

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

Notes To The Consolidated Financial Statements

6. LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICIES LOANS AND ADVANCES TO CUSTOMERS

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

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

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

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

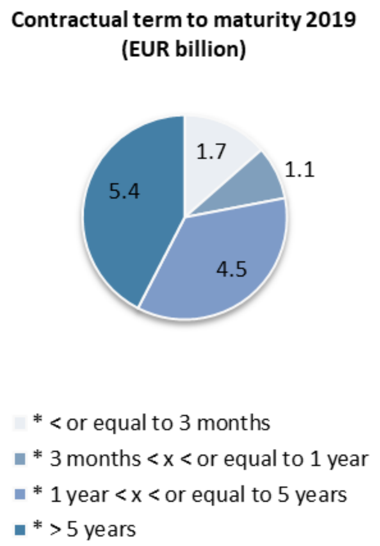
LOANS AND ADVANCES TO CUSTOMERS

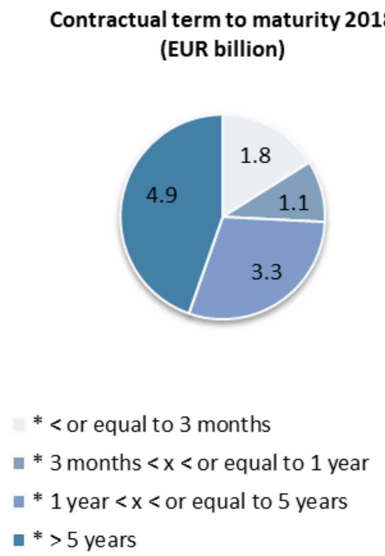
IN THOUSANDS OF EUROS	2019	2018
Loans and advances to customers at amortised cost	11,881,402	10,213,802
Less: Provisions for impairment	8,725	7,564
Total loans and advances to customers regular Achmea Bank portfolio	**11,872,677**	**10,206,238**
Loans and advances to customers Acier loan portfolio at amortised cost	789,830	885,540
Less: Provisions for impairment Acier loan portfolio	21,716	35,457
Total loans and advances to customers	**12,640,791**	**11,056,321**

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). Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this portfolio. Based on this contract Achmea Bank can claim a large part of the credit losses and legal claims with respect to the Acier portfolio with Achmea B.V.
The acquired portfolios are reported as part of the regular portfolio.

The remaining contractual term to maturity of the Loans and advances to customers net of provision, including a expected prepayment rate of 7.7% for both portfolios, is:

Notes To The Consolidated Financial Statements





The Loans and advances to customers of the regular Achmea Bank portfolio consist of residential mortgage loans on properties in the Netherlands only. In 2019 Achmea Bank acquired two mortgage portfolios. Reference is made to chapter 4 Acquisitions for more details regarding these portfolios. The calculation of the expected credit losses for both portfolio's is based on the same assumptions as for the regular portfolio. For both portfolios Achmea Bank carried out representativeness analysis on a number of important characteristics of both portfolios. Based on this analysis Achmea Bank conclude that both portfolios are sufficiently homogeneous to use the same assumptions for the calculation of the impairment charges as for the regular portfolio and that for the IFRS 9 calculation purposes no adjustment is required: the expected credit losses model for the regular portfolio could be used as best estimate values undue cost and effort. The Acier loan portfolio consists of mortgage loans secured by mainly Dutch real estate and mortgage loans secured by commercial real estate or real estate management companies.

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

IN THOUSANDS OF EUROS			2019		2018
Balance as at 1 January			**10,206,238**		**10,819,145**
Changes nominal portfolio	Loans granted	766,342		599,275	
	Acquired portfolios	1,968,834		–	
	Repayments	−1,212,230		−1,156,203	
			1,522,946		**−556,928**
Fair value hedge accounting	Revaluation basis adjustment mortgages	7,554		−59,993	
	Amortisation basis adjustment mortgages	4,372		4,620	
			11,926		**−55,373**
Allowances for losses on loans and advances	Initial recognition acquired portfolios	−745		–	
	Additions	−2,605		−893	
	Releases	1,408		2,525	
	Write-offs	782		1,968	
			−1,160		**3,600**
Amoritsed cost adjustment acquired portfolios					
	Initial recognition	132,590		–	
	changes	−5,126		–	
			127,464		–
Other movements			**5,263**		**−4,206**
Balance as at 31 December			**11,872,677**		**10,206,238**

Notes To The Consolidated Financial Statements

The carrying amount of the fair value hedge adjustment is EUR 352 million (2018: EUR 345 million).

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

IN THOUSANDS OF EUROS			2019		2018
Balance as at 1 January			**850,083**		**880,287**
Changes nominal portfolio	Repayments	−92,799		−40,210	
			−92,799		**−40,210**
Allowances for losses on loans and advances	Additions	−4,828		−3,603	
	Releases	10,288		9,748	
	Write-offs	8,281		4,234	
			13,741		**10,379**
Other movements			**−2,911**		**−373**
Balance as at 31 December			**768,114**		**850,083**

7. DEBT SECURITIES ISSUED

ACCOUNTING POLICIES DEBT SECURITIES ISSUED

This item includes bonds and other debt securities.

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

IN THOUSANDS OF EUROS	2019	2018
* Residential Mortgage Backed Securities	1,166,589	1,847,349
* Achmea Conditional Pass Through Covered Bond Programme	996,065	497,814
* European Medium Term Notes Programme	9,997	9,996
* Senior Unsecured Loans	2,144,650	2,148,533
* Commercial paper	172,167	289,763
Total notional amounts	**4,489,468**	**4,793,455**
Accrued interest	29,385	27,571
Fair value adjustment	55,464	36,907
Amortised cost	−206	428
Carrying amount	**4,574,111**	**4,858,361**

The notes held by the Bank (EUR 1.1 billion) are eliminated upon consolidation and as such not presented in the table above.
The fair value adjustment is the fair value of bonds which are included in a hedge relation as at 31 December 2019. The differences between the movement of the nominal amounts and the net cash flow from debt securities issued as recognised in the cash flow statement are due to amortisation, which are included in the nominal amounts.

The weighted average interest rate for the year 2019 was 1% (2018: 1%).

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

Notes To The Consolidated Financial Statements

IN THOUSANDS OF EUROS	2019	2018
* < or equal to 3 months	41,389	76,743
* 3 months < x < or equal to 1 year	1,001,823	704,895
* 1 year < x < or equal to 5 years	2,591,682	3,130,570
* > 5 years	939,218	946,153
	4,574,111	**4,858,361**

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

8. FUNDS ENTRUSTED

ACCOUNTING POLICIES FUNDS ENTRUSTED

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

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

IN THOUSANDS OF EUROS	2019	2018
* < or equal to 3 months	4,230,755	3,005,259
* 3 months < x < or equal to 1 year	421,618	369,536
* 1 year < x < or equal to 5 years	1,476,057	1,153,054
* > 5 years	1,379,489	1,332,017
	7,507,919	**5,859,866**

Funds entrusted include an amount of EUR 0.8 billion (2018: EUR 0.8 billion) related to liabilities to saving deposits linked to mortgages. The total savings include the a.s.r. savings portfolio with a notional amount of EUR 1.5 billion. The a.s.r. savings portfolio consists free withdrawal savings accounts (EUR 0.6 billion) and tax savings (EUR 0.9 billion).

