achmea Bank

Pillar III report

2023

Contents

SUMMARY ANALYSIS

Common Equity Tier 1 ratio (CET1-ratio) (2022: 18.2%)	Tier 1 Capital ratio (2022: 18.2%)	Total Capital ratio (2022: 18.2%)
16.9%	**16.9%**	**16.9%**

Leverage ratio (2022: 5.4%)	Total Risk Weighted Exposure Amount (2022: € 4,264M)	Write-offs (2022: € 1.2M)
4.8%	**€ 4,585**	**€ 0.1M**

Liquidity Coverage ratio (LCR) (2022: 211%)	Net Stable Funding ratio (NSFR) (2022: 130%)
164%	**129%**

Capital management

Achmea Bank is adequately capitalized, both from a strategy and diversification point of view. Also in the near future the capital position is expected to stay above limits. To ensure this, the bank frequently and consistently monitors projections of its capital position, both in going-concern as in stress for a horizon of at least 3 years. Achmea Bank has an increased (internal) focus on capital optimization, where capital size, composition and costs form important elements. Per the 31st of December 2023 the leverage ratio and all capital ratios (CET1, T1 and TCR) are well above the in– and external requirements.

Capital Requirements

In September 2023, Achmea Bank obtained permission from the Dutch Central Bank (DNB) to use the Advanced Internal Ratings Based (IRB) approach for calculating own funds requirements for credit risk for its most material portfolio; the Retail- Secured by Residential Real Estate (non-SME) portfolio. For all other portfolios the Standardised Approach (SA) is used.

Following the remedial action plan that was shared with DNB in October 2023, Achmea Bank works on the remediation of identified areas for improvement. Successful remediation is expected to result in an improvement of the capital ratios of Achmea Bank in the medium term.

Liquidity management

Achmea Bank manages its liquidity positions prudently. The most important metrics used to monitor liquidity risk are the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Survival Period. The aim of the LCR is to ensure that the bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The aim of the NSFR is to ensure that long-term assets are financed with stable, longer-term funding. The aim of the Survival Period is to ensure the bank holds sufficient liquidity to survive the most severe internal stress scenario for at least six months. Per the 31st of December 2023 the LCR, NSFR and Survival Period are well above the in– and external requirements.

INTRODUCTION

This document presents the consolidated Capital Adequacy and Risk Management report (hereafter referred to as Pillar III report) of Achmea Bank N.V. as at 31 December 2023.

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 2023 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. As of the end of 2023, Achmea Bank no longer uses transitional arrangements.

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

This report describes the Bank’s:
- Company profile
- Risk management
- Capital management
- Liquidity management
- Credit Risk management
- Securitisations
- Operational Risk management
- Market risk management
- Remuneration principles and policy
- Climate-related risk

ACHMEA BANK

Achmea Bank N.V. (hereinafter referred to as ‘Achmea Bank’) is a wholly owned subsidiary of Achmea B.V. (hereinafter referred to as ‘Achmea’). Achmea is the ultimate parent company of the Achmea Group, the largest insurance group in the Netherlands, with a history of more than 200 years. Achmea Bank is part of the Achmea Group’s Retirement Services strategy. Achmea’s Retirement Services focuses on services for customers to have and generate income for today and tomorrow. Achmea Bank is located in Tilburg and employs approximately 200 people.

PRODUCTS

Achmea Bank plays a key role in the retirement services (Oudedagsvoorzieningen or “ODV”) strategy of Achmea. We provide a wide range of mainstream retail wealth accumulation products and mainstream and niche mortgage products and act as an investor in the Achmea Mortgages Investment Platform (AMIP).

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. Centraal Beheer also offers execution-only mortgage loans online. On top of Centraal Beheer and Woonfonds Achmea Bank also invests in mortgages originated by third-parties, in order to accelerate the balance sheet growth in matching mortgages. Furthermore we own the Acier portfolio that relates to the former Staalbankiers portfolio that was acquired in 2015 and 2016 which is a closed book portfolio.

Achmea Bank provides savings and investment products in the third and fourth pillar to private customers under the Centraal Beheer label. Relevant for our customers to further support them in wealth accumulation, and relevant for our business model as a substantial part of Achmea Bank’s funding consists of retail savings.

