Achmea Bank N.V.
Pillar III report
2020

KvK 27154399

Contents

SUMMARY ANALYSIS

Common Equity Tier 1 ratio (CET1-ratio) (2019: 19.2%)	Tier 1 Capital ratio (2019: 19.2%)	Total Capital ratio (2019: 19.2%)
20.4%	**20.4%**	**20.4%**

Leverage ratio (2019: 5.8%)	Total Risk Weighted Exposure Amount (2019: € 4,042 M)	Write-offs (2019: € 9.063 M)
6.0%	**€ 3,954M**	**€ 5.063M**

Liquidity Coverage ratio (LCR) (2019: 249%)	Net Stable Funding ratio (NSFR) (2019: 121%)
332%	**126%**

Capital management

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

The Total Capital ratio at December 31st, 2020 amounted to 20.4% and is well above the current requirements and limits of the capital (risk) position of Achmea Bank.

Liquidity management

The liquidity risk management of Achmea Bank is adequate. The development of relevant indicators, such as the cash and liquidity position, the survival period and the Liquidity Coverage ratio (LCR) are monitored consistently by the bank. The amount and composition of the liquidity buffers at December 31st, 2020 are adequate and enables the bank to continuously meet its payment obligations both under normal and stressed conditions. Achmea Bank complies consistently with internal and external requirements, including healthy balance sheet ratios, e.g. funding mix, asset encumbrance (ratio) and overcollateralization (ratio).

INTRODUCTION

This document presents the consolidated Capital Adequacy and Risk Management report (hereafter referred to as Pillar III report) of Achmea Bank N.V. as at December 31st, 2020.

Achmea Bank operates under the CRDIV capital framework which came into force in 2014. CRDIV constitutes the Basel framework which aligns regulatory requirements with the economic principles of risk management. CRDIV is implemented into Dutch law as amendments to the 'Financial Supervision Act' (Wet op het financieel toezicht, Wft) and further accompanying regulations. Pillar III requirements under CRDIV are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. Achmea Bank's 2020 year-end disclosures are prepared in accordance with the CRDIV requirements and associated guidelines of the European Banking Authority (EBA) technical standards that came into force.

The implementation of CRDIV is subject to transitional arrangements. By January 1st, 2018 all CET1 capital deductions are fully phased in.

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

This report describes the Bank's:

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

ACHMEA BANK

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

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

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

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

Achmea Bank is a customer-driven, efficient and agile bank. Achmea Bank aims 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. Achmea Bank strives to offer our customers an excellent digital customer experience.

Achmea Bank is 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. Achmea Bank is result oriented and have a professional, open and informal culture. Achmea Bank is located in Tilburg and employ around 200 people.

PRODUCTS

Achmea Bank primarily provides owner-occupied residential mortgage loans to private customers under the labels Centraal Beheer and Woonfonds. Mortgage lending is secured by a contingent claim on residential properties in the Netherlands. Centraal Beheer and Woonfonds use the distributive power of intermediaries to offer mortgage loans. Furthermore, Centraal Beheer offers mortgage loans online. The Acier portfolio relates to the former Staalbankiers portfolio that was acquired in 2015 and 2016. This portfolio is a closed book portfolio.

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

As per October 1st, 2021 Achmea Bank is no longer the competence and service centre for mortgage and retail savings products with Achmea. In October 2020, Achmea centralized the mortgage activities and Achmea Bank joined the Achmea Mortgages Investment Platform of Syntrus Achmea Real Estate & Finance. This platform is a separate account for mortgages which allows institutional investors to build their own Dutch residential mortgage portfolio with the risk and duration profile they desire. These mortgages are marketed under the Centraal Beheer brand. Achmea Bank is one of the first investors in this platform. The introduction of the Achmea Mortgages Investment Platform is another step forward for Achmea in the process of combining its mortgage activities. As of 1 October 2020, Achmea's operational mortgage activities have largely been placed within Syntrus Achmea. By joining forces of its mortgage activities and the introduction of the Achmea Mortgages Investment Platform, Achmea Bank aims to increase its market share in the mortgage market in the coming years.

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.

Achmea Bank’s strategy is based on four pillars:

1. Funder and originator of mortgages
2. Provider of retail savings products
3. Balance sheet transactions and portfolio optimizer
4. New (fee) business models

Centraal Beheer is our main brand for mainstream mortgage and savings products. Centraal Beheer is developing from a traditional insurer into a broad financial services provider in the field of insurance, saving, investing and mortgages. In addition to the mainstream market, Achmea Bank focusses on niche mortgage propositions to achieve better interest margins. These niche mortgages are offered through Achmea brand Woonfonds.

In October 2020 Achmea combined its mortgage operations within Syntrus Achmea Real Estate and Finance, the commercial activities will be concentrated in Apeldoorn. At the same time Achmea created a separate account for mortgages which allows institutional investors to build their own Dutch residential mortgage portfolio with the risk profile they desire. These mortgages are marketed under the Centraal Beheer brand. Achmea Bank N.V. was one of the first investors to join this platform. The combined mortgage operations of Achmea are intended to lead to:

- Improved range of attractive propositions for investors
- Increased market share by focusing on the power brand Centraal Beheer
- Lower costs and reduced operational risks by realizing economies of scale
- Combining skills and expertise within Achmea Bank, Centraal Beheer and Syntrus Achmea

Acquisition of third-party credit portfolios is part of Achmea Bank's growth strategy. Acquiring portfolios both within and outside of Achmea increases (economies of) scale and enables Achmea Bank to attract additional assets with risk/return characteristics that fit well in our balance sheet. The focus is on mortgages with a duration that is significantly lower than typically originated in the current Dutch mortgage market. In December 2020 Achmea Bank acquired a portfolio of Dutch residential mortgages from BinckBank, part of the Saxo Bank Group. The acquisition of this portfolio, with a size of approximately EUR 460 million, underlines our ambition to grow in mortgages.

In order to diversify the revenue base of Achmea Bank and create additional value for the Achmea brands Achmea Bank recently added a new pillar to our strategy. From January 1, 2021 Achmea Bank has set up a separate strategy & innovation department to develop new business models and partnerships based on our core competencies and banking licence such as PSD2 services.

Rating agencies

Achmea bank has implied public rating by S&P and Fitch. The ratings of both agencies are derived from Achmea's credit rating. The S&P rating is A-/Stable Outlook since March 2017, the rating was confirmed in October 2020. Since year-end October 2016 Achmea Bank has a Fitch long-term rating of A/Stable Outlook; the rating was confirmed in June 2020. Both rating agencies use own methodologies for assessing Achmea Bank's capital and liquidity position. These assessments include the strategic position of the bank within Achmea, its competitive position and Dutch market conditions. The latest reports can be found on Achmea Bank's website: https://www.achmeabank.nl/investeerders/ratings.

BASIS OF CONSOLIDATION

Subsidiaries are all entities over which Achmea Bank has control (based on the requirements of IFRS 10). Achmea Bank controls an entity when Achmea 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 Achmea Bank and deconsolidated from the date that control ceases.

The consolidated financial statements of Achmea 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 Achmea Conditional Pass-Through Covered Bond Company)
- Stichting Trustee Achmea Bank
- Stichting Incasso Achmea Hypotheken

*) Notes called at first optional redemption date (FORD) and liquidated in 2019
**) Notes called at FORD and liquidated in 2020

All consolidated companies have their registered office in Amsterdam except for Stichting Trustee Achmea Bank which has its registered office in The Hague.

These entities (with the exception of Stichting Incasso Achmea Hypotheken, Stichting Trustee Achmea Bank and Achmea Conditional Pass-Through Covered Bond Company B.V.) are companies set up by Achmea Bank for securitisation purposes of residential mortgage loans. There are no representatives of Achmea 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.

Achmea Bank has a Trust agreement with Stichting Trustee Achmea Bank. Under this Trust agreement Achmea Bank pledges mortgage receivables to Stichting Trustee Achmea Bank as collateral for liabilities of and funds entrusted to Achmea Bank.

The Stichting Incasso Achmea Hypotheken has been set up to collect and distribute payments on the mortgage receivables to Achmea 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, Achmea Bank controls and consequently consolidates an entity when:

- The entity's activities meet Achmea Bank's specific funding needs;
- Achmea Bank has decision-making power to obtain the majority of the benefits of the entity's activities;
- Achmea 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, Achmea 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 Achmea Bank no longer has control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and other components of equity. Any resulting gain or loss is recognised under profit or loss. Any interest retained in the former subsidiary is measured at fair value once control is lost.

RISK MANAGEMENT

INTRODUCTION

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

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

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

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

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

KEY METRICS SUMMARY

IN MILLIONS OF EUROS	2020	2019
Common Equity Tier 1 (CET1)	807	776
Tier 1	807	776
Total capital	808	777
Total risk-weighted assets (RWA)	3,954	4,042
Common Equity Tier 1 ratio	20.4%	19.2%
Tier 1 ratio	20.4%	19.2%
Total capital ratio	20.4%	19.2%
Additional CET1 buffers		
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	0.0%	0.0%
Total of Achmea Bank CET1 specific buffer	0.0%	0.0%
Leverage ratio		
leverage ratio exposure	13,572	13,363
Leverage ratio	5.9%	5.8%
Liquidity Coverage Ratio		
Total HQLA	1,389	515
Total Net Cash Outflow	418	207
LCR ratio	332%	249%
Net Stable Funding Ratio		
Total Available Stable funding	11,346	11,398
Total Required Stable funding	9,014	9,384
NSFR ratio	126%	121%

RISK APPROACH

Risk strategy

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

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

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

Risk appetite

Risk appetite is defined as the level of financial and non-financial risk Achmea Bank is willing to take, given Achmea Bank's business objectives. The risk appetite is translated into the minimum levels of liquidity and solvency and the maximum decline in results, Achmea Bank is willing to accept under normal and extreme conditions. With respect to solvency and liquidity, Achmea 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. The risk appetite is approved by the Asset and Liability Committee (ALCo), the Finance and Risk Committee (F&RC), the Executive Board and ultimately the Supervisory Board.