9. INTEREST MARGIN

ACCOUNTING POLICIES NTEREST MARGIN

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

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

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

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

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

Notes To The Consolidated Financial Statements

INTEREST MARGIN

IN THOUSANDS OF EUROS	2019	2018
Interest income (amortised cost items)	342,858	381,781
Interest income (other)	494	960
Interest expenses (amortised cost items)	217,856	271,398
Interest expenses (other)	638	844
Interest margin	**124,858**	**110,499**

Interest income (amortised cost items)

The total interest income can be specified as follows:

IN THOUSANDS OF EUROS	2019	2018
Loans and advances to customers	339,309	376,998
Loans and advances to banks and public sector	–	2
Other interest income	3,549	4,781
	342,858	**381,781**

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

Interest expenses (amortised cost items)

The total interest expenses can be specified as follows:

IN THOUSANDS OF EUROS	2019	2018
Deposits from banks	–	–
Funds entrusted	81,700	98,671
Debt securities issued	55,149	64,242
Interest expenses related to derivatives	73,053	101,097
Other interest expenses	7,954	7,388
	217,856	**271,398**

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

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

ACCOUNTING POLICIES DERIVATIVES AND CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Notes To The Consolidated Financial Statements

Macro hedging

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

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

Micro hedging

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

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

Changes in fair value of financial instruments

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

IN THOUSANDS OF EUROS	2019	2018
Effectiveness results of fair value hedge accounting	5,063	5,007
Amortisation effects	−8,929	−6,484
Other fair value effects	19,788	1,189
Changes in fair value of financial instruments	**15,922**	**−288**

The effectiveness of fair value hedge accounting is in line with the fluctuation of the interest rates during 2019.

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

Other fair value effects mainly consist of an accounting result of EUR 20 million positive related to the acquired a.s.r portfolio. The accounting result mainly reflects the increased fair value (spread and interest curve) of the acquired mortgages due to increased competition and related pressure on mortgage rates in the period from signing (21 March 2019) to closing (1 December 2019) of the transaction. The 2019 result includes an accounting result which will be added to the legal reserve.

The current interest rate benchmarks, such as Euribor, are not compliant with the European Benchmark Regulation (BMR). The market is therefore in transition to alternative benchmark rates . The transition to the new benchmark rates is planned for January 1, 2022. Achmea Bank has set up a project group to manage the transition process to alternative benchmark rates. Most of the derivatives of the Bank are included in a hedge relation. At 31 December 2019, for an amount of EUR 3.9 billion derivatives are included in the macro hedge and for an amount of EUR 1.8 billion derivatives are included in the micro hedge. In addition for an amount of CHF 0.4 billion derivatives are included in the micro hedge. In case of new hedge relations, the Bank assumes that the transition to alternative benchmark rates won’t have a material impact on the prospective tests.

Fair value hedges

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

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

Notes To The Consolidated Financial Statements

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

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

FAIR VALUE CHANGES HEDGES

			NET	NET
IN THOUSANDS OF EUROS	GAIN	LOSS	2019	2018
Macro hedge				
Fair value changes in hedged items	153,017	132,499	20,519	−47,276
Fair value changes in hedging instruments	143,452	159,221	−15,770	52,609
	296,469	**291,720**	**4,749**	**5,333**
Micro hedge				
Fair value changes in hedged items	49,839	68,060	−18,221	−6,654
Fair value changes in hedging instruments	67,267	48,732	18,535	6,328
	117,106	**116,792**	**314**	**−326**
Total hedge				
Fair value changes in hedged items	202,856	200,558	2,297	−53,930
Fair value changes in hedging instruments	210,719	207,953	2,765	58,937
	413,575	**408,511**	**5,063**	**5,007**

Derivatives held for risk management

Interest rate swaps

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

Foreign exchange derivatives

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

Back-to-back swaps and interest Caps

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

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

Notes To The Consolidated Financial Statements

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

DERIVATIVES

AS AT 31 DECEMBER 2019 IN THOUSANDS OF EUROS ASSETS	NOTIONAL AMOUNT	LESS THAN THREE MONTHS	BETWEEN THREE MONTHS AND ONE YEAR	BETWEEN ONE YEAR AND FIVE YEARS	MORE THAN FIVE YEARS	TOTAL FAIR VALUE
Interest rate swaps	3,012,721	334	0	38,284	44,790	83,408
Foreign exchange derivatives	6,042	18	–	–	–	18
Back-to-back swaps and interest caps		–	5,637	–	1,450	7,087
Total derivative assets		**352**	**5,637**	**38,284**	**46,240**	**90,513**
Liabilities						
Interest rate swaps	3,279,000	1,169	11,788	109,635	334,843	457,435
Foreign exchange derivatives	44,822	447	–	–	–	447
Back-to-back swaps and interest caps		–	5,637	–	1,450	7,087
Total derivative liabilities		**1,616**	**17,425**	**109,635**	**336,293**	**464,969**

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

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

Notes To The Consolidated Financial Statements

Notes to other items

11. CASH AND BALANCES WITH CENTRAL BANKS

ACCOUNTING POLICIES CASH AND BALANCES WITH CENTRAL BANKS

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

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

Cash and cash equivalents are measured at amortised cost.

IN THOUSANDS OF EUROS	2019	2018
Cash and balances with Central Banks	72,366	115,781

At the end of 2019 the minimum cash reserve to be maintained at DNB, which is not at the Bank's free disposal amounted to EUR 43.2 million (2018: EUR 45.3 million).

12. LOANS AND ADVANCES TO BANKS

ACCOUNTING POLICIES LOANS AND ADVANCES TO BANKS

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

IN THOUSANDS OF EUROS	2019	2018
Loans and advances to banks	713,350	758,361

IN THOUSANDS OF EUROS	2019	2019
* Not available on demand	712,359	747,059
* On demand	991	11,302
	713,350	**758,361**

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

13. LOANS AND ADVANCES TO PUBLIC SECTOR

ACCOUNTING POLICIES LOANS AND ADVANCES TO PUBLIC SECTOR

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

Notes To The Consolidated Financial Statements

This item comprises funds lent to public authorities.

IN THOUSANDS OF EUROS	2019	2018
Loans and advances to public sector	675	699

At December 2019 the total outstanding amount is non-current (2018: total amount is non-current).

14. INTEREST-BEARING SECURITIES

ACCOUNTING POLICIES INTEREST–BEARING SECURITIES

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

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

MOVEMENTS IN INTEREST-BEARING SECURITIES

IN THOUSANDS OF EUROS	2019	2018
Balance as at 1 January	**201,168**	**403,561**
Purchases	–	132,147
Sales/repayments	−202,008	−331,961
Value adjustments	875	−2,552
Changes in accrued interest	−35	−27
Balance as at 31 December	**–**	**201,168**

The changes in the value of investments in the interest-bearing securities mentioned above amounts to EUR 0.8 million negative (2018: EUR 2.6 million positive). In 2019 the whole portfolio of interest-bearing securities have been sold, therefor the total amount of EUR 0.5m the fair value reserve recycled to P&L.

15. PREPAYMENTS AND OTHER RECEIVABLES

ACCOUNTING POLICIES INTEREST – PREPAYMENTS AND OTHER RECEIVABLES

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

IN THOUSANDS OF EUROS	2019	2018
Prepayments and other receivables	147,468	70,912
	147,468	**70,912**

Prepayments and other receivables include an amount of EUR 107 million (2018: EUR 33 million) mainly consist to receivables and relates to the production for Achmea Pensioen en Levensverzekeringen N.V. For an analysis of receivables within Achmea, we refer to the separate related-parties disclosure (note 30). In 2019 an amount of 0.8 million is non-current (2018: EUR 1.2 million).