Apart from this, we are building partnerships that can contribute to our business model in the future and improve diversification through fee revenue.

STRATEGY

Achmea wants to become a leader in the field of retirement services. With insight, overview and understandable products, we help people as coaches to make well-considered financial choices about their life course. In this way they not only have sufficient financial resources at this moment and can cope with the financial challenges of today, but also in the future.

Achmea has positioned itself well in this market and offers its customers relevant solutions that strengthen and complement each other in the field of pension solutions, together with mortgages loans, saving products and investment services.

Achmea Bank has an important position in this strategy. Achmea Bank is the retail bank of Achmea, a data-driven network bank with a clear growth ambition. We are a bank with a wide range of financial products and services, simple and intuitive processes and integrated offers for our customers.

Achmea Bank's business model is primarily based on interest margin. In addition to regular mortgage products, we focus on customers in underserved market segments (niche markets) with tailor-made solutions such as buy-to-let and mortgages for the self-employed.

We also invest in third-party mortgage portfolios. Apart from this, we are building partnerships that can contribute to our business model in the future and improve diversification through fee revenue.

Achmea Bank’ strategy is focused on:

Profitable growth and diversification of the balance sheet
Achmea Bank is a solid customer focused, data-driven, efficient and flexible network bank with a healthy financial position. We are now committed to further growth and new partnerships, which contribute to an even more robust business model.

Together with our partners we want to help even more customers so that they can live a (financially) carefree life now and in the future. This can only be achieved with a stable and robust balance sheet. That is why we strive for further profitable growth of our balance sheet; with a larger mortgage portfolio we can help more savings and investment customers.

Further development towards a data-driven network bank
Data is an important asset through which we deliver added value to our customers and other stakeholders. We use data in our daily business operations and decision-making processes.

We continue to invest in our data infrastructure and data capabilities to ensure we create maximum value from information available both internally and externally. We use this information to monitor our portfolio, manage our financial and operational risks and create new opportunities.

Strengthening Centraal Beheer's positioning as a broad financial service provider
Centraal Beheer is the brand for our products. Centraal Beheer has transformed from a traditional insurer to a broad financial service provider.

We supplement Centraal Beheer's product range with savings and mortgage products and investment services so that it can develop into a broad financial service provider that, in addition to insurance, also offers a wide range of financial products. With this we want to help Centraal Beheer customers with financial choices in their lives for today and tomorrow.

Achmea Bank's strategy is based on the following pillars:

I. Wealth accumulation

Together we want to help even more customers lead a (financially) carefree life. Customers can use Achmea Bank's savings products and investment services to build up income.

As a result of the retrenchment in the collective system, we expect that pensions will have to be built up more and more individually. This creates a growing need for individual (financial) solutions.

Achmea Bank develops and manages private savings products for the third and fourth pillars. We started providing investment services in the third and fourth pillars to our private clients in 2023. The addition of investment services to the existing savings offering gives customers the opportunity to easily switch between saving and investing and makes it possible to keep costs low for the customer. Opportunities also arise to introduce new products and propositions to the market.

In addition, Achmea Bank provides the back office for Centraal Beheer's wealth accumulation propositions. Our savings and investment solutions are offered in the same chain. This allows us to offer our customers an integrated offer and to serve more customers even better.

II. Mortgages

Growth in mortgages is key to achieve the desired balance sheet growth. Growth of the mortgage portfolio creates a large funding requirement, which can be partly met with savings from Centraal Beheer’s customers.

Achmea offers a full range of mainstream mortgage products, mainly through the Centraal Beheer brand. As a group, Achmea has a separate platform (Achmea Mortgage Investment Platform (AMIP)) for mortgages. This allows institutional investors in the Netherlands to build up their own residential mortgage portfolio with the risk profile they desire. Achmea Bank is one of the investors on this platform. Thereby we are offering a stable financing source, we have so-called 'skin in the game' and we create opportunities for institutional investors to optimize their mortgage holdings.

Achmea Bank's primary focus is on growth through the AMIP, but Achmea Bank also acts as an investor on external party platforms. This increases economies of scale and enables Achmea Bank to attract additional capital with risk-return characteristics that fit well with our balance sheet. The focus is on mortgages with a shorter fixed interest period (≤10 years).