Significant risks and developments

Achmea Bank identifies the following types of material risks:

- Solvency risk: Solvency risk defines the risk that Achmea Bank cannot meet maturing obligations because it has a negative net worth, causing the market to lose its confidence in Achmea Bank;
- Liquidity risk: Liquidity risk is defined as the risk that Achmea Bank fails to fulfil its short and long-term liabilities. This includes the risk that Achmea Bank is not able to attract funding with appropriate maturities or at appropriate interest rates and the risk that Achmea Bank fails to liquidate assets at a reasonable price or within a reasonable period of time;
- Credit risk: Credit risk is defined as the risk that a counterparty cannot (fully) meet its obligations to Achmea Bank and comprises retail credit risk and the credit risk related to exposures to professional counterparties;
- Interest rate risk on banking book: Interest rate risk is the present or future risk of a decline in equity or income due to changes in market interest rates;
- Operational risk: Operational risks are possible losses as a result of inadequate or defective internal processes and systems, inadequate or incorrect human actions or external events and fraud;
- Strategic risk: Strategic risk is defined as risk that affects an entity's vital interests or execution of chosen strategy, whether imposed by external threats or arising from flawed or poorly implemented strategy.
- Climate risk: Achmea Bank believes it has a social responsibility to contribute to the mitigation of climate change. The responsibility for climate started to integrate the Climate-related risks in our risk management process, which will be continued in 2021. Achmea Bank is committed to the Dutch Climate Agreement and its ambition to reduce carbon emissions by 49% in 2030 relative to levels from 1990. Achmea Bank has also drawn up an Environmental, Social and Governance (ESG) policy concerning Sustainable Development Goals for sustainable cities and communities (SDG 11) and climate action (SDG 13). Achmea Bank has started providing solutions to clients who want to make their homes more sustainable. Achmea Group reports annually on Scope 1 & 2 carbon emissions from business operations based on the GHG Protocol. Achmea Bank has started monitoring carbon emissions from its mortgage portfolio since 2019 and in-depth reports are published annually on www.achmeabank.com, under the GHG Protocol, mortgage emissions qualify under Scope 3, category 15 - investments. The emissions of our mortgage portfolio are based on average energy usage using methodology provided by PCAF. PCAF is an initiative of the Dutch Sustainable Finance Platform, chaired by the Dutch central bank (DNB).

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

RISK MANAGEMENT ORGANIZATION

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

Risk decision making

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

Risk governance and risk management committee structure

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

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

The Executive Board is responsible for setting up effective processes that enable Achmea 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 Technical Committee, the Data Quality Board, Overleg Wet & Regelgeving 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, Compliance & Operational risk and Business & Operations.

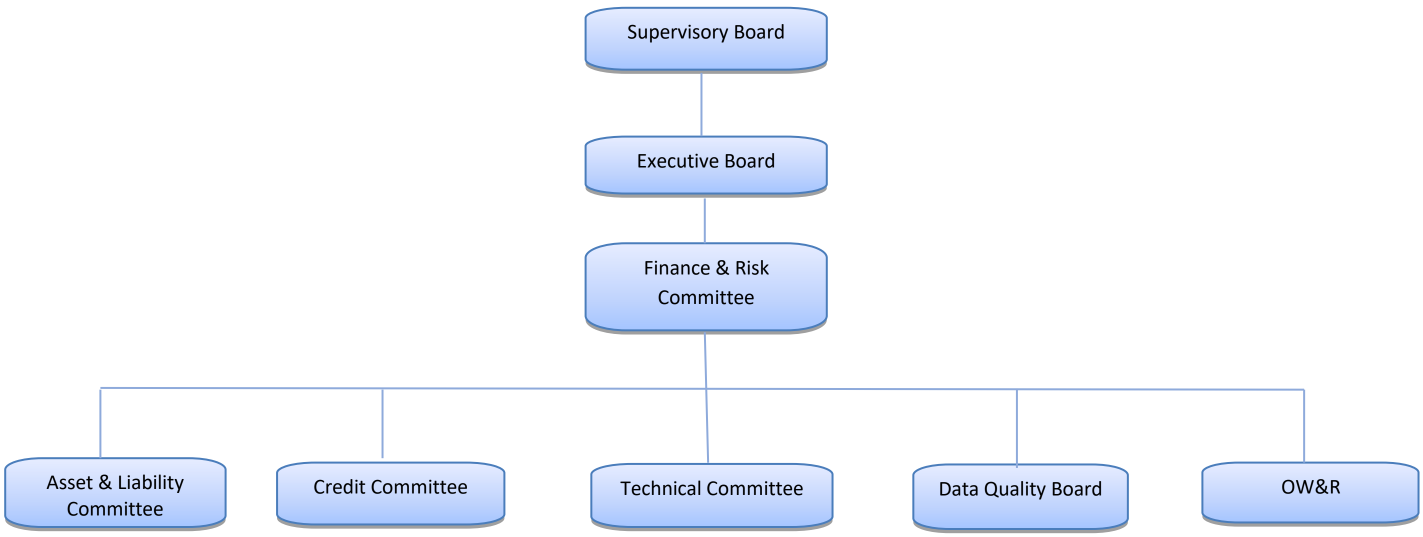
The Credit Committee focuses on the management of credit risk. This means that the Credit Committee has the responsibility for approving of and advising on credit policy frameworks and the implementation of it, for the monitoring of the development of the quality of the credit portfolio inclusive taking actions to act upon those developments, and for projects concerning (the organization of) credit risk within Achmea. Credit reports and reports about compliancy to the credit policies are sources for undertaking actions if needed, e.g. in case risk appetite indicators are negatively impacted. The Credit Committee is chaired by the CFRO of Achmea Bank. Other members of the Credit Committee are representatives of Balance Sheet Management & Financial Risk, Business & Operations including Partner management and Control.

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

The Technical Committee (TC) plays an important role in Model Management with regard to the correct and timely completion of the Model Lifecycle for all models as included in the Model inventory (annual update based on the Model Risk Assessment). The TC follows all steps in the life course of Achmea Bank's risk models and assesses them. The TC is also the gateway for documents and information to Model Validation and the Model Approval Committee of the Group. The TC reports to the F&RC.

The purpose of the Data Quality Board (DQB) is to monitor the timely and correct implementation of the Data Quality Framework. The DQB ensures preparation and coordination with the right bodies or specialists about data quality, reports and issue and process monitoring. In addition, the DQB aligns with the business and is responsible for Data lineage (insight and overview from source to reporting) and data definitions.

The Overleg Wet&Regelgeving (OW&R) aims to identify new and amended relevant legislation and regulations in a timely manner. The OW&R broadly analyzes the new and amended legislation and regulations. Based on this analysis, the OW&R determines whether and where these new or amended laws and regulations may have an impact on Achmea Bank's organization and/or processes. The consultation is set up as an early warning for the Board of Directors, the staff and operational departments.



RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

The third line of defence is performed by Internal Audit:

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

RISK MEASUREMENT

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

Stress testing

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

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

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

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

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

Capital management
Achmea Bank has defined four scenarios using scenario planning. The stress scenario is defined by the impact of each scenario on Achmea Bank. This has resulted in four stress scenarios. The impact of the stress scenarios is calculated/ assessed after the approval of the F&RC. The impact of the stress scenarios is calculated on a quarterly basis and reported to the ALCo. All four scenarios do not breach the minimum risk appetite limit at the key date of December 31st, 2020. This means that Achmea Bank can withstand the amount of stress. Stress testing is also used to determine the pillar II capital charges for e.g. interest rate risk in banking book and credit concentration risk.

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

Recovery plan

The Bank Recovery and Resolution Directive (BRRD) requires banks to have a recovery plan operational. The recovery plan is an important management tool for the early detection of and averting a (potential) crisis. In order to cope with a (developing) crisis situation, the recovery plan contains a trigger framework and specific governance. The recovery plan contains a list of possible recovery actions, depending on the (potential) crisis situation, which can ensure that Achmea Bank maintains or restores a solid liquidity and/or capital position. Furthermore, the recovery plan also includes several near-default scenarios, including calculations of the negative quantitative impact of these scenarios on Achmea Bank's solvency and/or liquidity.

For the defined liquidity and solvency metrics, the trigger framework contains trigger levels which present the depth of a crisis. Achmea Bank defines four crisis levels:

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

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

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

The monthly ALCo report is the main source for monitoring the historic and expected, future development of the liquidity and capital metrics. The cash position is monitored on a daily basis. In addition, a monthly ‘Early warning report’ is prepared for the ALCo. This committee assesses the development of (key) early warning indicators and sets a crisis level; under normal circumstances this level is ‘business as usual’.

(REGULATORY) DEVELOPMENTS

Minimum Required Eligible Liabilities

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

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

In the first half of 2020 the National Resolution Authority (NRA) decided that the preferred resolution strategy in case of failure is liquidation of the bank through normal insolvency proceedings. Achmea Bank expects the MREL requirement to be in line with current supervisory requirements but is awaiting a formal NRA decision.

Total Loss Absorbing Capacity

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

Basel IV

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

Achmea Bank has assessed the potential impact on the risk weights of its assets of the definitive Basel IV guidelines. Application of the loan splitting method of Basel IV, the expected impact of the adjusted risk weights is negligible. However, there may be an impact if original market value of residential properties has to be applied for determining LTVs. The impact (if any) is uncertain and depending on if and how these guidelines are implemented.

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

CAPITAL MANAGEMENT

Achmea Bank must hold sufficient buffer capital to cover the (unexpected) risks arising from its operations. Pillar I of the Capital Requirements Regulation (CRR) offers regulation for calculating the minimum amount of capital that needs to be held in relation to credit risk, market risk and operational risk. Under these rules, the capital adequacy requirements relating to these risks can be calculated in a number of ways with varying degrees of sophistication. Achmea Bank uses the standardized approach to calculate the credit risk weightings for its assets and the basic indicator approach to calculate the capital requirement for operational risk. Achmea Bank applies the CRR netting rules for its derivative positions (CRR art. 327). Applying CRR articles 351 and 352 our net FX position is below the threshold of 2% of equity, which means that capital charge for pillar I market risk is nil. The Bank's policy is to maintain a strong capital base to ensure investor, creditor and market confidence in order to sustain the future development of the business.

The Dutch Central Bank (DNB) sets overall (capital) limits based on the outcomes of its annual Supervisory Review and Evaluation Process (SREP). The Bank complied with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 20.4% and a Total Capital Ratio of 20.4% at December 31st, 2020, which are well above the internally applied target for the minimum capital ratio level. For 2020 the Executive Board set the internal target for the minimum capital ratio level at SREP requirement plus the Pillar 2 Guidance plus the combined buffer requirement plus a management buffer of at least 1%.

COMPOSITION OF REGULATORY CAPITAL

IN THOUSANDS OF EUROS

	AMOUNTS	SOURCES BASED TO REGULATORY SCOPE
Directly issued qualifying common share capital plus related stock surplus	523,761	(b) + (c)
Retained earnings	272,214	(d) minus result of 2019
Accumulated other comprehensive income	11,293	
Common Equity Tier 1 capital before regulatory adjustments	**807,268**	
Prudential valuation	105	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	–	
Other transitional adjustments to CET1 Capital	–	
Total regulatory adjustment to CET1	**105**	
Common Equity Tier 1 Capital (CET1)	**807,163**	
Paid up capital instruments and subordinated loans	707	(a) including amortisation
Tier 2 Capital	**707**	
Total regulatory capital	**807,870**	
Total risk weighted assets	**3,953,530**	
Common Equity Tier 1 ratio	20.4%	
Tier 1 ratio	20.4%	
Total Capital Ratio	20.4%	
Institution specific buffer requirement	2.5%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	0.0%	
Common Equity Tier 1 available to meet buffers after meeting the banks' minimum capital requirements	13.32%	

The total regulatory capital of EUR 808 million consists mainly of core equity tier 1 and is more than sufficient to cover the total pillar 1 capital requirements of EUR 316 million[2].