Notes To The Consolidated Financial Statements

16. DEPOSITS FROM BANKS

ACCOUNTING POLICIES DEPOSITS FROM BANKS

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

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

17. PROVISIONS

ACCOUNTING POLICIES PROVISIONS

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

IN THOUSANDS OF EUROS	2019	2018
Balance as at 1 January	150	1,600
Addition	3,836	150
Releases	–	–
Amounts used	–376	–1,600
Balance as at 31 December	**3,600**	**150**

In 2018 and 2019, the Dutch Authority for the Financial Markets (AFM), responsible for supervising the operation of the financial markets, has expressed its view to all relevant parties in the Dutch mortgage market that clients with an interest-only mortgage should be made more aware of the inherent risks to this mortgage type and be activated to make choices on the relevant alternatives to redeem the outstanding loan in the remaining period up to the legal maturity date. Consequently, on the initiative of the Dutch Banking Association (NVB), Dutch banks have started an awareness campaign, which is duly adhered to and accordingly executed by Achmea Bank.
Achmea Bank has provisioned an amount of EUR 3 million for potential refunds and compliance related costs pursuant to its voluntary retroactive adjustment of its risk premium policy. The total amount of the provisions is current.

Notes To The Consolidated Financial Statements

18. SUBORDINATED LIABILITIES

ACCOUNTING POLICIES SUBORDINATED LIABILITIES

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

The Subordinated liabilities are as follows:

IN THOUSANDS OF EUROS	INTEREST RATE (%)	2019	2018
Loan 1999/2020	5.57	7,144	7,144
Loan 1999/2024	5.68	1,192	1,192
		8,336	**8,336**

The interest expenses for 2019 amounted to EUR 0.4 million (2018: EUR 0.4 million). An amount EUR 1.2 million of the subordinated liabilities is non-current.

19. ACCRUALS AND OTHER LIABILITIES

ACCOUNTING POLICIES INTEREST – ACCRUALS AND OTHER LIABILITIES

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

IN THOUSANDS OF EUROS	2019	2018
Accruals	8,776	6,394
Other liabilities	59,362	39,168
	68,138	**45,562**

Accruals and other liabilities include an amount of EUR 51.9 million (2018: EUR 32.7 million), relating to liabilities to Achmea Group companies. For an analysis of these liabilities within Achmea Group, we refer to the separate related-parties disclosure (note 30). The total amount of Accruals and other liabilities is current. 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. The expected reorganisation costs of EUR 3 million are provisioned for and included in the operating expenses of 2019 and other liabilities.

20. DEFERRED TAX ASSETS AND LIABILITIES

ACCOUNTING POLICIES DEFERRED TAX ASSETS AND LIABILITIES

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

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

Notes To The Consolidated Financial Statements

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

DEFERRED TAX

	ASSETS		LIABILITIES		BALANCE	
IN THOUSANDS OF EUROS	2019	2018	2019	2018	2019	2018
Interest-bearing securities	–	–	–	–	–	–
Valuation differences due to differences in tax base	510	898	14,392	8,468	– 13,882	– 7,570
Tax position asset/liability	**510**	**898**	**14,392**	**8,468**	**– 13,882**	**– 7,570**
TAX RATE	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**128**	**225**	**3,598**	**2,117**	**– 3,471**	**– 1,893**
Correction on corporation tax due to change in tax rate	– 23	– 31	– 466	– 291	443	260
Net deferred tax	**105**	**194**	**3,132**	**1,826**	**– 3,028**	**– 1,633**

SPECIFICATION VALUATION DIFFERENCES DUE TO APPLICATION OF IFRS

IN THOUSANDS OF EUROS	2019	2018	2019	2018	2019	2018
Derivative assets held for risk management	–	–	−354,318	−356,953	354,318	356,953
Debt securities issued	–	–	−55,464	−36,907	55,464	36,907
Accrued interest	–	–	–	–	–	–
Loans and advances to customers	510	898	424,174	402,328	−423,664	−401,430
Tax position asset/liability	**510**	**898**	**14,392**	**8,468**	**−13,882**	**−7,570**
TAX RATE	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net deferred tax	128	224	3,598	2,117	−3,471	−1,893
Correction on corporation tax due to change in tax rate	−23	−31	−466	−291	443	260
Net deferred tax	**105**	**193**	**3,132**	**1,826**	**−3,028**	**−1,633**

From deferred tax assets and liabilities an amount of EUR 1.9 million is current (2018: EUR 2.0 million), the remainder is non-current.

CHANGES TO TEMPORARY DIFFERENCES

IN THOUSANDS OF EUROS	BALANCE AS AT 01-01-2019	RECOGNISED IN RESULT	RECOGNISED IN EQUITY	BALANCE AS AT 31-12-2019
2019				
Interest-bearing securities				
Valuation differences due to differences in tax base	−7,570	−5,565	−747	−13,882
Tax position asset/liability	**−7,570**	**−5,565**	**−747**	**−13,882**
TAX RATE	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**−1,893**	**−1,390**	**−187**	**−3,471**
Correction on corporation tax due to change in tax rate	260	183		443
Net deferred tax	**−1,633**	**−1,207**	**−187**	**−3,028**

IN THOUSANDS OF EUROS	BALANCE AS AT 01-01-2018	RECOGNISED IN RESULT	RECOGNISED IN EQUITY	BALANCE AS AT 31-12-2018
2018				
Interest-bearing securities	−1,059	271	788	–
Valuation differences due to differences in tax base	−37,014	11,099	18,345	−7,570
Tax position asset/liability	**−38,073**	**11,370**	**19,133**	**−7,570**
TAX RATE	25.0%	25.0%	25.0%	25.0%
Net deferred tax	**−9,518**	**2,844**	**4,783**	**−1,892**
Correction on corporation tax due to change in tax rate		260		260
Net deferred tax	**−9,518**	**3,103**	**4,783**	**−1,632**

Notes To The Consolidated Financial Statements

21. CURRENT TAX ASSETS AND LIABILITIES

ACCOUNTING POLICIES CURRENT TAX ASSETS AND LIABILITIES

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

The net current corporate tax liabilities of EUR 23.8 million (2018: tax liabilities EUR 34.1 million) refers to the tax payable for the reporting period and for previous periods. The Bank is part of a fiscal unity with Achmea B.V., settlement of tax liabilities is handled centrally by Achmea B.V.

22. TOTAL EQUITY

As at 31 December 2019 the authorised share capital amounted to EUR 90 million (2018: 90 million), divided into 90 million shares (2018: 90 million) each with a nominal value of EUR 1 (2018: EUR 1). As at 31 December 2019 18,151,663 shares had been issued and paid up in full (2018: 18,151,663 shares).
The fair value reserve comprises the cumulative net gains and losses on the fair value of the financial assets that are classified as fair value through OCI. (see also note 14)

The General Meeting of Achmea Bank of 4 April 2019, approved the dividend proposal to pay out a total dividend of EUR 29 million, which completely relates to the result of 2018 of the Bank.

The 2019 result includes an accounting result related to the a.s.r. transaction. The transaction prices for the mortgages and savings were set at signing date (21 March 2019) with the exception of the impact of interest rate movements that are offset against the value development of the derivatives that were part of the transaction to hedge this interest rate risk. The accounting result mainly reflects the increased fair value of the acquired mortgages due to increased competition and related pressure on mortgage rates in the period from signing (21 March 2019) to closing (1 December 2019) of the transaction. The accounting result, net for tax (EUR 14 million) will be added to the legal reserve.

The Executive Board proposes to pay out the remainder result as a dividend of EUR 23 million.

23. OTHER INCOME

ACCOUNTING POLICIES OTHER INCOME

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

IN THOUSANDS OF EUROS	2019	2018
Other Income	1,675	1,876

24. FEES AND COMMISSION INCOME AND EXPENSE

ACCOUNTING POLICIES FEES AND COMMISSION INCOME AND EXPENSE

Fees and Commission income and expense includes commission paid and received relating to mortgages and saving products. The Bank received fees from Achmea Pensioen- en Levensverzekeringen N.V. with regard to mortgages originated and serviced for Achmea Pensioen- en Levensverzekeringen N.V.