This multi-platform strategy makes us less sensitive to fluctuations in performance on parts of the mortgage portfolio and thus contributes to more stable and predictable results.

We also focus on customers in specific market segments such as buy-to-let and mortgages for self-employed people. By focusing on target groups, we can meet these specific customer needs and achieve better returns.

Finally, we achieve growth through transactions that ensure that we are less dependent on the market for new mortgages. Achmea Bank constantly explores the market for potential purchases of existing mortgage portfolios. Achmea Bank is also exploring other opportunities for balance sheet growth, such as the role of portfolio optimizer and liquidity provider. Achmea Bank can offer liquidity to institutional investors by taking over mortgage portfolios. The long fixed interest periods in combination with low credit risks of mortgage portfolios for this group are a good match with the characteristics they desire. Over time, the portfolio changes to a profile that increasingly matches the wishes of institutional investors.

Achmea Bank can offer these internal and external parties liquidity by taking over these mortgage portfolios. The short-term (residual) interest rates are often in line with Achmea Bank's preferences. This creates room for institutional investors to attract new mortgages with the properties they want.

Strategic priorities

Achmea Bank has formulated the following strategic priorities:

- Strong and valuable growth of the mortgage and savings portfolio, and profitability
- Growth in the number customers of Centraal Beheer
- Realization of relevant financial solutions for sustainable living (ESG in the head and heart)
- Integrating ESG into strategy, governance and risk metrics
- These efforts further support our mission to realise relevant financial solutions for sustainable living
- Lower capital charge and increase ROE by implementing Advanced IRB model. AIRB status was granted by DNB in September 2023
- Continuous investment in digitalisation and data(management) capabilities
- Optimizing costs within our organization
- Risk management and internal control in order

Identity

At Achmea Bank we put the interests of our customers first. This is not only focused on customer friendliness and satisfaction, but also about offering simple banking solutions with provable social added value and excellent, reliable service.

The impact we want to make is in the interests of our stakeholders and society. The dialogue with our stakeholders guides our strategy and business model, and the impact we want to have on society. We focus on activities that have an impact on our strategic goals and on the Social Development Goals.

We attach significant importance to the trust of our customers. We therefore manage our responsibilities with the utmost care. This means that we must have a financially healthy balance sheet and manage risks. We ensure the continuity and reliability of our services and focus on the long-term interests of our customers and stakeholders. We take responsibility for our activities and financial solidity in a transparent manner. Achmea Bank safeguards her reputation and integrity by ensuring that legal requirements, regulations, and ethical standards are met.

Compliance and risk management are strongly anchored in our business operations and have an independent position within Achmea Bank. They continuously ensure that the products, processes, and services we provide reflect what Achmea Bank wants to be: a solid and reliable bank.

We have skilled employees. Our core values at Achmea are passionate, contemporary, ambitious, proud and decisive. These values show how we work as Achmea Bank, how we interact with each other, what we want to be and for what we hold each other accountable. They form the basis for all our actions.

Achmea Bank nurtures a culture of openness in which people are able to raise integrity issues. We have a code of conduct in which we outline how we treat each other and how we deal with information, resolve conflicts of interest, manage incidents and handle complaints. In addition to the internal rules of conduct, external codes of conduct also apply for our employees, including the banker's oath.

Rating agencies

Achmea bank has an 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-/A-2 Stable Outlook, the rating was reaffirmed in March 2023. Achmea Bank has a Fitch rating of A/F1 Stable Outlook; the rating was reaffirmed in April 2023. Both rating agencies use own methodologies for assessing Achmea Bank's capital and liquidity position. These assessments include the strategic position of the bank within Achmea, its competitive position and Dutch market conditions. The latest reports can be found on Achmea Bank's website: https://www.achmeabank.nl/investeerders/ratings.