Dividend

In line with Achmea Group's policy to manage excess capital at group level, Achmea Bank has a dividend policy whereby dividend is paid out if the Bank's Total Capital Ratio exceeds a specific minimum level. The general meeting of April 17, 2020 has suspended the decision to distribute a dividend to shareholders until there is more clarity about the impact of Covid-19. Achmea Bank hereby responded to the recommendation from the European Central Bank (ECB) and De Nederlandsche Bank (DNB). Achmea Bank intends to pay out a total dividend of EUR 56 million, which equals to the distributable net result over 2019 and 2020, as soon as it is in accordance with the ECB recommendation to make such payment.

Internal capital adequacy requirements

Achmea Bank has implemented internal processes to align the required capital to the risks Achmea 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 Achmea Bank is able to meet and maintain both the current and future capital adequacy of Achmea 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. Achmea Bank monitors its solvency position on a monthly basis. However, Achmea 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 Achmea 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.

REGULATORY CAPITAL REQUIREMENTS

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

QUALIFYING CAPITAL

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

The available qualifying capital of EUR 808 million that Achmea Bank retains to compensate for potential losses, is well above the level of the total external and internal capital requirements. This underlines the financial solidity of Achmea Bank.

Common equity tier 1 capital

In 2020 Tier 1 capital increased by EUR 31 million from EUR 776 million to EUR 807 million, mainly due to the addition of the 2019 result to retained earnings. Furthermore, the impact of the adjustment of the accounting treatment of interest compensation for early redemptions results in a decrease of EUR 6 million. As Achmea 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 prudent valuation (2020: EUR 0.1 million).

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

Tier 2 capital

As of December 31st, 2020 an amount of EUR 0.7 million (2019: EUR 1 million) qualifies as Lower Tier 2 and consists of a subordinated loan.

Risk weighted assets

Achmea Bank reports the risk weighted exposure amounts in line with the CRR and CRD IV. In 2020 the total risk exposure amount (TREA) decreased with EUR 88 million from EUR 4.042 million to EUR 3.954 million, mainly due to a decrease in the mortgage portfolios, partially offset by the acquisition of the BinckBank mortgage portfolio, which had a EUR 121 million upward impact on TREA.

CAPITAL RATIOS

Total capital ratio

The Total Capital ratio increased to 20.4% (2019: 19.2%). The Total Capital ratio increased, mainly due to the addition of the net result 2019 and decrease of the mortgage portfolio. In line with the recommendation of The European Central Bank and the European Banking Authority concerning dividend pay-outs, not to distribute any dividends, the Executive Board of Achmea Bank proposes to add the net result of 2020 to the other reserves.

SREP ratio

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

Leverage ratio

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

The Leverage Ratio is a regulatory capital adequacy measure under CRD IV/CRR. The LR is calculated as an institution's capital divided by the institution's total non-risk weighted exposures, expressed as a percentage. Achmea Bank complies with the internal minimum requirement for 2020 of 3.5% and the (expected future) external minimum requirements; the LR at December 31st, 2020 was 5.9% (2018: 5.8%). The LR increased during 2020 due to a relatively higher Tier 1 capital of EUR 807 million (2019: 776 million), mainly caused due to the addition of the net result 2020.

Processes to manage the risk of excessive leverage

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

LIQUIDITY MANAGEMENT

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

Liquidity risk consists of two basic types of risk:

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

Internal liquidity adequacy process and requirements

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

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

Liquidity and funding contingency

Achmea Bank has a Liquidity Contingency Plan (LCP) available in case of a liquidity stress event. The LCP is part of Achmea's Recovery Plan. The Recovery Plan provides solutions to ensure the survival of Achmea 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.

RISK MEASUREMENT

Liquidity position

Liquidity buffer and liquidity ratios

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

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

In 2015 Achmea Bank entered into an Asset Switch agreement with Achmea Pensioen- en Leven N.V. (AP&L) in order to improve its liquidity position. Achmea Bank legally (i.e. not commercially/economically) exchanged mortgages for government bonds held by AP&L at a market value ratio of 110:100. Due to the higher liquidity treatment of government bonds, this enhances the liquidity position of Achmea Bank and provides more flexibility in the timing of new funding transactions in connection with managing the liquidity and the survival period of Achmea Bank. The target amount of the Asset Switch is EUR 0.5 billion. At year-end 2020 EUR 587 million (2019: EUR 561 million) of mortgages at nominal value were exchanged for EUR 489 million (2019: EUR 487 million) of Dutch government bonds (market value).

Achmea Bank's liquidity buffer mainly consists of on-demand Central Bank deposits and a portfolio of unencumbered high-quality liquid assets, including the government bonds under the Asset Switch. At year-end Achmea Bank held approximately EUR 899 million cash available on demand at the Dutch Central Bank (excluding the mandatory cash reserve). Furthermore, Achmea Bank had a portfolio of liquid debt securities amounting to EUR 695 million at year-end 2020 (2019: EUR 1.057 million), comprising of unencumbered retained RMBS notes (A-notes SRMP-I) and Dutch and German government bonds. In addition, Achmea Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V., which matures in March 2024.

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

In 2015 two new regulatory liquidity measures were introduced in the CRD IV/CRR: The Liquidity Coverage Ratio (LCR) and The Net Stable Funding Ratio (NSFR). The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The LCR is managed in the form of an LCR surplus (i.e. HQLA minus net cash outflow) and the internal limit is set at a surplus of EUR 10 million for 2020. The NSFR aims to ensure that long-term assets are financed with stable, longer term funding. Achmea Bank has set its internal minimum target for the NSFR at 105% for 2020. Both limits are higher than the minimum external requirements. Achmea Bank complies with all external and internal minimum requirements in 2020. At year-end 2020 the LCR was 332% (2019: 249%) and the NSFR was 126% (2019: 121%).

FUNDING STRATEGY

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

Entrusted funds (retail)

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

Secured wholesale funding

Securitisations

One of Achmea Bank's funding sources is securitisation of residential mortgages (RMBS), although the volume has been declining in favour of covered bonds in recent years. As of December 31st, 2020 Achmea Bank has one outstanding RMBS (DRMP II) (2019: three outstanding securitisation transactions), with a total outstanding amount of EUR 0.3 billion (2019: EUR 1.2 billion), excluding retained notes for an amount of EUR 0.8 billion (2019: EUR 1.1 billion). In 2020 Achmea Bank redeemed EUR 0.9 billion RMBS notes. There are no RMBS notes held by other Achmea entities (2019: EUR 0.4 billion).

For RMBS, Achmea 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 Achmea Bank an investor has recourse on Achmea 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 2020 Achmea Bank issued Conditional Pass Through Covered Bonds of EUR 0.5 billion. The total outstanding amount at year-end 2020 was EUR 1.5 billion (2019: EUR 1 billion).

In February 2021, Achmea Bank announced that Achmea Bank is preparing the set-up of an additional Covered Bond Programme. Achmea Bank intends to establish this programme, a so-called Soft Bullet structure, in 2021, under which all future Covered Bond issuances are expected to take place.

Trustee

Achmea 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 Achmea Bank, investors can recover their investments from the pledged mortgage receivables. The private loans covered by the Trustee guarantee amounts to EUR 53 million (2019: EUR 53 million).

The Secured EMTN Programme was terminated in 2020 after the early redemption of the last remaining EUR 10 million note.

Unsecured wholesale funding

Unsecured MTN Programme

Since 2012 Achmea 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 2020 (2019: EUR 2.1 billion), including CHF denominated loans for an amount of CHF 0.4 billion (2019: CHF 0.4 billion).

French commercial paper programme

In 2013 Achmea Bank set up a French commercial paper programme of EUR 1.5 billion. With this programme Achmea Bank is able to access the international money markets for its short-term funding needs. The total outstanding amount under the programme was EUR 681 million as at year-end 2020 (2019: EUR 172 million).

ASSET ENCUMBRANCE (RATIO)

EBA states that an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance sheet or off-balance sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered. At year-end 2020, EUR 3.4 billion of total assets were encumbered, resulting in an asset encumbrance ratio per year-end 2020 of 25.0% (2019: 27.1%)[3].

[3] Note that as a result of regulatory reporting requirements the Asset Switch has a strong negative impact on the asset encumbrance ratio due to nominator/denominator effects, whereas in practice Achmea Bank only swaps illiquid collateral for highly liquid collateral. Without the Asset Switch the asset encumbrance ratio would amount to 21.3% per year end 2020.

ENCUMBERED AND UNENCUMBERED ASSETS 2020

IN THOUSANDS OF EUROS*	CARRYING AMOUNT OF ENCUMBERED ASSETS		FAIR VALUE OF ENCUMBERED ASSETS		CARRYING AMOUNT OF UNENCUMBERED ASSETS		FAIR VALUE OF UNENCUMBERED ASSETS	
		OF WHICH NOTIONALLY ELLIGIBLE EHQLA AND HQLA		OF WHICH NOTIONALLY ELLIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA		**OF WHICH EHQLA AND HQLA**
	010	030	040	050	060	080	090	**100**
Assets of the reporting institution	**3,426,635**	**-**			**9,996,436**	**-**		
Equity instruments	-	-			-	-		
Debt securities	-	-	-	-	-	-	-	-
of which: covered bonds	-	-	-	-	-	-	-	-
of which: asset-backed securities	-	-	-	-	-	-	-	-
of which: issued by general governments	-	-	-	-	-	-	-	-
of which: issued by financial corporations	-	-	-	-	-	-	-	-
of which: issued by non-financial corporations	-	-	-	-	-	-	-	-
Other assets	**3,426,635**	**-**			**9,996,436**	**-**		
of which: mortgage loans	3,163,802	-			8,506,044	-		
*) The figures are based on the median value of the four quarters in the financial year.								

CREDIT RISK

CREDIT RISK MANAGEMENT

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

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

CREDIT PORTFOLIO

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

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

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

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

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

Private sector

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

Achmea Bank mortgage portfolio

The total Achmea Bank mortgage portfolio amounted at year-end EUR 11.6 billion nominal. The mortgage portfolio consists of the regular Achmea Bank portfolio (EUR 8.8 billion) and the acquired Acier loan portfolio (EUR 0.7 billion), a.s.r. mortgage portfolio (EUR 1.2 billion), Achmea Pensioen- en Levensverzekeringen N.V. mortgage portfolio (EUR 0,4 billion) and the Dynamic Credit mortgage portfolio (0.5 billion).