Fees and commission is recognised as the related service is performed. These fees are recognised in the income statement in the same period.

Notes To The Consolidated Financial Statements

IN THOUSANDS OF EUROS	2019	2018
Fees and commission income	8,136	4,381
Fees and commission expense	111	170
	8,025	**4,211**

The increased income on fees an commission is due to increased production of mortgages for the balance sheet of Achmea Pensioen- en Levensverzekeringen N.V. and the increased portfolio of Achmea Pensioen- en Levensverzekeringen N.V. serviced by the Bank.

25. OPERATING EXPENSES

ACCOUNTING POLICIES OPERATING EXPENSES

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

IN THOUSANDS OF EUROS	2019	2018
Staff costs	29,092	24,057
Administrative expenses	75,906	54,970
	104,998	**79,027**

26. STAFF COSTS

ACCOUNTING POLICIES EMPLOYEE BENEFITS

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

IN THOUSANDS OF EUROS	2019	2018
Wages and salaries	13,166	12,954
Pension costs	3,407	3,004
Compulsory social security obligations	1,929	1,694
Other staff costs	10,590	6,405
	29,092	**24,057**

The average number of employees during 2019 was 205 FTEs (2018: 172 FTEs). Achmea Interne Diensten N.V. employs all personnel including the Executive Board of Achmea Bank. All the employees work in the Netherlands. Achmea Interne Diensten N.V. allocates the pension expenses to the various entities of Achmea Group. Allocation is based on the pensionable salary of employees currently working for Achmea Bank. In 2019 there were no adjustments or claw backs in connection with (past) remuneration to members of the Executive Board. 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. The expected reorganisation costs of EUR 3 million were charged to the Bank and included in the other staff costs of 2019.

Notes To The Consolidated Financial Statements

27. INDEPENDENT AUDITOR'S FEES

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

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

- Statutory audit of the SPVs and Achmea Conditional Pass Through Covered Bond Company;
- Audit of the regulatory reports to be submitted to De Nederlandsche Bank;
- ISAE type II DGS;
- Agreed upon procedures interest rate risk;
- Agreed upon procedures Stichting Trustee Achmea Bank;
- Several comfort letters related to funding programmes.

28. INCOME TAX EXPENSES

RECONCILIATION OF THE EFFECTIVE TAX RATE

IN THOUSANDS OF EUROS	2019	2018
Operating profit before taxes	49,812	38,949
Nominal tax rate	25.0%	25.0%
Nominal tax expenses	12,453	9,737
Correction on corporation tax due to change in tax rate	68	−260
Effective tax expenses	**12,521**	**9,477**
Effective tax rate	**25.1%**	**24.3%**

The Bank is part of a fiscal unity with Achmea B.V. for company tax purposes and VAT. The effective tax expenses consist of EUR 11 million current tax and EUR 1.2 million deferred tax.

29. CONTINGENT LIABILITIES AND COMMITMENTS

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.

Notes To The Consolidated Financial Statements

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 and VAT. Within this fiscal unity the Bank is severally liable. The tax expenses are settled in the current account with the Group.

POST FORECLOSURE CLAIM

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

30. RELATED PARTIES

IDENTITY OF RELATED PARTIES

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

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

A sum of EUR 0.8 billion (2018: EUR 0.8 billion) is included under Funds entrusted for liabilities to non-banking institutions within Achmea B.V. EUR 0.4 billion of the Secured bank loans (2018: EUR 0.8 billion) is related to Achmea Pensioen- en Levensverzekeringen N.V. and consists of investments in the Bank’s securitisation programmes.

Achmea B.V. has issued a capped guarantee to Achmea Bank to cover credit risk and legal claims in connection with the acquired loan activities of Staalbankiers. The maximum amount for the duration of the financial guarantee is EUR 350 million. The contract for the financial guarantee will end in line with the maturity of the related loans. As at year-end 2019, the total amount claimed by Achmea Bank is EUR 20.1 million (2018: EUR 19.6 million).
The Bank entered into an Asset Switch agreement with Achmea Pensioen- en Levensverzekeringen N.V. in order to improve its liquidity position. In addition, the Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V. The movements in Loans and advances from and to related parties are a result of repayments and additional borrowings.

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

INTERCOMPANY POSITIONS

IN THOUSANDS OF EUROS	2019	2018
Assets		
Prepayments and other receivables	107,219	33,394
	107,219	**33,394**
Liabilities		
Funds entrusted	796,798	849,228
Secured bank loans	376,210	782,169
Accruals and other liabilities	51,891	32,675
	1,224,899	**1,664,072**

PREPAYMENTS AND OTHER RECEIVABLES FROM RELATED PARTIES

IN THOUSANDS OF EUROS	2019	2018
Achmea B.V.	399	8,914
Achmea Pensioen- en Levensverzekeringen N.V.	102,238	24,481
Achmea Interne Diensten N.V.	4,583	–
	107,219	**33,394**

Notes To The Consolidated Financial Statements

INTEREST INCOME ON RECEIVABLES TO RELATED PARTIES

IN THOUSANDS OF EUROS	2019	2018
Interamerican Health General Insurance Company of Health and Assistance SA	11	38
Interamerican Hellenic Life Insurance Company SA	–	21
Interamerican Property and Casualty Insurance Company SA	73	85
Interassistance Road Assistance Services SA	–	1
Athinaiki General Clinic SA	1	2
	85	**147**

FUNDS ENTRUSTED AND SECURED BANK LOANS

IN THOUSANDS OF EUROS	2019	2018
Achmea Pensioen- en Levensverzekeringen N.V.	1,151,891	1,604,505
Interamerican Property and Casualty Insurance Company SA	15,177	23,169
Interassistance Road Assistance Services SA	–	297
Mentor Assessors Estimator, engineers SA	–	59
Interamerican Assistance Gen Ins Company	5,473	2,983
Athinaiki General Clinic SA	467	384
	1,173,008	**1,631,397**

DEPOSITS FROM BANKS AND OTHER LIABILITIES

IN THOUSANDS OF EUROS	2019	2018
Achmea Interne Diensten N.V.	7,933	1,989
Achmea Pensioen- en Levensverzekeringen N.V.	43,958	30,686
	51,891	**32,675**

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

INTEREST EXPENSES ON LOANS AND ADVANCES TO RELATED PARTIES

IN THOUSANDS OF EUROS	2019	2018
Achmea B.V.	44	67
Achmea Pensioen- en Levensverzekeringen N.V.	35,272	41,519
	35,316	**41,586**

COMMISSION INCOME AND EXPENSES RELATED PARTIES

IN THOUSANDS OF EUROS	2019	2018
Staal Beheer N.V.	281	500
Achmea Pensioen- en Levensverzekeringen N.V.	7,427	3,436
	7,708	**3,936**

OTHER EXPENSES RELATED PARTIES

IN THOUSANDS OF EUROS	2019	2018
Achmea Interne Diensten N.V.	1,164	1,087
	1,164	**1,087**

Notes To The Consolidated Financial Statements

31. REMUNERATION EXECUTIVE BOARD AND SUPERVISORY BOARD

REMUNERATION OF SUPERVISORY BOARD MEMBERS

IN THOUSANDS OF EUROS	2019	2018
Short term remuneration	152	152
	152	**152**

REMUNERATION OF EXECUTIVE BOARD MEMBERS

IN THOUSANDS OF EUROS	2019	2018
Short-term employee benefits	607	847
Post-employment benefits	73	57
	680	**904**

The decrease in remuneration of the Executive Board members is due to changes in the Board. For details concerning the composition of the Executive Board, reference is made to the report of the Executive Board. The post-employment benefits consist of pension costs.