BASIS OF CONSOLIDATION

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

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

- Dutch Residential Mortgage Portfolio II B.V. (shares are held by Stichting Holding DRMP II)[1]
- Securitised Residential Mortgage Portfolio I B.V. (shares are held by Stichting Holding SRMP I)
- Securitised Residential Mortgage Portfolio II B.V. (shares are held by Stichting Holding SRMP II)
- Achmea Conditional Pass-Through Covered Bond Company B.V. (shares are held by Stichting Achmea Conditional Pass-Through Covered Bond Company)[2]
- Achmea SB Covered Bond Company B.V. (shares are held by Stichting Achmea SB Covered Bond Company)
- Achmea SB Covered Bond Company II B.V. (shares are held by Stichting Achmea SB Covered Bond Company II)
- Stichting Trustee Achmea Bank
- Stichting Incasso Achmea Hypotheken

[1] Dutch Residential Mortgage Portfolio II B.V. is liquidated in 2023 (12 October 2023)
[2] Achmea Conditional Pass-Through Covered Bond Company B.V is liquidated in 2023 (12 October 2023)

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

The Special Purpose Vehicles ("SPV's") Dutch Residential Mortgage Portfolio II B.V., Securitised Residential Mortgage Portfolio I B.V. and Securitised Residential Mortgage Portfolio II B.V. are companies set up by the Bank for securitisation purposes of residential mortgage loans. There are no representatives of the Bank in the boards of these entities.

Achmea Bank set up a EUR 5 billion Conditional Pass Through Covered Bond Programme in 2017 ("ACPTCB"). The shares of Achmea Conditional Pass-Through Covered Bond Company B.V. are held by Stichting Achmea Conditional Pass-Through Covered Bond Company. In June 2023 the outstanding bonds in the CPTCB programme (EUR 1.5 billion) were transferred to the SBCB programme after noteholders' approval and the CPTCB programme has been terminated.

In 2021 Achmea Bank set up an EUR 5 billion Soft Bullet Covered Bond Programme ("SBCB"). From this programme EUR 0.5 billion has been issued in October 2021 and EUR 0.5 billion has been issued in May 2022. In 2023 the Bank issued two tranches under the SBCB Programme: in January a EUR 0.5 billion 7 years tenor and in October a EUR 0.5 billion 3 years tenor. The shares of Achmea SB Covered Bond Company B.V. are held by Stichting Achmea SB Covered Bond Company.

In November 2023 Achmea Bank set up an entity for a new Retained Soft Bullet Covered Bond Programme (SBCB2) to establish in 2024. The shares of Achmea SB Covered Bond Company B.V. are held by Stichting Achmea SB Covered Bond Company II.

The Bank has a Trust agreement with Stichting Trustee Achmea Bank. Under this Trust agreement the Bank periodically pledges mortgage receivables to Stichting Trustee Achmea Bank as collateral for liabilities of the Bank.

Stichting Incasso Achmea Hypotheken has been set up to collect and distribute payments on the mortgage receivables to the Bank and related group companies mentioned above.

The above-mentioned companies are consolidated in accordance with the criteria of IFRS 10 Consolidated Financial Statements.

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

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

RISK MANAGEMENT

INTRODUCTION

The Managing Board bears the ultimate responsibility to formulate and implement the bank's strategy. An important element of the bank's strategy is the policy concerning capital and financial risk management and the resulting capital and funding plan. The Managing Board is responsible for the review, approval and execution of this plan. This also means that the Managing 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 Managing Board has delegated specific tasks to committees, including the Asset & Liability Committee (ALCo).

The objective of the bank's risk management framework is identifying and 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 the bank's risk management.

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

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.

[1] The BRRD provides that institutions established in the European Union (EU) should meet a minimum requirement for own funds and eligible liabilities ('MREL') to ensure an effective and credible application of the bail-in tool.

KEY METRICS SUMMARY

IN MILLIONS OF EUROS	2023	2022
Common Equity Tier 1 (CET1)	774	776
Tier 1	774	776
Total capital	774	776
Total risk-weighted assets (RWA)	4,585	4,263
Common Equity Tier 1 ratio	16.9%	18.2%
Tier 1 ratio	16.9%	18.2%
Total capital ratio	16.9%	18.2%
Additional CET1 buffers		
Capital conservation buffer	2.5%	2.5%
Countercyclical buffer	1.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%
Leverage ratio		
leverage ratio exposure	16,123	14,263
Leverage ratio	4.8%	5.4%
Liquidity Coverage Ratio		
Total HQLA	1,107	811
Total Net Cash Outflow	674	385
LCR ratio	164%	211%
Net Stable Funding Ratio		
Total Available Stable funding	13,539	11,270
Total Required Stable funding	10,503	8,657
NSFR ratio	129%	130%

Risk strategy

Achmea Bank's risk strategy supports management in the realisation of the business strategy by defining boundaries. The bank operates within these boundaries in order to be and remain in control. 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 financial and non-financial (including ESG) risk profile and ensures that risk management and techniques are implemented correctly, in line with legislation and market best practices.