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

In 2020 the regular Achmea Bank portfolio decreased with EUR 0.6 billion to EUR 8.8 billion at year-end (2019 YE: EUR 9.4 billion).

Acquired portfolios

In 2020 Achmea Bank acquired a portfolio of Dutch residential mortgages from BinckBank, part of the Saxo Bank Group. The acquisition of this portfolio, with a size of approximately EUR 460 million, underlines Achmea's ambition to grow in mortgages. In recent years, this mortgage portfolio has been originated for the benefit of BinckBank, under the label 'bijBouwe' of mortgage provider Dynamic Credit. The portfolio that has been acquired is a so-called closed book, meaning that no new mortgages will be originated although interest rate resets and further advances will be offered. Consequently, the transaction will not affect the borrowers in the mortgage portfolio. Achmea Bank is taking the place of BinckBank as (one of the) investor(s) on the Dynamic Credit platform. This acquisition is in line with Achmea Bank's strategy of focusing on growth and scale.

Acier loan portfolio

The Acier loan portfolio differs in characteristics from the regular Achmea Bank mortgage portfolio. This portfolio may be defined as a runoff portfolio and is managed as such. The portfolio is managed by the former Achmea entity Staalbankiers credit department.
In 2020 the Acier loan portfolio decreased with EUR 67 million to EUR 723 million at year-end (2019: EUR 790 million). As of December 2020, the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 17.3 million (2019: EUR 21.7 million), which is a decrease of EUR 4.4 million compared to December 2020. 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 (EUR 0.2 million). In 2020 all credit losses on the Acier portfolio above 8 basis points were compensated by this guarantee. This threshold will be increased to 20 basis points as from 2021 onwards. The total amount of claims submitted to this guarantee is recognised on the balance sheet as a receivable on Achmea B.V. The majority of the collateral of the Acier loan portfolio is concentrated in the Netherlands. A minor part of collateral is in the rest of Europe.

Consumer and corporate credit portfolio

Consumer credit is credit used by the borrower to finance consumer expenditure. The main forms of consumer credit are revolving credit facilities and personal loans. Achmea Bank has been active in consumer credit via various distribution channels until mid-2009. No new loans have been granted since then. A substantial part of the revolving credit and personal loan portfolio was sold to a third party in December 2010. A small remaining part of the revolving credit and personal loan portfolio is still being managed by Achmea Bank (EUR 18 million). Part of the Acier portfolio also consists of loans with an exposure to non-households (corporations). Achmea Bank defines these loans as corporate credit (EUR 47 million).

Professional counterparties

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

Contingent liabilities, commitments and other risks

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

LEGAL PROCEEDINGS

In the course of 2020 several instances of legal proceedings are pending against Achmea 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 December 31st, 2020.

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 (2015 and 2016). 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 2020, the total amount claimed by Achmea Bank is EUR 20 million (2019: EUR 20 million).

CONTRACTUAL OBLIGATIONS

At year-end 2020 the Bank had contractual obligations for the coming year with Achmea Group companies amounting to EUR 48.3 million (2019: EUR 36.1 million), primarily in connection with outsourcing of the servicing of the regular mortgage portfolio, ICT-related contracts and with Centraal Beheer for distribution.

Achmea Bank had external contractual obligations for the coming year to Quion amounting to EUR 6.9 million (2019: EUR 10.1 million) in connection with outsourcing of the servicing of the regular mortgage portfolio, EUR 2.5 million (2019: EUR 2.2 million) in contractual obligations to Able for the servicing of the saving portfolio, EUR 2.4 million in contractual obligations for the servicing of the mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V., EUR 2.3 million in contractual obligations to a.s.r. for the servicing of the a.s.r. mortgage portfolio and EUR 1 million in contractual obligations for the servicing of the acquired mortgage portfolio of BinckBank.

IRREVOCABLE FACILITIES

This refers to all liabilities relating to irrevocable undertakings which could lead to credit losses, including mortgage loan proposals for EUR 321 million (2019: EUR 148 million), construction accounts of EUR 31 million (2019: EUR 34 million) and undrawn credit facilities of credit mortgages of EUR 14 million (2019: EUR 10 million).

FISCAL UNITY

Achmea Bank forms a fiscal unity with Achmea B.V. for company tax purposes, including VAT. Within this fiscal unity Achmea 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 41 million (2019: EUR 42 million). The expected net recovery of this exposure is limited.

MORTGAGE PORTFOLIO

Credit committees

Achmea Bank has two credit committees, one committee dedicated to the Achmea Bank retail portfolio and one committee dedicated to the Acier loan portfolio. Both Credit Committees are chaired by the CFRO, other members of the Credit Committees (not limited) are department's managers of Balance Sheet & Financial Risk Management and Business & Operations. 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 establishes (underwriting) policy frameworks on the basis of legislation. Credit Risk Management is responsible for the review of the updated and/or revised policies as part of their 2nd line of defence role. Credit risk is monitored by the Credit Committee.

Credit approval

The underwriting policy sets the parameters to approve mortgage applications. Loan applications which do not meet the underwriting criteria can be discussed via a special procedure for non-compliant applications (in Dutch: 'buiten kader proces'). This procedure allows SAREF to approve non-compliant applications under increased scrutiny and by means of the so called 4-eye principle. Credit Risk Management monitors the non-compliant applications monthly. Additionally, Credit Risk Management reviews non-compliant applications quarterly by means of random selection. Credit Risk Management does this for the applications where Achmea Bank is the lender of record. Where SAREF is the lender of record SAREF will perform the review by the means of random selection. With respect to Acier, the Credit Approval Committee chaired by the CFRO accepts loan applications, which are by the nature low or non-existing because of the closed book character.

The Credit Risk Management department monitors the credit risk of the portfolio as part of their 2nd line of defence role. When actions are needed, the Credit Risk Management department will advise the Credit Committee and propose possible action(s). Possible actions are an adjustment/review of the policies, such as Product Approval and Review Process (PARP), Underwriting policy and Credit Risk policy.

Arrears management

Stringent procedures are in place to monitor payment arrears. Borrowers who fail to make a payment on the scheduled date are contacted (by telephone) by the Special Asset Management department within 15 days. Borrowers are prioritized according to Probability of Default and Loss given Default (LGD euro amount). If the customer is still under management at Special Asset Management after 2 months, their file will transfer from team Early to team Late. If attempts at contacting the customer fail, a request for physical house call is made after 45 days in arrears. After two months under treatment the customer's file is transferred to team Late for further management. The transfer will also take place if team Early has been unable to establish contact with the customer. Team Early and team Late are together responsible for arrears management and debt collection.

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

Definition of default

In 2017, during the IFRS 9 project to introduce the expected credit loss model for the provision of impaired loans, the definition of default has been updated. Defaults are recognized earlier and have a probation period which makes sure the clients will get proper attention. The definition is broadly in line with the new standard as laid down in the latest EBA Guideline (EBA GL Default definition (EBA-GL-2016-07) (2016)). This new Definition of Default is also used in the calculation of the IFRS 9 provision as of January 2018. In 2021 another update of the definition of default has been made in order to be fully compliant with the relevant EBA guidelines.

Forbearance

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

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

The registration of the forbearance measures of the acquired portfolios takes place at the issuing party. The relevant information for the portfolios is added to the banking systems of Achmea Bank.

In 2020 Covid-19 payment arrangements have resulted in increased arrears and defaults. Payment arrangements with a long duration have usually been agreed for settling the arrears (forbearance measures). As at December 31st, 2020 the forborne exposure amounted to EUR 306 million (2019: EUR 308 million), of which EUR 173 million relates to performing forborne exposures (2019: EUR 193 million). The remaining part of EUR 133 million (2019: EUR 115 million) relates to non-performing forborne exposures.

Impairment and past due loans

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

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

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

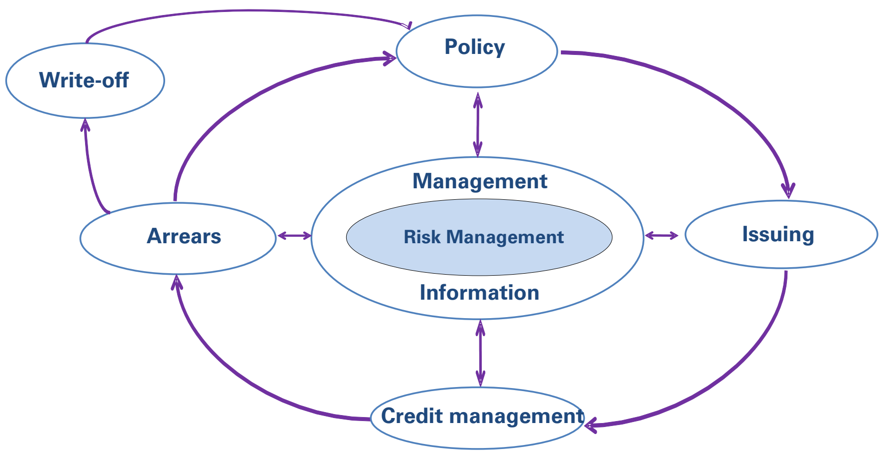
The ECL models for the regular and Acier portfolio consist of several sub-models which are common in the banking world. The sub-models are amongst others: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Discounting. All models are validated by Group Model Validation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

For 2020 the total write offs for the regular retail portfolio amounted EUR 0.7 million (2019: EUR 0.8 million). For the Acier portfolio the write offs amounted EUR 5.0 million (2019: EUR 8.3 million). Achmea Bank has a (capped) guarantee of Achmea B.V. to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited.

Credit risk measurement

Credit risk measurement framework

Credit risk is managed by means of the ‘credit cycle’. The credit cycle monitors for each part of the mortgage process (policies, underwriting, credit management, arrears management, write offs and management information in general) if credit risk is under control. If not, risk mitigating solutions are discussed in the credit committee. In addition, the Probability of Default (PD) and Loss Given Default Models are -used for actively identifying pre-emptive arrears management and high risk clients.



Risk classification and internal rating system

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

Credit risk reporting

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

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

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

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

Advanced Internal Rating Based (AIRB) approach

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

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

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

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

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

SPECIFIC COUNTERPARTY CREDIT RISK

Counterparty risk policy

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

Credit risk measurement

Achmea Bank uses Credit Support Annexes (CSA) to reduce the risk exposures on derivative counterparties 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 2020. Furthermore, as at December 31st, there are no concentrations of counterparty credit risk above the internally applied concentration limit.