The members of Executive Board and Supervisory Board are classified as key management personnel. One of the members of the Supervisory Board members held a mortgage loan during 2019, with an interest rate of 5.7%. The outstanding amount per 31 December 2019 amounts to EUR 0.2 million (2018: EUR 0.2 million). There were no prepayments during the year.

32. EVENTS AFTER REPORTING PERIOD

The outbreak of Coronavirus disease (Covid-19) may have a severe impact on the Dutch, European and global economic prospects and therefore on Achmea Bank. However, it is too early to predict the scope and extent of the consequences of the outbreak of the Coronavirus and the consequences of the measures taken in relation to the Coronavirus and conditions may worsen and measures may become more restrictive in the future. It is currently unclear how the financial markets will develop in the near future. Frequent monitoring of the financial risks such as liquidity and capital is an integral part of the Bank's risk management system. Achmea Bank closely monitors developments in the Bank's liquidity and capital position. Furthermore, the developments on these risks are closely monitored by the Banks's supervisors, the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). Achmea Bank concludes that its capital and liquidity position is adequate to support the going concern assumption.

AUTHORIZATION OF CONSOLIDATED FINANCIAL STATEMENTS

Tilburg, 27 March 2020

The Executive Board,
Mr. P.J. (Pierre) Huurman
Mr. M.J.M. (Mark) Geubbels

The Supervisory Board

Mr. H. (Huub) Arendse, Chairman
Mr. H.W. (Henny) te Beest
Mr. J.B.J.M. (Jan) Molenaar
Mr. R. (Robert) Otto (as of 21 January 2020)

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

COMPANY STATEMENT OF FINANCIAL POSITION

BEFORE APPROPRIATION OF RESULT IN THOUSANDS OF EUROS AS AT THE YEAR ENDED 31 DECEMBER	2019	2018
Assets		
Cash and balances with Central Banks	72,366	115,781
Derivative assets held for risk management	87,718	75,676
Loans and advances to banks	463,662	512,268
Loans and advances to public sector	675	699
Loans and advances to customers	12,640,791	11,056,321
Interest-bearing securities	–	–
Current tax assets	–	–
Prepayments and other receivables	324,043	211,317
Receivables from subsidiaries	2,937	–
Total Assets	**13,592,192**	**11,972,062**
Liabilities		
Derivative liabilities held for risk management	459,332	445,636
Deposits from banks	197,749	188,736
Funds entrusted	7,303,099	5,629,609
Borrowings	4,711,598	4,804,661
Provisions	3,600	150
Current tax liabilities	23,753	34,102
Deferred tax liabilities	3,028	1,632
Accruals and other liabilities	68,137	45,561
Subordinated liabilities	8,336	8,336
Payables to subsidiaries	–	8,458
Total Liabilities	**12,778,632**	**11,166,881**
Equity		
Share Capital	18,152	18,152
Share premium	505,609	505,609
Reserves	252,508	251,948
Net profit	37,291	29,472
Total Equity	**813,560**	**805,181**
Total Equity and Liabilities	**13,592,192**	**11,972,062**

Borrowings include deemed loans to SPVs for an amount of EUR 1.2 billion (2018: EUR 1.8 billion), the other part are debt securities issued.

Company Income Statement of Achmea Bank N.V.

COMPANY INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER	2019	2018
IN THOUSANDS OF EUROS		
Interest income	343,352	382,741
Interest expenses	218,494	272,242
Interest margin	**124,858**	**110,499**
Changes in fair value of financial instruments	15,922	−288
Interest margin and changes in fair value of financial instruments	**140,780**	**110,211**
Other income	1,675	1,876
Fees and commission income and expense	8,025	4,211
Operating income	**150,480**	**116,298**
Impairment on financial instruments and other assets	−4,330	−1,678
Operating expenses	104,998	79,027
Operating profit before taxes	**49,812**	**38,949**
Income tax expenses	12,521	9,477
Net profit	**37,291**	**29,472**

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

STATEMENT OF CHANGES IN COMPANY EQUITY

BEFORE PROFIT PROPORATION	SHARE CAPITAL	SHARE PREMIUM	FAIR VALUE RESERVE	PROFIT FOR THE YEAR	OTHER RESERVES	TOTAL EQUITY
IN THOUSANDS OF EUROS						
Balance at 31 December 2018	**18,152**	**505,609**	**–560**	**29,472**	**252,508**	**805,181**
Other comprehensive income/expense, net of income tax	–	–	–	37,291	–	37,291
Fair value reserve:						
Change in fair value net of income tax (will be fully recycled through P&L) (note 14)	–	–	560	–	–	560
Total comprehensive income for the period	**–**	**–**	**560**	**37,291**	**–**	**37,851**
Transaction with owners, recognised directly in equity						
Dividends paid	–	–	–	–29,472	–	–29,472
Appropriation of profit 2018	–	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**–29,472**	**–**	**–29,472**
Balance at 31 December 2019 (note 22)	**18,152**	**505,609**	**–**	**37,291**	**252,508**	**813,560**
Balance at 31 December 2017	**18,152**	**505,609**	**1,009**	**17,724**	**297,981**	**840,475**
Impact of adopting IFRS 9 at 1 January 2018	–	–	61	–	–13,197	–13,136
Restated balance as at 1 January 2018	18,152	505,609	1,070	17,724	284,784	827,339
Total comprehensive income for the period						
Net profit	–					
Other comprehensive income/expense, net of income tax	–	–	–	29,472	–	29,472
Fair value reserve:						
Change in fair value net of income tax (will be fully recycled through P&L) (note 14)	–	–	–1,630	–	–	–1,630
Total comprehensive income for the period	**–**	**–**	**–1,630**	**29,472**	**–**	**27,842**
Transaction with owners, recognised directly in equity						
Contributions by and distributions to owners						
Dividends paid	–	–	–	–17,724	–32,276	–50,000
Appropriation of profit 2017	–	–	–	–	–	–
Capital contribution	–	–	–	–	–	–
Total contributions by and distributions to owners	**–**	**–**	**–**	**–17,724**	**–32,276**	**–50,000**
Balance at 31 December 2018 (note 22)	**18,152**	**505,609**	**–560**	**29,472**	**252,508**	**805,181**

As at 31 December 2019 the authorised share capital amounted to EUR 90 million (2018: 90 million), divided into 90 million shares (2018: 90 million) each with a nominal value of EUR 1 (2018: EUR 1). As at 31 December 2019 18,151,663 shares had been issued and paid up in full (2018: 18,151,663 shares).
The fair value reserve comprises the cumulative net gains and losses on the fair value of the financial assets that are classified as fair value through OCI. (see also note 15)

The General Meeting of Achmea Bank of 4 April 2019, approved the dividend proposal to pay out a total dividend of EUR 29 million, which completely relates to the result of 2018 of the Bank.

The 2019 result includes an accounting result related to the a.s.r. transaction. The transaction prices for the mortgages and savings were set at signing date (21 March 2019) with the exception of the impact of interest rate movements that are offset against the value development of the derivatives that were part of the transaction to hedge this interest rate risk. The accounting result mainly reflects the increased fair value of the acquired mortgages due to increased competition and related pressure on mortgage rates in the period from signing (21 March 2019) to closing (1 December 2019) of the transaction. The accounting result, net for tax (EUR 14 million) will be added to the legal reserve.

The Executive Board proposes to pay out the remainder result as a dividend of EUR 23 million.