Crisis Management Framework, Risk Appetite and Recovery Plan

Achmea Bank has a Crisis Management Framework in place, which comprises of several policy documents:

- Crisis Management Framework (CMF): Overarching document describing Achmea Banks' CMF, which captures e.g. the strategy of Achmea Banks and the core business activities and key risks linked to the Bank's strategy. The CMF describes the crisis management process and introduces the 'slippery slope'.
- Risk Appetite (RA): The RA describes the risk policy principles and risk tolerance of Achmea Bank. Key Risk Indicators (KRIs) are set for financial and non-financial risks. The RA contains specific KRIs for significant risks such as solvency and liquidity & funding risk, for which limits -including early warning- are set based on the slippery slope. A further explanation of these items is provided in the following paragraphs.
- Recovery Plan (RP): The RP captures the measures which can be taken to recover when financial KRI(s) enter a yellow or red zone of the risk appetite. The yellow and red zones are an indication of elevated risk. The primary goal of the RP is preventing a default of the bank. Hence, the focus is on tackling a (potential) liquidity and/or solvency crisis that poses a material threat to the financial viability of Achmea Bank.
- Business Continuity Plan (BCP): The BCP captures the measures which can be taken to recover when non-financial KRI(s) enter a yellow or red zone of the risk appetite.
- Fallback Plan (FP): Contrary to the RA, RP and BCP the fallback plan is a stand-alone continuity plan, aimed at a specific event, namely the discontinuation of a critical benchmark, e.g. Euribor.

Significant risks and developments

Achmea Bank identifies the following types of material risks:

- Solvency risk: the risk of an institution lacking the ability to absorb losses or decrease in earnings.
- Liquidity risk: the risk that the Bank, under normal circumstances as well as in times of stress, has insufficient liquid assets available in the short, medium or long term to meet its financial obligations without incurring unacceptable costs or losses. Liquidity risk also includes the situation in which the balance sheet structure develops in such a way that the bank suffers excessive exposure to a disruption of its funding sources.
- Credit risk: the risk that the bank suffers a financial loss or a material decrease in solvency, due to the fact that a borrower or counterparty does not meet the financial or other contractual obligations to the bank or due to a significant deterioration of the creditworthiness of the specific borrower or counterparty.
- Interest rate risk in the banking book (IRRBB): the current or prospective risk to both the earnings and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments.
- Credit spread risk in the banking book (CSRBB): the current or prospective risk to both the earnings and the economic value of an institution arising from adverse movements in credit spreads that affect credit spread sensitive instruments.
- Operational risk: the risk of loss arising from inadequate or failing internal processes, employees or systems, or from external events.

- Strategic risk: the risk that internal and external events may make it difficult for Achmea, or even impossible, to achieve the business objectives and strategic goals. Strategic risk is a type of risk, which alongside financial, operational, compliance and other business risks, forms part of the umbrella of risks Achmea Bank faces.

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

RISK MANAGEMENT ORGANIZATION

The Risk Office department of Achmea Banks is responsible for (second line) risk management. This department consists of two separate departments:

- The Financial Risk Management department which is responsible for the financial risks of the Bank; and
- The Compliance & Operational Risk Management department which is responsible for the non-financial risks.

Risk decision making

The Managing Board is responsible for the effectiveness of non-financial and financial risk management. The Risk Office department is led by the Head of Risk & Compliance, the financial risk management department is led by the manager Financial Risk Management. The non-financial risk management department, i.e. operational risk, is led by the manager Compliance & Operational Risk management.