The total net exposure mainly consists of the exposures on the top 10 professional counterparties (financial institutions). As at year-end the total net exposure for the top 10 amounted to EUR 333 million (2019: EUR 319 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 2020 the net exposure for the derivative exposures amounted to EUR 18 million (2019: EUR 35 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 Achmea Bank (investments and derivatives) are managed by means of the external credit ratings of the counterparties (Achmea middle rating: Standard & Poor's, Moody's, DBRS and Fitch):

The lowest rating at year-end 2020 was BB (EUR 0.7 million) (year-end 2019: rating BBB, EUR 22 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 2020 part of the collateral position (EUR 12 million) is reported as liability and recognised under deposits from banks (credit rating A) (2019: EUR 18 million).

Qualifying central counterparties

Following regulatory requirements, Achmea Bank clears all new derivatives (IRS) through a qualifying central counterparty (QCCP) , via its clearing members. For QCCPs appropriate limits are set in Achmea Bank's counterparty risk policy. Achmea Bank's exposure to QCCPs at year-end 2020 amounts to EUR 83 million (2019: 76 million).

Credit risk reporting

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

Additional contractual obligations in case of a rating downgrade

In the event of a rating downgrade of a specific counterparty, Achmea bank could be required to post additional collateral. These potential collateral requirements are connected to the rating triggers in Back-to-Back swap arrangements of the securitisation transactions of Achmea Bank. In case of a rating downgrade of three notches for all swap counterparties the additional collateral to be posted was EUR 15 million at year-end 2020.

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS	NOTIONAL	REPLACEMENT COST/ CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EAD POST CRM	RWAS
Mark to market	–	–	–	–	–
Original exposure	–	–	–	–	–
Current Exposure Method (CEM for derivatives)	9,287,285	66,058	62,693	128,751	24,152
IMM (for derivatives and SFTs)	–	–	–	–	–
Of which securities financing transactions	–	–	–	–	–
Of which derivatives and long settlement transactions	–	–	–	–	–
Of which from contractual cross-product netting	–	–	–	–	–
Financial collateral simple method (for SFTs)	–	–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–	–	–
VaR for SFTs	–	–	–	–	–
Total	**9,287,285**	**66,058**	**62,693**	**128,751**	**24,152**

SECURITISATIONS

OWN ASSET SECURITISATION

Achmea Bank uses securitisation (RMBS) as part of its funding mix. At year-end 2020 there are two outstanding transactions: DRMP II and SRMP I. For one transaction, SRMP I, all notes are retained by Achmea Bank. The class A notes of SRMPI are ECB eligible and can be used as collateral for e.g. central bank funding. The total amount was EUR 568 million (SRMP I A notes) as per December 31st, 2020.

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

REGULATORY CAPITAL APPROACH

For the currently outstanding exposures Significant Risk Transfer (SRT) is not applicable therefore regulatory capital is determined by the total risk exposure amount (TREA) for the underlying assets as if these assets where not securitized (‘look-through’). With this method the issuance of a securitisation does not change the required capital amount for the originator.

As per December 31st, 2020 no securitsations were reported compared to 2019 under CRR due to changing CRR-legislation resulting in the non-application of Significant Risk Transfer (SRT).

RISK MEASUREMENT

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

Own securitisations

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

Investing in third party RMBS

Achmea Bank can also act as an investor in RMBS. These assets are then used as part of a buffer of liquid assets held to manage liquidity risk. Achmea Bank currently has no RMBS investments.

Standardised approach

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

OPERATIONAL RISK MANAGEMENT

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

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

- Risk identification and classification through risk self-assessments, audits and top-down risk analysis on the reliability of the financial statements;

- Risk measurement through key risk indicators, a central incidents database and incident reporting and analysis; and

- Risk mitigation, acceptance and monitoring through follow-up of outstanding actions and audit findings.

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

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

Risk control measures

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

- Information security: The whole of activities that focus on the permanent realization of an optimal level of availability, integrity and confidentiality of information and information systems in order not to jeopardize business continuity, not to harm the interests of customers, to protect and prevent financial damage and image damage. comply with laws and regulations. Control measures have been included for this in the Internal Control Framework, focusing on the following themes: Cyber security, IT Architecture, Data center Facilities, IT Operations, Logical access security and change management.

- Business Continuity Management (BCM): This includes recognizing threats and their potential impact, determining the minimum required level of services to customers and other stakeholders, and implementing and testing measures to prevent major disruptions of business-critical chains and the impact of the disruptions is limited to an acceptable proportion. Control measures have been included for this purpose in the Internal Control Framework, aimed at preventing long-term system failure and back-up and recovery of data and systems.

- Outsourcing: Outsourcing processes must take place carefully and in a controlled manner, based on a risk / return assessment and written documentation of mutual obligations. To this end, the Internal Control Framework contains control measures aimed at contracting, compliance with Service Level Agreements and registration of outsourcing.

The risk management cycle is monitored continuously by means of a broad-based internal control framework. At least every three months the risk management cycle is discussed in detail by the Finance & Risk Committee. Risk management governance, processes, techniques and methods are outlined in the operational risk policy, which is reviewed every year. The internal control framework supports the risk management process by determining the effectiveness of the controls in its key risk areas. Achmea Bank applies the basic indicator approach for calculating its operational risk capital charge under Pillar I of the Basel framework. No security incidents occurred in the previous year which significantly harmed or affected the provision of services to clients, nor did any material loss or damage occur as a result of instances of fraud.

MARKET RISK

INTEREST RATE RISK BANKING ENVIRONMENT

Interest rate risk framework

One of Achmea Bank's objectives is to generate a positive interest margin on its banking operations. Achmea Bank's market risk mainly consists of interest rate risk in the banking book. Achmea 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 Achmea Bank's market risk. Transactions on the financial markets are supported and executed by Achmea Treasury department and Corporate Finance department. Achmea Bank's risk exposure is discussed during ALCo meetings and appropriate action is taken if necessary.

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

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

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

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

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

Risk measurement

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

Achmea Bank uses various methodologies to monitor the impact of IRRBB:

- 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 Achmea Bank. It comprises a sudden, parallel shift of the interest rate curve (swap curve) by 200 basis points (up and down). The impact of a non-parallel shift can be higher than that of a parallel shift. The sensitivity analysis recalculates the market value of the entire portfolio under the above mentioned scenarios;
- Income at Risk: measures the impact on the interest income by a fluctuation of the interest rates.

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

DURATION

IN YEARS	2020	2019
Duration of equity	2.22	2.49

SENSITIVITY ANALYSIS

IN MILLIONS OF EUROS	2020	2019
Parallel shift in the yield curve of 200 basis points downward	−1.5	−8.9
Parallel shift in the yield curve of 200 basis points upward	−44.3	−58.1

The effect of a 200 basis point upward shift of the yield curve on the EVE is EUR -44 million at December 31st, 2020 compared to EUR -58 million at December 31st, 2019. The lower impact of the 200 basis points upward scenario is mainly due to linear effects (i.e. a lower duration of equity) and CPR effects. In the +200 bp scenario, the CPR will drop and mortgages will stay longer on the balance sheet. For 2020 the longer remaining mortgages are more beneficial than in 2019 because the market interest rate in 2020 is lower than in 2019.

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	2020	2019
Income at Risk	−10.6	−11.5

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, Achmea Bank´s policy is to fully hedge its exposure to foreign currency risk. Achmea Bank´s exposure at December 31st, 2020 is limited to the CHF mortgage portfolio as part of the Acier loan portfolio and a CHF bank account.

Part of the Acier loan portfolio is denominated in CHF (EUR 388 million at year-end 2020). This position is partly hedged by CHF 400 million (EUR 370 million) unsecured loans. The remaining CHF exposure is hedged on a monthly basis with foreign exchange derivatives. The net valuation effect over 2020 amounts to a EUR 0.4 million gain (2019: EUR 0.2 million gain) and is recognised in changes in fair value of financial instruments.

All foreign exchange (CHF) positions are being hedged. The remaining open CHF position is EUR 4.6 million short. Therefore, Achmea Bank does not calculate a capital charge for market risk.

FOREIGN CURRENCY EXPOSURE

In thousands of euros	2020 Total exposure	2020 Notional amounts of hedging instruments	2020 Net exposure	2019 Total exposure	2019 Notional amounts of hedging instruments	2019 Net exposure
Assets						
Swiss Franc	388,705	393,312	−4,607	411,783	−419,392	−7,609
	388,705	**393,312**	**−4,607**	**411,783**	**−419,392**	**−7,609**
Liabilities						
Swiss Franc	–	–	–	–	–	–
	–	**–**	**–**	**–**	**–**	**–**
Net						
Swiss Franc	388,705	393,312	−4,607	411,783	−419,392	−7,609
	388,705	**393,312**	**−4,607**	**411,783**	**−419,392**	**−7,609**

REMUNERATION PRINCIPLES AND POLICY

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

Achmea Bank had decided to suspend variable remuneration based on 2020 until there is a greater clarity regarding the impact of the COVID-19. By taking this action, the company follows the call from the European Central Bank (ECB) and the Dutch Central Bank (DNB).

RENUMERATION AWARDED DURING THE FINANCIAL YEAR

IN THOUSANDS OF EUROS

RENUMERATION AMOUNT	SENIOR MANAGEMENT	OTHER MATERIAL RISK-TAKERS
Fixed remuneration		
Number of employees	2	-
Total fixed remuneration	536	-
Of which: cash-based	-	-
Of which: deferred	-	-
Of which: shares or other share-linked instruments	-	-
Of which: deferred	-	-
Of which: other forms	-	-
Of which: deferred	-	-
Variable remuneration	-	-
Number of employees	2	-
Total variable remuneration	89	-
Of which: cash-based	-	-
Of which: deferred	44,5	-
Of which: shares or other share-linked instruments	-	-
Of which: deferred	-	-
Of which: other forms	-	-
Of which: deferred	-	-

DFERRED REMUNERATION

IN THOUSANDS OF EUROS

DEFERRED AND RETAINED REMUNERATION	TOTAL AMOUNT OF OUTSTANDING DEFERRED REMUNERATION	OF WHICH: TOTAL AMOUNT OF OUTSTANDING DEFERRED AND RETAINED REMUNERATION EXPOSED TO EX POST EXPLICIT AND/OR IMPLICIT ADJUSTMENT	TOTAL AMOUNT OF AMENDMENT DURING THE YEAR DUE TO EX POST EXPLICIT ADJUSTMENTS	TOTAL AMOUNT OF AMENDMENT DURING THE YEAR DUE TO EX POST IMPLICIT ADJUSTMENTS	TOTAL AMOUNT OF DEFERRED REMUNERATIO N PAID OUT IN THE FINANCIAL YEAR
Senior management					
Cash	220	220	-	44,5	-
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	-	-	-	-	-
Cash	-	-	-	-	-
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	**220**	**220**	**-**	**44,5**	**-**