Notes to the company financial statements

GENERAL

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

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

The legal ownership of the securitized mortgages has been transferred to the SPVs, the economic ownership of these mortgages remains with the Bank. Back-to-back swaps are used in securitisation transactions, in the company financial statements only the swaps of Achmea Bank are recognised. The fair value of the Back-to-back swaps of the SPVs are recognised as part of the other receivables. The fair value movement in 2019 has been recognised in the income statement as part of the fair value result. The income and expenses of the SPV's are recognised in the company financial statements. Because of the characteristics of the B and C notes, they didn´t pass the SPPI test. Therefore the measurement of the B and C notes in the company financial statements is at fair value instead of amortised cost. In respect to article 100.107a of Dutch accounting principles (RJ), the impairment charges related to intercompany positions has been eliminated in the company financial statements as part of the carrying amount of the financial assets and the impact of the valuation differences on the B and C notes has been eliminated as part of the carrying amount of the interest-bearing securities.

AMENDMENTS RELATED TO PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

The presentation of the notes of the SPVs which are held by the Bank have been changed. The total value of the notes of the SPVs (EUR 1.1 billion per December 2019) which are held by the Bank have been deducted from the Borrowings. We have changed the comparative figures, the impact is EUR 1.3 billion per December 2018.

EVENTS AFTER REPORTING PERIOD

The outbreak of Coronavirus disease (Covid-19) may have a severe impact on the Dutch, European and global economic prospects and therefore on Achmea Bank. However, it is too early to predict the scope and extent of the consequences of the outbreak of the Coronavirus and the consequences of the measures taken in relation to the Coronavirus and conditions may worsen and measures may become more restrictive in the future. It is currently unclear how the financial markets will develop in the near future. Frequent monitoring of the financial risks such as liquidity and capital is an integral part of the Bank's risk management system. Achmea Bank closely monitors developments in the Bank's liquidity and capital position. Furthermore, the developments on these risks are closely monitored by the Banks's supervisors, the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). Achmea Bank concludes that its capital and liquidity position is adequate to support the going concern assumption.

Authorization of company financial statements

Tilburg, 27 March 2020

The Executive Board,
Mr. P.J. (Pierre) Huurman
Mr. M.J.M. (Mark) Geubbels

The Supervisory Board
Mr. H. (Huub) Arendse, Chairman
Mr. H.W. (Henny) te Beest
Mr. J.B.J.M. (Jan) Molenaar
Mr. R. (Robert) Otto (as of 21 January 2020)

Other Information

Profit appropriation according to the articles of association

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

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

Independent auditor's report

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

Report on the financial statements 2019

Our opinion

In our opinion:

- the consolidated financial statements of Achmea Bank N.V. ('the Bank' or 'the Company') together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2019 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements of Achmea Bank N.V. give a true and fair view of the financial position of the Company as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2019 of Achmea Bank N.V., the Hague.
The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the following statements for 2019: the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2019;
- the company income statement and the statement of changes in company equity; and
- the notes, comprising the accounting policies applied and other explanatory information.

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

The basis for our opinion

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

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

Independence

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

Our audit approach

Overview and context

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In note 4 'Critical estimates and judgements used in applying the accounting policies' of the financial statements the Company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Of the five areas mentioned, we considered the loss allowance for loans and advances for customers as most significant as also set out in the section 'Key audit matters' of this report. The significance of this matter is primarily driven by the significant estimation uncertainty and the related higher inherent risks of material misstatement in this area. Furthermore, we identified application of hedge accounting as a key audit matter, following its detailed, formal and technical requirements driving the accounting treatment. Inadequate application or documentation of these requirements may have a material impact on the Bank's financial results and financial position.

In 2019, the Bank acquired a savings portfolio with a nominal value of EUR 1.5 billion and a mortgage portfolio with a nominal value of EUR 1.4 billion from ASR Levensverzekering N.V. ('ASR portfolios'). This acquisition had a considerable impact on the financial statements and our audit and is therefore, considered to be a key audit matter.

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

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

The outline of our audit approach was as follows:

Materiality

- Overall materiality: €3,0 million.

Audit scope

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

Key audit matters

- Acquisition of the ASR portfolios
- Loss allowance for loans and advances to customers
- Application of hedge accounting

Materiality

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

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

Overall group materiality	€3.0 million (2018: €2.7 million).
Basis for determining materiality	We used our professional judgement to determine overall materiality. As a basis for our judgement, we used 2.5% of interest margin.
Rationale for benchmark applied	We considered, as a point of reference, (average) profit before tax as a materiality benchmark as it generally is seen as representing the interests of the stakeholders. Given the results of the Group over the last couple of years including several one-off items, we deemed this not to be the most appropriate benchmark to be applied. In assessing other benchmarks, we believe interest margin, being an important financial metric for the general performance of the bank including reflecting the link between return on assets and cost of funding, is an appropriate benchmark to use. We note that this is consistent with the benchmark applied over the last two years.

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

We agreed with the supervisory board that we would report to them misstatements identified during our audit above €150,000 (2018: €135,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Achmea Bank N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Achmea Bank N.V. The group audit encompassed all components included in the consolidation of Achmea Bank N.V. as disclosed in note D on page 24 of the financial statements.

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

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

The Bank has outsourced the largest part of its mortgage administration services to Quion Groep B.V. and Stater Nederland B.V. In our assessment of the mortgage portfolio balance and related transactions, we obtained sufficient and appropriate audit evidence over the controls performed by the service organisations through assessing the ISAE 3402 type 2 reports from Quion Groep B.V. and Stater Nederland B.V. and specific special purpose auditor's reports related to the mortgage portfolio of Achmea Bank N.V.

In this context, we have been involved in planning of the work by the external auditors of Quion Groep B.V. and Stater Nederland B.V. and assessed their independence, capability and objectivity.

We discussed progress and interim findings of the audit and, finally, evaluated the ISAE 3402 type 2 assurance report, to the extent necessary for the purpose of our audit, and specific special purpose auditor's reports related to the mortgage portfolio of Achmea Bank N.V. once they were finalised including performing an audit file review.

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

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

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

Our focus on the risk of fraud and non-compliance with laws and regulations

Our objectives

With respect to fraud the objectives of our audit are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate audit responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

With respect to non-compliance with laws and regulations our objectives are:

- to identify and assess the risk of material misstatement of the financial statements due to non-compliance with laws and regulations; and
- to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error when considering the applicable legal and regulatory framework.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations lies with management. We refer to paragraph 'H. Operational risk' in section 5 'Risk Management' of the annual report where the executive board included its risk assessment and risk control measures. We also refer to sections 'executive board report' and 'supervisory board report' where the executive and supervisory board reflects thereon.

Fraud

As in all of our audits, in assessing the risks of material misstatement in the financial statements, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the executive board that may represent a risk of material misstatement due to fraud. We evaluated the design and the implementation and, where considered appropriate, tested the operating effectiveness of internal controls, performed data analysis of high-risk journal entries and evaluated key estimates and judgements for bias by the Bank. Finally, we incorporated elements of unpredictability in our audit.

We refer to the key audit matters 'Acquisition of the ASR portfolios' and 'Loss allowance of loans and advances to customers' that are examples of our approach related to areas with higher risk due to accounting estimates where management makes significant judgements.

Laws and regulations

There is an industry risk that emerging compliance or litigation areas have not been identified and/or addressed by the executive board for financial statement purposes. This includes the consideration whether there is a need for the recognition of a provision or a contingent liability disclosure on the future outcome of legal or regulatory processes.

In line with Standard 250 we made a distinction between those laws and regulations which:

- have a direct effect on the determination of material amounts and disclosures in the financial statements. We obtained audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements; and
- do not have a direct effect on the determination of material amounts and disclosures in the financial statements (e.g. Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft)),
  but where compliance may be fundamental to the operating aspect of the business, to the Company's ability to continue its business or to avoid material penalties. As to the other laws and regulations, we inquired with management and/or those in charge with governance as to whether the Bank is in compliance with such laws and regulations and inspected correspondence, if any, with relevant licensing and regulatory authorities.