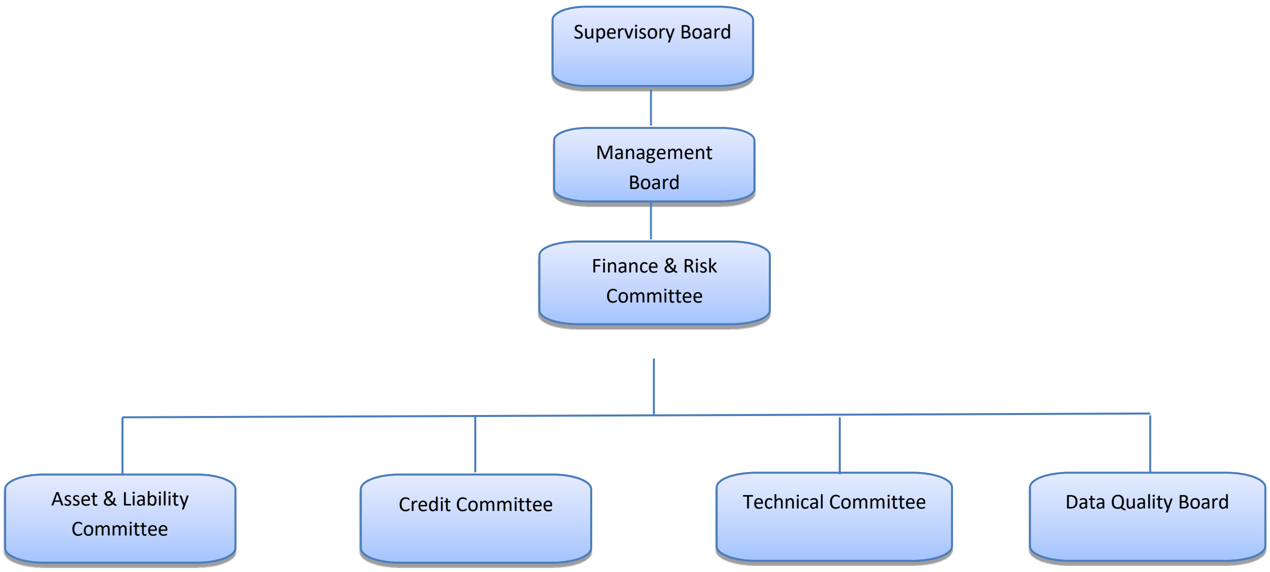
Risk governance and risk management committee structure

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

The Managing Board is responsible for defining and executing the Bank's strategy. A crucial element of the Bank's strategy is the consistent control of liquidity risk, counterparty risk, credit risk, interest rate risk, credit spread risk, foreign currency risk, operational risk and solvency risk.

The Managing Board is responsible for setting up effective processes that enable the Bank to hold sufficient capital and liquidity with respect to its objectives and the regulatory capital and liquidity adequacy requirements. Within this scope, the Managing 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 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, the Head of Risk & Compliance and the senior managers of Balance Sheet Management, Business Intelligence & Data Analytics, Control and Business & Operations. Control, Business Intelligence & Data Analytics and Balance Sheet Management have a standing invitation.



The Finance & Risk Committee (F&RC) focusses on steering of integrated risks (financial risk and non-financial risk, including compliance). On behalf of the MB, the F&RC is responsible for the setup, execution, monitoring and review of all of the bank's risk policies. The MB confirms F&RC decisions.

The ALCo monitors and manages all financial risks except for retail credit risk which is the focus of the Credit Committee. This comprises interest rate risk, credit spread risk, market risk, professional counterparty risk, 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 compliancy with the relevant regulatory guidelines. The ALCo is chaired by the CFRO of Achmea Bank. Other members of the ALCo are the senior manager Balance Sheet Management, the Head of Risk & Compliance and representatives of Control, (Group) Corporate Finance and (Group) Treasury.

The Credit Committee focuses on the management of credit risk on its (residential) mortgage portfolios. This means that the Credit Committee has the responsibility for approving of and advising on credit policy frameworks and the implementation of it. For monitoring of the quality of the credit portfolio including taking actions to act upon developments. Credit risk reports and reports about compliancy to the credit risk policies are sources for undertaking actions if needed, e.g. in case risk appetite indicators are negatively impacted. Also, the Credit Committee is regularly informed by the Credit Risk Control Unit (CRCU) about the outcomes and performance of the AIRB model and its various uses. The Credit Committee is chaired by the Head of Risk & Compliance, other members of the Credit Committee (not limited) are the (senior) managers of Financial Risk Management (which includes the CRCU), Product Management, Acier and Control.