APPENDIX: TABLES

KEY METRICS

KEY METRICS

IN MILLIONS OF EUROS	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019
Available capital (amounts)					
Common Equity Tier 1 (CET1)	807	813	813	813	776
Tier 1	807	813	813	813	776
Total capital	808	814	814	814	777
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	3,954	3,804	3,873	3,985	4,042
Risk-based capital ratios					
Common Equity Tier 1 ratio	20.4%	21.4%	21.0%	20.4%	19.2%
Tier 1 ratio	20.4%	21.4%	21.0%	20.4%	19.2%
Total capital ratio	20.4%	21.4%	21.0%	20.4%	19.2%
Additional CET1 buffers					
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%	2.5%
Countercyclical buffer	0.0%	0.0%	0.0%	0.0%	0.0%
Total of Achmea Bank CET1 specific buffer	0.0%	0.0%	0.0%	0.0%	0.0%
Leverage ratio					
leverage ratio exposure	13,572	12,829	12,785	14,047	13,363
Leverage ratio	5.9%	6.3%	6.4%	5.8%	5.8%
Liquidity Coverage Ratio (LCR)					
Total HQLA	1,389	1,050	694	1,049	515
Total Net Cash Outflow	418	314	275	638	207
LCR	332%	334%	252%	165%	249%
Net Stable Funding Ratio (NSFR)					
Total Available Stable funding	11,346	11,006	11,478	13,848	11,398
Total Required Stable funding	9,014	8,827	9,080	10,887	9,384
NSFR	126%	125%	126%	118%	121%

BALANCE SHEET

RECONCILIATION OF REGULATORY CAPITAL TO BALANCE SHEET

IN THOUSANDS OF EUROS	BALANCE SHEET AS IN PUBLISHED STATEMENTS	REFERENCE
Cash and balances with Central Banks	938,708	
Derivative assets held for risk management	82,035	
Loans and advances to banks	669,166	
Loans and advances to public sector	652	
Loans and advances to customers	12,092,263	
Interest-bearing securities	–	
Current tax assets	–	
Deferred tax assets	4,760	
Prepayments and other receivables	46,092	
Total Assets	**13,833,676**	
Derivative liabilities held for risk management	456,475	
Deposits from banks	377,234	
Funds entrusted	7,447,114	
Debt securities issued	4,651,080	
Provisions	1,200	
Current tax liabilities	7,533	
Deferred tax liabilities	–	
Accruals and other liabilities	57,053	
Subordinated liabilities	1,191	a
Total Liabilities	**12,998,880**	
Share Capital	18,152	b
Share premium	505,609	c
Reserves	311,035	d
Total shareholders' equity	**834,796**	
Total Equity and Liabilities	**13,833,676**	

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION

CARRYING VALUES IN MILLIONS OF EUROS	FINANCIAL STATEMENT	REGULATORY REPORTS	OF WHICH: CREDIT RISK	COUNTERPARTY CREDIT RISK	SECURITISATION FRAMEWORK
Cash and balances with Central Banks	939	939	939	–	–
Derivative assets held for risk management	82	82	–	82	–
Loans and advances to banks	669	669	669	–	–
Loans and advances to public sector	1	1	1	–	–
Loans and advances to customers	12,092	12,092	12,092	–	–
Interest-bearing securities	–	–	–	–	–
Current tax assets	–	–	–	–	–
Deferred tax assets	5	5	5	–	–
Prepayments and other receivables	46	46	46	–	–
Assets held for sale and discontinued operations	–	–	–	–	–
Total assets	**13,834**	**13,834**	**13,752**	**82**	**–**

MAIN SOURCES OF DIFFERENCES FOR 2020

IN MILLIONS OF EUROS	TOTAL	CREDIT RISK	SECURITISATION	COUNTERPARTY CREDIT RISK
Asset carrying value amount under scope of regulatory consolidation	13,834	13,752	–	82
Liabilities carrying value amount under the regulatory scope of consolidation	–	–	–	–
Total net amount under the regulatory scope of consolidation	**13,834**	**13,752**	**–**	**82**
Off-balance sheet amounts	366	77	–	–
Differences due to different netting rules for derivatives	−16	–	–	−16
Differences due to valuation of derivatives (add on for potential future exposure)	63	–	–	63
Differences due to the application of Significant Risk Transfer	–	–	–	–
Exposure amounts considered for regulatory purposes	**14,246**	**13,829**	**–**	**129**

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

PRUDENT VALUATION ADJUSTMENTS FOR 2020

IN THOUSANDS OF EUROS	INTEREST RATES	FX	CREDIT	COMMODITIES	TOTAL	OF WHICH: IN THE BANKING BOOK
Close-out uncertainty, of which:	105	–	–	–	105	105
Mid-market value	105	–	–	–	105	105
Close-out cost	–	–	–	–	–	–
Concentration	–	–	–	–	–	–
Early termination	–	–	–	–	–	–
Model risk	–	–	–	–	–	–
Operational risk	–	–	–	–	–	–
Future administrative costs	–	–	–	–	–	–
Other	–	–	–	–	–	–
Total adjustment	**105**	**–**	**–**	**–**	**105**	**105**

DIFFERENCES IN THE SCOPES OF CONSOLIDATION (ENTITY BY ENTITY)

AS PER 31/12/2020		METHOD OF REGULATORY CONSOLIDATION				DESCRIPTION OF THE ENTITY
NAME OF THE ENTITY	METHOD OF ACCOUNTING CONSOLIDATION	FULL CONSOLIDATION	PROPORTIONAL CONSOLIDATION	NEITHER CONSOLIDATED OR DEDUCTED	DEDUCTED	
SRMP I B.V.	Full consolidation	X				Special purpose vehicle
DRMPII B.V.	Full consolidation	X				Special purpose vehicle
Stichting Trustee Achmea Hypotheekbank	Full consolidation	X				Special purpose vehicle
Stichting Incasso Achmea Hypotheken	Full consolidation	X				
Achmea Conditional Pass-Through Covered Bond Company B.V.	Full consolidation	X				

CAPITAL MANAGEMENT

OVERVIEW OF RWA

IN MILLIONS OF EUROS	RWA 2020	RWA 2019	MINIMUM CAPITAL REQUIREMENTS 2020
Credit risk (excl. counterparty credit risk)	3,680	3,639	294
Of which Standardised approach	3,680	3,639	294
Of which internal rating-based approach	–	–	–
Counterparty credit risk	24	33	2
Of which mark to market	–	–	–
Of which original exposure	–	–	–
Of which the standardised approach	24	33	2
Of which internal model method	–	–	–
Of which risk exposure amount for contribution to default fund of a CCP	–	–	–
Of which CVA	–	–	–
Settlement risk	–	–	–
Securitisation exposure in banking book	–	148	–
Of which securitisation internal rating-based approach	–	–	–
Of which securitisation external rating-based approach	–	–	–
Of which securitisation standardised approach	–	148	–
Market risk	–	–	–
Of which Standardised approach	–	–	–
Of which internal model approach	–	–	–
Large exposures	–	–	–
Operational risk	250	222	20
Of which basic indicator approach	250	222	20
Of which standardised approach	–	–	–
Of which advanced measurement approach	–	–	–
Credit valuation adjustment	–	–	–
Amounts below the threshold for deduction (subject to 250% risk weight)	–	–	–
Floor adjustment	–	–	–
Total	3,954	4,042	316

In 2020 the total risk exposure amount decreased by EUR 88 million from EUR 4,042 million to EUR 3,954 million, mainly due to the stricter legal requirements for securitisation resulting in non-application of securitisation as per 01-01-2020.

LEVERAGE RATIO COMMON DISCLOSURE

IN MILLIONS OF EUROS	2020	2019
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	13,752	13,575
(Asset amounts deducted in determining Tier 1 capital)		
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**13,752**	**13,575**
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	66	75
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	63	67
Exposure determined under Original Exposure Method	–	–
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	−11	−15
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	−375	−379
(Exempted CCP leg of client-cleared trade exposures)	–	–
Adjusted effective notional amount of written credit derivatives	–	–
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
Total derivative exposures	**−257**	**−253**
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–	–
(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
Counterparty credit risk exposure for SFT assets	–	–
Derogation for SFTs: Counterparty credit risk exposure	–	–
Agent transaction exposures	–	–
(Exempted CCP leg of client cleared SFT exposure)	–	–
Total securities financing transaction exposures	**–**	**–**
Off-balance sheet exposures at gross notional amount	366	292
(Adjustments for conversion to credit equivalent amounts)	−289	−151
Other off-balance sheet exposures	**77**	**41**
Tier 1 capital	807	776
Total exposure	13,572	13,363
Leverage ratio	**5.9%**	**5.8%**

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

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

IN MILLIONS OF EUROS	2020	2019
Total assets	**13,834**	**13,665**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure)	–	–
Adjustments for derivative financial instruments	63	67
Adjustments for securities financing transactions "SFTs"	–	–
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	77	41
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure)	–	–
(Adjustment for exposures excluded from the leverage ratio exposure measure)	–	–
Other adjustments	–402	–410
Total leverage ratio exposure	**13,572**	**13,363**