Key audit matters

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

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

We note that the key audit matters related to 'loss allowance for loans and advances to customers' and 'application of hedge accounting' are recurring. These relate to the Group's primary business processes and objectives and did not change significantly compared to prior year. We added a key audit matter compared to prior year with respect to the acquisition of the ASR portfolios.

Key audit matter	***Our audit work and observations***
Acquisition of the ASR portfolios *See note 4 'Acquisitions' on page 31 of the notes to significant balance sheet and income statement items.* *The acquisition of the ASR portfolios concerns an assets and liabilities transaction whereby the portfolios were initially recognised at fair value with subsequent measurement at amortised cost. Consequently, the difference between the transaction price and the initial fair value of the portfolios, resulting in an initial gain being allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of transaction (day-one gain) and to be amortised over the remaining life.* After our assessment of the contractual terms and conditions as part of our audit procedures and following discussions with management, it was concluded that with signing the contract, Achmea Bank entered into a derivative according to the definition under IFRS 9, as the transaction price was set at signing date (21 March 2019), with the exception of the impact of interest rate movements that are offset against the value development of the derivatives that were part of the transaction to hedge this interest rate risk. This derivative should be recognised at fair value with value changes in the statement of comprehensive income in line with IFRS 9. The fair value of this derivative was driven by the fair value movements of the underlying mortgage portfolio and savings portfolio between signing date and transaction date (1 December 2019). The fair value movement amounted to	*Control design and operation effectiveness* As part of our audit procedures, we have identified relevant internal controls relating to the valuation model and relevant model inputs and tested their operating effectiveness. In addition, we assessed the ISAE 3402 type 2 reports of the service organisations with respect to the mortgage administration services. We determined that we could rely on these controls for the purpose of our audit. *Substantive audit procedures* Our substantive audit procedures were focussed on the following areas: • assessment of the contractual terms and specifically those having an accounting impact; • challenging and assessing the accounting treatment of the transaction under IFRS 9; • reconciliation of the source data used in the Group's valuation model, that is critical in determining the fair value (e.g. expected cash flows), to the underlying source systems; • challenging the discount rates applied by comparing these to market data both at the signing date and at the transaction date and challenging the respective adjustments made to incorporate the specific characteristics of the ASR portfolios in the calculations; and • assisted by our valuation specialists, performing an independent valuation of the fair value of the mortgage portfolio at transaction date. We found that management's estimations of the fair value of the ASR portfolios and the fair value movement of the derivative, fell

Key audit matter	*Our audit work and observations*
EUR 19.5 million and was recognised in the statement of comprehensive income. As a result of this derivative, the day-one gain recognised as part of the initial recognition of the portfolios to be amortised over the remaining life was reduced by this amount. *Model methodology and inputs* The fair value of the mortgage- and savings portfolio and the fair value movement of the derivative required the use of valuation models and a significant level of management judgment. Management used a discounted cash flow model, in which the assumptions with respect to the expected prepayment rate and the applied discount rates are most relevant to determine the fair value. Any change in these assumptions, based on their sensitivity could have a considerable effect on the financial statements. Management has paid specific attention to the estimation uncertainty in the assumptions surrounding the discount rate. As a result, we specifically focused on these assumptions, the relevant calculations and the resulting (accounting) impact. Given the complexity of the contractual terms and its effect on the accounting treatment, the subjectivity around fair valuation, the significant amounts involved, the one-off character of the transaction, and the respective discussions with management, we considered this to be a key audit matter.	within a reasonable and acceptable range of outcomes. Finally, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, to assess compliance with the disclosure requirements included in EU-IFRS.
Loss allowance for loans and advances to customers *See note K on page 29 of the summary of significant accounting policies 'impairment of financial assets', paragraph 'measurement expected credit loss' on page 30 of the critical estimates and judgements used in applying the accounting policies, and note 'expected credit loss' on page 43 of risk management.* The gross loans and advances to customers as at 31 December 2019 amount to €12,671 million (€11,099 million as at 31 December 2018), the total impairment as at 31 December 2019 amounts to €30.4 million (€43.0 million as at 31 December 2018). In accordance with the requirements of IFRS 9 'Financial instruments', the Bank applies a three stage expected loss impairment model. The Bank determines loan impairments in stage 1 by recognition of loss allowances measured at an amount equal to the twelve-month expected credit losses, in stage 2 by recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for under-performing financial assets, and in stage 3 by recognition of loss allowances measured at an amount equal to the lifetime expected credit losses for credit-impaired financial assets. The Bank manages its loans through two separate portfolios and as such have divided its loans and advances to customers into those two portfolios:	We assessed the ISAE 3402 type 2 reports of the service organisations with respect to the mortgage processing and administration services as described in the section 'The scope of our group audit'. *Assessment of model-based impairments* With support of our internal credit modelling experts, we performed the following procedures on the model-based impairments as at 31 December 2019: • assessment of reasonableness and consistency of the applied model methodology (including the assumptions regarding PD, LGD and EAD and the thresholds used to determine significant increases in credit risk/stage transfers) in line with EU-IFRS and market practice; • evaluation of the governance framework over maintenance, re-calibration and validation of the impairment models; • evaluation of the definition of default application including management's process and approach in identifying impaired loans; • evaluation of the macro-economic scenarios and macro-economic variables applied by reconciling these to the minutes of the Asset and Liability Committee and challenging these with observable market data; • testing the input data and data lineage in respect of the critical data elements through testing of IT dependencies and in addition reconciliation of a sample of input data to the external mortgage administrations of Quion and Stater;

Key audit matter	Our audit work and observations
• regular mortgage portfolio (loss allowance €7.6 million as at 1 January 2019 and €8.7 million as at 31 December 2019); • Acier loan portfolio (loss allowance €35.5 million as at 1 January 2019 and €21.7 million as at 31 December 2019). The Bank built ECL models for both portfolios as the Acier loan portfolio (gross carrying value €0.8 billion) differs in characteristics from the regular mortgage portfolio (gross carrying value €11.9 billion). The impairment approach for this portfolio is therefore, a combination of the results of the ECL tool for the homogeneous parts of the portfolio and an individual assessment for a number of large exposures, the heterogeneous part of the portfolio. *Model methodology and inputs* In the models the Bank utilises amongst others probability of default (PD), loss given default (LGD) and exposure at default (EAD). For the definition of these variables, refer to note 'expected credit loss' on page 45 of the financial statements. The critical data elements as input for these models are retrieved from the core banking source systems. Next to these elements, three global macro-economic scenarios (base, up and down) are incorporated into the models and the probability of the scenarios is weighted in order to determine the expected credit losses. When data limitations or other inherent model limitations are identified, expert judgement is applied to the model outputs. *Loan by loan impairment allowance Acier portfolio* For the larger exposures in the Acier portfolio, the Bank compares the outcome of the model with its individual assessment. The account manager determines the loan by loan impairment amount based on the most likely scenario taking into account timely identification of impairment triggers, expected future cash flows (including the value and recoverability of the corresponding collateral) and discount rates.	• evaluation of the homogeneity assessment performed by management for the two acquired portfolios (ASR and Obvion) in 2019 and application of the ECL model of the regular portfolio for these acquisitions; • assessment of the model validation reports and partial reperformance of the model validation procedures performed by Group Model Validation of Achmea B.V. focusing on the more significant tests like backtesting procedures on key model parameters; • challenging management judgement applied on the model outcomes of the regular mortgage portfolio by obtaining evidence that this adjustment was necessary to balance underlying model and data limitations. Based on the aforementioned procedures considered the methodology and inputs to be in line with market and industry practice. *Assessment of loan by loan impairment allowance Acier portfolio (stage 3)* Considering the inherent estimation risk of individually impaired loans in the Acier portfolio, we performed risk-based sample testing for which we selected samples from: • the total loan portfolio to gather evidence as to the correct classification of exposures as being stage 1, 2 or 3; and • the stage 3 population to gather evidence as to the appropriate estimate for the impairment allowance made by management. We analysed the latest developments at the borrower as described below and considered whether the key judgements applied in the impairment allowance are acceptable for the balance as at 31 December 2019.
Judgements and estimation uncertainty The judgements and estimation uncertainty in the impairment allowance of loans and advances to customers are primarily linked to the following aspects: • the identification of impaired loans including the assessment for which loans credit risk has significantly (de)/increased since inception (indicating stage transfers); • the determination of the future cash flows based on the appropriate use of key parameters (such as forward looking information) and the valuation of the recoverable collateral for the specific loan by loan impairment allowance. Furthermore, the probability weighting of each impairment scenario in this category is inherently subjective in nature; • the assumptions regarding the PDs, LGDs and EADs applied including the assumptions applied in respective overlay models in the model-based impairment allowances (stages 1, 2 and 3); • any management judgement applied next to the model-based	We specifically performed the following procedures: • assessing the classification as a performing or non-performing loan based on the (non-)existence of triggering events; • assessing the revision proposals and discussed individual items with management; • reconciliation of the valuation of the corresponding collateral to underlying appraisal reports and/or other information and the inspection of legal agreements and supporting documentation in order to confirm the existence and legal right to collateral; • recalculation of the loan loss allowance. Finally, we assessed the adequacy of the disclosures, including disclosures on estimation uncertainty and judgements, to assess compliance with the disclosure requirements included in EU-IFRS.