The Technical Committee (TC) is responsible for the correct and timely processing of the Model Lifecycle of predominantly risk models. The TC is chaired by the Head of Risk & Compliance. Other members are the (senior) managers of Control, Business Intelligence & Data Analytics, Reporting, Analytics & Modelling, Balance Sheet Management and Financial Risk Management.

The Data Quality Board (DQB) is responsible for Data Governance within Achmea Bank. The DQB defines policies, roles and responsibilities with regard to data and monitors Data Quality of critical and non-critical data elements as well as the resolution of data observations and/or issues. It also has a formal role in the approval of data definitions and the traceability of data form source to consumption (data lineage). The DQB is chaired by the senior manager of Business Intelligence & Data Analytics, other members are the (senior) managers of Balance Sheet Management, Control, Business & Operations, IT and representatives of Financial Risk Management and Compliance & Operational risk Management.

The Audit & Risk Committee (A&RC) is a sub-committee of the Supervisory Board (SB), that cannot make decisions on its own; the A&RC acts in an advisory capacity for the SB. A&RC members include the CEO, the CFRO, the manager Internal Audit and representative(s) of the external accountant.

Risk measurement

Achmea Bank applies the Basic Indicator approach to determine operational risk capital requirements. The Bank applies an internal model to determine interest rate risk in the banking book. For credit risk, Achmea Bank applies the Advanced Internal Rating-Based (AIRB) for the Retail- Secured by Residential Real Estate (non-SME) portfolio and the Standardised approach for those portfolios that are immaterial in size and risk. The AIRB approach strengthens the bank's data driven strategy and credit risk management further and is expected to result in lower capital requirement. AIRB also ensures further professionalization in areas necessary to improve our competitiveness.

Stress testing

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

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

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

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

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

Capital management

For the purpose of stress testing its capital position Achmea Bank uses scenario planning to define a set of four scenarios, using input from multiple disciplines within the bank. After approval of the scenarios by the F&RC, these scenario are used to calculate the impact on the capital position at least once a year. The outcome of the stress test is reported to and discussed by the ALCo. Per 31 December 2023 the capital position remains well above the internal limit, as defined in the risk appetite, in all four scenarios.

Stress testing is also used to determine the pillar II capital charges for interest rate risk in banking book.

Liquidity management

On a quarterly basis Achmea Bank determines the impact of a severe market-wide stress scenario, a severe idiosyncratic stress scenario and a combined scenario. 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.

These stress scenarios are severe and lead to a substantial outflow of liquidity, but the available liquidity buffer of Achmea Bank is in all scenarios more than sufficient to ensure business continuity in times 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 and averting of a (potential) crisis. Recovery and resolution planning is aimed for banks to better plan their responses to severe crises and avoid having to rely on government bailouts. Recovery plans ensure that banks, including Achmea Bank, are prepared to restore their viability in a timely manner even in periods of severe financial stress.

The recovery plan captures the measures which can be taken to recover when financial KRIs enter a yellow or red zone of the risk appetite. The primary goal of the recovery plan is preventing a default of the bank. Hence, the focus is on tackling (potential) liquidity and/or solvency crises. The recovery plan also provides a crisis governance and communication structure, which ensures that all relevant stakeholders are involved and/or are being informed in a timely manner, as adequate communication is key to protect or restore the reputation of Achmea (Bank).

For the crisis management process a distinction is made between three main situations: going concern, elevated risk & crisis and default. The business as usual stage corresponds with a situation that key risk (indicators) are in the green zone of the slippery slope. The situation of elevated risk and crisis corresponds with the yellow zone (elevated risk / early warning) and red zone (crisis / high risk) zone of the slippery slope.

The Bank distinguishes the following levels for its KRIs, based on the zoning of the 'slippery slope':

- Target level (**level 1**) – green zone;
- Early warning zone (**level 2**) – yellow zone;
- High risk (**level 3**) – red zone.

For communication purposes two additional levels 4 and 5 are distinguished. The target, early warning and high risk levels are defined in the risk appetite statement of Achmea Bank.

The key risks are monitored by the risk committees and (senior) management on a regular basis via standard reports (see also paragraph 'Risk governance and risk management committee structure').

(REGULATORY) DEVELOPMENTS

Basel IV

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. At European level negotiating teams from Council and Parliament began trilogues on March 9th. An agreement between Council and Parliament is expected to be reached in Q1/Q2 2024. The 'Banking Package' is then adopted. The proposed application of the Banking Package is still January 2025.