LIQUIDITY MANAGEMENT

LIQUIDITY COVERAGE RATIO DISCLOSURE TEMPLATE

IN THOUSANDS OF EUROS	TOTAL UNWEIGHTED VALUE (AVERAGE)				TOTAL WEIGHTED VALUE (AVERAGE)			
QUARTER ENDING ON (DD MONTH YYY)	31/12/2020	30/09/2020	30/06/2020	31/03/2020	31/12/2020	30/09/2020	30/06/2020	31/03/2020
Number of data points used in the calculation of averages	3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS								
Total high-quality liquid assets (HQLA)					1,134,748	933,684	984,882	784,986
CASH – OUTFLOWS								
Retail deposits and deposits from small business customers	**4,346,399**	**3,288,220**	**4,202,550**	**4,161,813**	**277,622**	**285,507**	**281,050**	**279,997**
of which stable deposits	3,275,460	1,975,027	2,907,140	2,861,041	163,773	147,831	145,357	143,052
of which less stable deposits	1,070,939	1,313,193	1,295,410	1,300,772	113,849	137,675	135,693	136,945
Unsecured wholesale funding	**104,928**	**58,017**	**75,646**	**91,341**	**100,641**	**53,751**	**73,436**	**61,226**
of which operational deposits and bank deposits	–	–	–	–	–	–	–	–
of which non-operational deposits	33,106	49,328	33,423	63,592	28,819	45,062	31,214	33,477
of which unsecured debt	71,822	8,689	42,223	27,749	71,822	8,689	42,223	27,749
Secured wholesale funding					**375**	**51**	**42**	**388**
Additional requirements	**130,095**	**120,615**	**249,085**	**267,758**	**89,184**	**88,767**	**212,946**	**229,837**
of which outflows related to derivatives and collateral	80,036	75,559	85,621	78,165	80,036	80,079	85,621	79,151
of which outflows related to loss of funding	6,995	6,773	125,423	148,639	6,995	6,773	125,423	148,639
of which credit and liquidity facilities	43,064	38,283	38,041	40,955	2,153	1,914	1,902	2,048
Other contractual funding obligations	**441,801**	**436,328**	**432,737**	**375,174**	**169,290**	**158,094**	**175,782**	**164,775**
Other contingent funding obligations	**63,945**	**63,977**	**61,052**	**80,117**	**2,308**	**1,919**	**2,197**	**3,205**
TOTAL CASH OUTFLOWS					**639,420**	**588,089**	**745,455**	**739,428**
CASH – INFLOWS								
Secured loans (e.g. reverse repos)	–	–	–	–	–	–	–	–
Inflows from fully performing exposures	**202,458**	**175,066**	**195,202**	**187,296**	**194,958**	**168,685**	**188,557**	**187,240**
Other cash inflows	**225,290**	**254,063**	**274,639**	**289,229**	**105,290**	**134,063**	**154,639**	**169,229**
(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					–	–	–	–
(Excess inflows from a related specialised credit institution)					–	–	–	–
TOTAL CASH INFLOWS	**427,749**	**429,129**	**469,840**	**476,525**	**300,249**	**302,747**	**343,196**	**356,469**
Fully exempt inflows	–	–	–	–	–	–	–	–
Inflows subject to 90% cap	–	–	–	–	–	–	–	–
Inflows subject to 75% cap	**427,749**	**429,129**	**469,840**	**476,525**	**300,249**	**302,747**	**343,196**	**356,469**
					TOTAL ADJUSTED VALUE			
Liquidity buffer					**1,134,748**	**933,684**	**984,882**	**784,986**
Total net cash outflows					**339,172**	**285,341**	**402,259**	**382,960**
Liquidity Coverage ratio (%)					**335%**	**327%**	**245%**	**205%**

NET STABLE FUNDING RATIO

IN THOUSANDS OF EUROS	UNWEIGHTED VALUE BY RESIDUAL MATURITY				WEIGHTED VALUE
	NO MATURITY	← 6 MONTHS	6 MONTHS TO ← 1YR	→ 1 YR	
AVAILABLE STABLE FUNDING (ASF) item					
Regulatory capital	807,870,085				807,870,085
Other capital instruments		–		483,970	483,970
Capital	807,870,085	–	–	483,970	808,354,055
Stable deposits	3,651,445,242	146,426,457	170,878,703	1,536,259,350	5,787,555,174
Less stable deposits	442,769,663	66,764,578	27,098,699	516,334,671	518,321,374
Retail deposits and deposits from small business customers	4,094,214,905	213,191,034	197,977,402	2,052,594,021	6,305,876,548
Operational deposits	–	–	–	–	–
Other wholesale funding	–	1,374,034,818	721,370,712	3,809,738,512	4,203,569,943
Wholesale funding	–	1,374,034,818	721,370,712	3,809,738,512	4,203,569,943
Liabilities with matching interdependent assets	–	–	–	–	–
NSFR derivative liabilities		−2,938,670	4,092,465	13,627,115	
All other liabilities and equity	1,226,686	64,890,475	360,000	28,114,210	28,294,210
Other liabilities	1,226,686	61,951,804	4,452,465	41,741,325	28,294,210
TOTAL AVAILABLE STABLE FUNDING	**4,903,311,676**	**1,649,177,657**	**923,800,579**	**5,904,557,827**	**11,346,094,755**
REQUIRED STABLE FUNDING(RSF) item					
Total NSFR high quality liquid assets (HQLA)	938,707,751	–	–	–	–
Deposits held at other financial institutions for operational purpose	–	–	–	–	–
Performing loans and securities; of which	40,664,566	277,893,469	98,278,247	11,849,741,578	8,738,548,797
Performing loans to financial institutions secured by Level 1 HQLA	–	–	–	–	–
Performing loans to financial institutions secured by non-level 1 HQLA	40,664,566	192,632,601	–	39,294,646	74,292,952
Performing loans to non-financial corporate clients, retail, sovereigns and central banks; of which	–	553,172	441,210	103,055,356	87,830,950
with a risk weight of less than or equal to 35% (SA credit risk)		−450	–	1,316,470	855,480
Performing residential mortgages; of which	–	84,707,696	97,837,037	11,707,391,576	8,576,424,895
with a risk weight of less than or equal to 35% (SA credit risk)	–	80,489,291	86,039,492	10,670,662,537	7,748,975,176
Securities that are not in default and do not qualify as HQLA	–	–	–	–	–
Assets with matching interdependent liabilities	–	–	–	–	–
Assets posted as initial margin for derivative contracts and contributions to default funds of CCP's	–	–	–	–	–
NSFR derivative assets	–	9,497,619	400,291	−5,495,270	–
NSFR derivative liabilities before deduction of variation margin posted	–	2,639,139	4,167,627	383,169,457	77,441,133
All other assets	30,305,902	31,932,296	881,698	31,354,395	179,958,661
Other assets	30,305,902	41,429,914	1,281,988	25,859,125	257,399,794
Off balance sheet items	–	365,836,686	–	–	18,291,834
TOTAL REQUIRED STABLE FUNDING	**1,009,678,219**	**685,160,069**	**99,560,236**	**11,875,600,703**	**9,014,240,426**
Net Stable Funding Ratio	**1,009,678,219**	**319,323,383**	**99,560,236**	**11,875,600,703**	**126%**

SOURCES OF ENCUMBRANCE 2020

IN THOUSANDS OF EUROS*	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
Carrying amount of selected financial liabilities	**2,521,169**	**2,808,899**
of which: Derivatives	483,047	424,106
of which: Deposits	228,162	264,783
of which: Debt securities issued	1,836,560	2,158,152
*) The figures are based on the median value of the four quarters in the financial year.		

COLLATERAL RECEIVED 2020

IN THOUSANDS OF EUROS*	ENCUMBERED		UNENCUMBERED	
	FAIR VALUE OF ENCUMBERED COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED		FAIR VALUE OF COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED AVAILABLE FOR ENCUMBRANCE	
		OF WHICH NOTIONALLY ELLIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA
Collateral received by the reporting institution	**-**	**-**	**493,925**	**493,925**
Loans on demand	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	**-**	**-**	**493,925**	**493,925**
of which: covered bonds	-	-	-	-
of which: asset-backed securities	-	-	-	-
of which: issued by general governments	-	-	493,925	493,925
of which: issued by financial corporations	-	-	-	-
of which: issued by non-financial corporations	-	-	-	-
Loans and advances other than loans on demand	-	-	-	-
Other collateral received	-	-	-	-
Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			-	-
TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	**3,426,635**	**439,341**		
*) The figures are based on the median value of the four quarters in the financial year.				

CREDIT RISK

If not specifically indicated, the exposures (on balance and off balance) in the tables below relates to all instruments subject to credit and counterparty credit risk, excluding instrument related to the securitization framework.

TOTAL AND AVERAGE NET AMOUNT OF EXPOSURES

IN THOUSANDS OF EUROS	Net value of exposure an end of the period	Average net exposures over the period
Central governments or central banks	943,550	705,633
Institutions	797,917	757,426
Corporates	88,829	98,104
Retail	1,233,213	1,255,049
Secured by mortgages on immovable property	11,038,908	10,938,378
Exposures in default	97,720	102,995
Other exposures	46,092	82,196
Total standardised approach	**14,246,228**	**13,939,782**

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

CREDIT QUALITY OF EXPOSURES BY EXPOSURE CLASS AND INSTRUMENT

IN THOUSANDS OF EUROS	GROSS CARRYING VALUE OF				
	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Central governments or central banks	–	943,550	–	–	943,550
Institutions	–	797,940	–	23	797,917
Corporates	–	91,885	–	3,056	88,829
Retail	–	1,236,942	–	3,729	1,233,213
Secured by mortgages on immovable property	–	11,048,380	–	9,472	11,038,908
Exposures in default	109,767	0	12,047	–	97,720
Other exposures	0	46,101	–	9	46,092
Total standardised approach	**109,767**	**14,164,798**	**12,047**	**16,289**	**14,246,228**
Of which: Loans and advances	109,767	12,685,401	12,047	16,280	12,766,841
Of which: Debt securities	0	0	–	–	–
Of which: Off-balance-sheet exposures	0	365,837	–	–	365,837

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

MATURITY OF EXPOSURES

IN THOUSANDS OF EUROS NET EXPOSURE VALUE	ON DEMAND	←= 1 YEAR	→ 1 YEAR ←= 5 YEARS	→ 5 YEARS	NO STATED MATURITY	TOTAL
Central governments or central banks	938,708	4,760		82		943,550
Institutions	–	302,430	264,640	230,846	–	797,917
Corporates		–	8,916	79,914		88,829
Retail		74,569	127,556	1,031,088		1,233,213
Secured by mortgages on immovable property		306,631	438,157	10,294,120		11,038,908
Exposures in default		579	1,851	95,290		97,720
Other exposures		45,546	546		–	46,092
Total standardised approach	**938,708**	**734,515**	**841,666**	**11,731,340**	**–**	**14,246,228**

CONCENTRATION OF EXPOSURE BY COUNTERPARTY TYPES

IN THOUSANDS OF EUROS NET VALUE	FINANCIAL SECTOR	NON FINANCIAL SECTOR	TOTAL
Central governments or central banks	943,467	82	943,550
Institutions	797,917	–	797,917
Corporates	–	88,829	88,829
Retail	–	1,233,213	1,233,213
Secured by mortgages on immovable property	–	11,038,908	11,038,908
Exposures in default	–	97,720	97,720
Other exposures	10,554	35,538	46,092
Total standardised approach	**1,751,938**	**12,494,290**	**14,246,228**

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

CREDIT QUALITY OF EXPOSURES BY COUNTERPARTY TYPES

IN THOUSANDS OF EUROS GROSS CARRYING VALUE OF	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Financial sector	–	1,751,970	–	32	1,751,938
Non-financial sector	109,767	12,412,827	12,047	16,257	12,494,290
Total	**109,767**	**14,164,798**	**12,047**	**16,289**	**14,246,228**

GEOGRAPHICAL BREAKDOWN OF EXPOSURES

IN THOUSANDS OF EUROS NET VALUE	NETHERLANDS	UNITED KINGDOM	GERMANY	FRANCE	DENMARK	OTHER COUNTRIES	TOTAL
Central governments or central banks	943,467					82	943,550
Institutions	337,542	200,369	16,160	38,074	185,509	20,263	797,917
Corporates	87,762					1,067	88,829
Retail	1,231,828					1,386	1,233,213
Secured by mortgages on immovable property	11,026,824					12,083	11,038,908
Exposures in default	97,720					–	97,720
Other exposures	46,092						46,092
Total standardised approach	13,771,234	200,369	16,160	38,074	185,509	34,882	14,246,228