Key audit matter	*Our audit work and observations*
impairment allowances impacting the overall resulting allowance (stage 2). The significance of the number of accounting policy choices, judgements taken by management and the inherent limitations to data inputs required by the loan impairment models, increases the risks of material misstatement. Therefore, we consider this a key audit matter in our audit.	
Application of hedge accounting *See subparagraph 'hedge accounting' in note 3 'critical estimates and judgements used in applying the accounting policies' on page 30 and note 10 on page 61 'changes in fair value of financial instruments, derivatives and hedge accounting'.* The Bank has designated derivatives held for risk management in two hedging strategies: fair value hedges on interest rate risk in its mortgage portfolio (macro hedge) and interest rate risk and currency risk related to debt securities issued (micro hedges). The derivatives are measured at fair value through profit or loss and amount to €90.5 million of assets and €465.0 million of liabilities. As required by EU-IFRS, the Bank has hedge accounting documentation in place describing the relationship between the hedging instrument(s) and the hedged item(s), as well as the risk management objective and strategy at the inception of the transaction. The Bank formally records whether the derivatives used in the hedge relationships are effective in offsetting changes in the fair value of the hedged items, both at the start and for the duration of the hedge relationship. This is done via prospective and retrospective testing. Given the subjectivity around fair valuation, the size of the derivatives portfolio held for risk management and the complexity of the hedge accounting standards included in EU-IFRS, we considered this to be a significant element of our audit.	Control design and operation effectiveness Our audit included testing of the Bank's internal controls with respect to their hedge accounting strategies and relevant hedge accounting documentation and calculation. We determined that we could rely on these controls for the purpose of our audit. Substantive audit procedures We have considered the prospective and retrospective effectiveness testing to assess whether the hedge relationships are effective and for a selection that the hedge effectiveness has been calculated accurately. We found the outcome of the effectiveness testing to be consistent with our own calculations and the methodology applied in line with the technical requirements. Furthermore, we have reconciled the outcome of the retrospective effectiveness testing resulting in an ineffectiveness which, as required by EU-IFRS, has been recorded as hedge adjustment in the statement of comprehensive income. We tested, for a selection of items, whether the hedge documentation as prepared by management meets the requirements of IAS 39 and whether the interest rate swaps are eligible for hedge accounting. We determined the hedge relationships to be supported by appropriate documentation and other supporting evidence. Finally, we assessed the completeness and accuracy of the disclosures relating to derivatives and hedge accounting to assess compliance with disclosure requirements included in EU-IFRS.

Emphasis of Matter related to the uncertainty related to the effects of the COVID-19 virus

We draw attention to Note 32 in the financial statements in which management has described the possible impact and consequences of the COVID-19 (Corona) virus on the entity and the environment in which the entity operates as well as the measures taken and planned to deal with these events or circumstances. This note also indicates that uncertainties remain and that currently it is not reasonably possible to estimate the future impact. Our opinion is not modified in respect of this matter.

Other information

Report on the other information included in the annual report

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

- a word from the chairman;
- Achmea Bank in numbers;
- executive board report;
- supervisory board report;
- corporate social responsibility;
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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

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

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

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

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

Report on other legal and regulatory requirements

Our appointment

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

No prohibited non-audit services

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

Services rendered

The services, in addition to the audit, that we have provided to the Company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 28 to the financial statements.

Responsibilities for the financial statements and the audit

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

The executive board is responsible for:

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

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

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

Our responsibilities for the audit of the financial statements

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

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

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

Amsterdam, 27 March 2020
PricewaterhouseCoopers Accountants N.V.

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

Appendix to our auditor's report on the financial statements 2019 of Achmea Bank N.V.

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

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

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

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

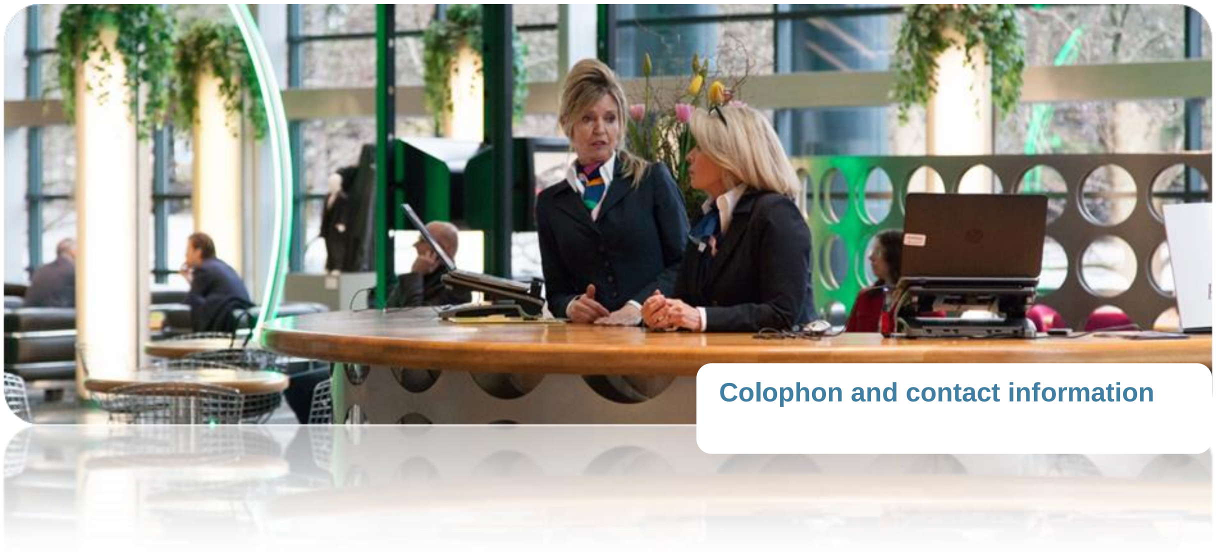
Considering our ultimate responsibility for the opinion on the consolidated financial statements,
we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure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

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In this respect, we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.
The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

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



Colophon and contact information

Colophon

This is the English version of our 2019 annual report. There is no Dutch version of this report. The annual report can be downloaded from our website achmeabank.com.

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

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