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

CREDIT QUALITY OF EXPOSURES BY GEOGRAPHY

IN THOUSANDS OF EUROS GROSS CARRYING VALUE OF	DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENT	GENERAL CREDIT RISK ADJUSTMENT	NET VALUES
Netherlands	109,767	13,689,794	12,047	16,279	13,771,234
United Kingdom	–	200,375	–	6	200,369
Germany	–	16,163	–	3	16,160
France	–	38,074	–	–	38,074
Denmark	–	185,509	–	–	185,509
Other Countries	–	34,883	–	1	34,882
Total	**109,767**	**14,164,798**	**12,047**	**16,289**	**14,246,228**

AGEING OF PAST-DUE EXPOSURES

IN THOUSANDS OF EUROS CARRYING VALUES	< 30 DAYS	30 DAYS < 60 DAYS	→ 60 DAYS < 90 DAYS	UNLIKELY TO PAY THAT ARE NOT PAST-DUE OR PAST-DUE ←= 90 DAYS	→ 90 DAYS < 180 DAYS	→ 180 DAYS < 1 YEAR	→ 1 YEAR
Loans and advances	27,271	7,885	4,075	111,244	7,832	31,154	16,399
Debt securities	–	–	–	–	–	–	–
Total exposures	**27,271**	**7,885**	**4,075**	**111,244**	**7,832**	**31,154**	**16,399**

CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

IN THOUSANDS OF EUROS	GROSS CARRYING VALUE DEFAULTED EXPOSURES
Opening balance	**105,737**
Loans and debt securities that have defaulted since the last reporting period	68,903
Returned to non-defaulted status	−43,999
Amounts written off	−5,688
Other changes	−15,185
Closing balance	**109,767**

NON-PERFORMING AND FORBORNE EXPOSURES

IN THOUSANDS OF EUROS							
GROSS CARRYING VALUES							
		OF WHICH: PERFORMING BUT PAST DUE → 30 DAYS AND ←= 90 DAYS	OF WHICH: PERFORMING FORBORNE	OF WHICH: NON PERFORMING			
					OF WHICH: DEFAULTED	OF WHICH: IMPAIRED	OF WHICH: FORBORNE
Debt securities	–	–	–	–	–	–	–
Loans and advances	13,908,728	5,198	173,080	166,629	109,767	109,767	133,385
Off-balance sheet exposures	365,837	–	–	–	–	–	–

NON-PERFORMING AND FORBORNE EXPOSURES

IN THOUSANDS OF EUROS						
GROSS CARRYING VALUES	ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
	ON PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES	OF WHICH FORBORNE EXPOSURES
		OF WHICH: FORBORNE		OF WHICH: FORBORNE		
Debt securities	–	–	–	–	–	–
Loans and advances	16,280	691	12,047	5,236	152,389	299,864
Off-balance sheet exposures	–	–	–	–	–	–

CHANGES IN THE STOCK OF GENERAL AND SPECIFIC CREDIT RISK ADJUSTMENTS

IN THOUSANDS OF EUROS	ACCUMULATED SPECIFIC CREDIT RISK ADJUSTMENT	ACCUMULATED GENERAL CREDIT RISK ADJUSTMENT
Opening balance	**14,628**	**15,688**
First time adoption IFRS9	–	–
Increases due to recognition	73	430
Decreases due to derecognition	−5,359	−1,433
Changes due to change in credit risk (net)	7,193	2,150
Changes due to modifications without derecognition (net)	1,031	−373
Decrease in allowance account due to write-offs	−5,519	−171
Business combinations, including acquisitions and disposals of subsidiaries	–	–
Other adjustments	–	–
Closing balance	**12,047**	**16,289**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	–	–
Specific credit risk adjustments directly recorded to the statement of profit or loss	–	–

CREDIT RISK MITIGATION TECHNIQUES

IN THOUSANDS OF EUROS				
CARRYING AMOUNT			OF WHICH	
	EXPOSURES UNSECURED	EXPOSURES SECURED	SECURED BY COLLATERAL	SECURED BY CREDIT DERIVATIVES
Total loans and advances	294,380	12,472,461	12,472,461	–
Total debt securities	–	–	–	–
Total exposures	**294,380**	**12,472,461**	**12,472,461**	**–**
Of which: defaulted	–	97,720	97,720	–

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION EFFECTS

IN THOUSANDS OF EUROS	C040&070 EN DERIVATEN	C040&R080	C200&R070 EN DERIVATEN	C200&R080	C215&R010	
	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
EXPOSURE CLASSES	ON-BALANCE	OFF-BALANCE	ON-BALANCE	OFF-BALANCE	RWA	RWA DENSITY
Central governments or central banks	943,550	–	3,058,711	1,598	11,982	1.3%
Institutions	797,917	–	423,131	–	81,203	10.2%
Corporates	88,829	–	75,861	–	75,861	85.4%
Retail	1,162,038	71,176	535,260	17,853	414,834	33.6%
Secured by mortgages on immovable property	10,744,247	294,661	8,512,502	57,795	2,999,787	27.2%
Exposures in default	97,720	–	76,950	–	77,209	79.0%
Other items	46,092	–	1,197,978	–	42,411	92.0%
Total	**13,880,392**	**365,837**	**13,880,392**	**77,245**	**3,703,286**	**26.0%**

COUNTERPARTY CREDIT RISK

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS	NOTIONAL	REPLACEMENT COST/ CURRENT MARKET VALUE	POTENTIAL FUTURE CREDIT EXPOSURE	EAD POST CRM	RWAS
Mark to market	–	–	–	–	–
Original exposure	–	–	–	–	–
Current Exposure Method (CEM for derivatives)	9,287,285	66,058	62,693	128,751	24,152
IMM (for derivatives and SFTs)	–	–	–	–	–
Of which securities financing transactions	–	–	–	–	–
Of which derivatives and long settlement transactions	–	–	–	–	–
Of which from contractual cross-product netting	–	–	–	–	–
Financial collateral simple method (for SFTs)	–	–	–	–	–
Financial collateral comprehensive method (for SFTs)	–	–	–	–	–
VaR for SFTs	–	–	–	–	–
Total	**9,287,285**	**66,058**	**62,693**	**128,751**	**24,152**

CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

Credit valuation adjustment is no longer applicable as per December 2020.

CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

IN THOUSANDS OF EUROS

Exposure classes	0%	4%	20%	35%	50%	75%	100%	150%	Other	Total
Central governments or central banks	–	–	–	–	–	–	–	–	–	–
Regional government or local authorities	–	–	–	–	–	–	–	–	–	–
Public sector entities	–	–	–	–	–	–	–	–	–	–
Multilateral development banks	–	–	–	–	–	–	–	–	–	–
International organisations	–	–	–	–	–	–	–	–	–	–
Institutions	–	82,937	6,910	–	38,904	–	–	–	–	128,751
Corporates	–	–	–	–	–	–	–	–	–	–
Retail	–	–	–	–	–	–	–	–	–	–
Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–
Other items	–	–	–	–	–	–	–	–	–	–
Total	**–**	**82,937**	**6,910**	**–**	**38,904**	**–**	**–**	**–**	**–**	**128,751**

IMPACT OF NETTING AND COLLATERAL HELD ON EXPOSURE VALUES

IN THOUSANDS OF EUROS	GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT	NETTING BENEFITS	NETTED CURRENT CREDIT EXPOSURE	COLLATERAL HELD	NET CREDIT EXPOSURE
Derivatives	82,035	15,977	66,058	11,133	54,925
SFTs	–	–	–	–	–
Cross-product netting	–	–	–	–	–
Total	**82,035**	**15,977**	**66,058**	**11,133**	**54,925**

EXPOSURES TO CENTRAL COUNTERPARTIES

IN THOUSANDS OF EUROS	EAD POST-CRM	RWAS
Exposures for trades at QCCP's (ex. Initial margin and default fund); of which	82,937	3,317
- OTC derivatives	82,937	3,317
- Exchange-traded derivatives	–	–
- Securities financing transactions	–	–
- Netting sets where cross-product netting has been approved	–	–
Segregated initial margin	–	–
Non-segregated initial margin	23,095	924
Prefunded default fund contributions	–	–
Alternative calculation of own funds requirements for exposures	–	–
Total Exposures to QCCP's	**106,032**	**4,241**

COMPOSITION OF COLLATERAL FOR EXPOSURES TO CCR

IN THOUSANDS OF EUROS	COLLATERAL USED IN DERIVATIVE TRANSACTIONS			
	FAIR VALUE OF COLLATERAL RECEIVED		FAIR VALUE OF POSTED COLLATERAL	
	SEGREGATED	UNSEGREGATED	SEGREGATED	UNSEGREGATED
Cash- domestic currency	–	12,360	–	405,092
Cash- other currency	–	–	–	–
Domestic sovereign debt	–	–	–	–
Other sovereign debt	–	–	–	–
Government agency debt	–	–	–	–
Corporate bonds	–	–	–	–
Equity securities	–	–	–	–
Other collateral	–	–	–	–
Total	**–**	**12,360**	**–**	**405,092**

OPERATIONAL RISK

BUSINESS INDICATOR FOR OPERATIONAL RISK

IN THOUSANDS OF EUROS

	2020	2019
Interest income	334,996	343,056
Interest expenses	194,235	218,494
Interest	**140,761**	**124,562**
Fee income	9,403	8,136
Fee expenses	87	111
Other operating income	4,400	–
Other operating expenses	1,100	–
Services	12,616	8,025
Net P&L on Banking Book	–	–
Financial	–	–
Total exposure for operational risk	**153,377**	**132,587**

MARKET RISK

INTEREST RATE IN THE BANKING BOOK

IN THOUSANDS OF EUROS	ΔEVE		ΔNII	
Period	**2020**	**2019**	**2020**	**2019**
Parallel up	−61,556	−78,350	27,614	20,988
Parallel down	154	−1,500	−10,625	−11,512
Steepener	−18,298	−14,751		
Flattener	22,196	11,935		
Short rate up	12,566	4,035		
Short rate down	1,550	−988		
Maximum	−61,556	−78,350	−10,625	−11,512
Period	**2020**		**2019**	
Tier 1 capital	807,163		776,158	

Colophon

This is the English version of our 2020 pillar III report. There is no Dutch version of this report. The pillar III report can be downloaded from our website achmeabank.com.

Achmea Bank is happy to receive your reaction concerning this pillar III report via the address mentioned below.

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