Achmea Bank has assessed the potential impact on the risk weights of its assets of the earlier proposed Banking Package. The expected impact of the adjusted risk weights by application of the loan splitting method of Basel IV isa slight decrease of the average risk weight.

DNB increases the countercyclical capital buffer from 1% to 2% in 2024

In May 2022, DNB announced that it was working towards a countercyclical capital buffer (CCyB) of 2% in the coming years for all banks that have credit exposures in the Netherlands. The purpose of the CCyB (as introduced under CRD IV) is to increase the resilience of banks when cyclical risks build up build up, and to release the buffer as soon as these risks materialize. This gives banks additional room to absorb losses in bad times and supports lending to Dutch businesses and consumers. The first step of this incremental build-up of the CCyB is 1% as of May 25, 2023. As of May 25 2024 the CCyB will increase to 2%.

EBA Guidelines on IRRBB and CSRBB

The EBA Guidelines (2022) on interest rate risk from an institution's non-trading book business (IRRBB) and banking book credit spread risk (CSRBB) are mostly applicable from June 2023 and onwards. These guidelines specify the criteria for identification, management and mitigation by institutions of IRRBB. In addition, EBA has also published a Regulatory Technical Standards (RTS) specifying the criteria for assessing the risks arising from potential changes in interest rates that affect both the economic value of equity (EVE) and net interest income (NII) of a bank's non-trading book activities. Finally, a EBA has published a RTS specifying the modelling and the assumptions regarding the supervisory scenarios for the Supervisory Outlier Test (SOT). Achmea Bank is compliant on these topics.

Advanced Internal Rating Based (A-IRB)

In September 2023 DNB approved the request for the AIRB status. This status enables Achmea Bank to use advanced models in its reporting and credit cycle and contributes to a further professionalization of credit risk management. Following the remedial action plan, as discussed with DNB in October 2023, Achmea Bank works on the remediation of identified areas for improvement. Successful remediation is expected to result in an improvement of the capital ratios of Achmea Bank.

CAPITAL MANAGEMENT

Achmea Bank holds sufficient buffer capital to cover the (unexpected) risks arising from its operations. Pillar I of the Capital Requirements Regulation (CRR) contains rules for calculating the minimum amount of capital required, in relation to credit risk, market risk and operational risk. Pillar II of the CRR calculates capitalisation of 'other risks'. In September 2023 the Bank received the AIRB status from DNB which allows the Bank to use advanced internal models to determine credit risk, strengthening the bank's credit risk management and data driven strategy further. The approval did not yet result in a lower capital requirement. The risk weighted assets for the exposures are determined according to the Standardised Approach (SA) or a RWA floor which is at least equal to SA. Achmea Bank uses the standardized approach to calculate the credit risk weightings for the non-AIRB portfolio 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 16.9%, a Total Capital Ratio of 16.9% and a leverage ratio of 4.8% at 31 December 2023, which are well above the internally applied target for the minimum capital ratio level and leverage ratio level. For 2023 the Managing Board set the internal target for the minimum capital ratio level at SREP requirement plus the combined buffer requirement plus a management buffer of at least 0.5%.

AVAILABLE CAPITAL AND CAPITAL RATIO

IN MILLIONS OF EUROS	2023	2022
Share capital	18	18
Share premium reserve	506	506
Other Reserves	251	253
Deductions	-1	-1
Common Equity Tier 1 Capital	**774**	**776**
Lower Tier 2	–	–
Total own funds	**774**	**776**
Total risk exposure amount	**4,585**	**4,263**
Common Equity Tier 1 Capital Ratio	**16.9%**	**18.2%**
Total Capital Ratio	**16.9%**	**18.2%**
Total SREP Capital Requirement (TSCR)		
CET-1 capital	6.8%	6.1%
Tier 1 capital	9.1%	8.1%
Own Funds	12.1%	10.9%

The total regulatory capital of EUR 774 million consists of core equity tier 1 and is more than sufficient to cover the total pillar 1 capital requirements of EUR 341 million[2].

[2] Sources based to regulatory scope. Overview of RWA can be found in the Pillar III disclosure templates 2023 (additional Excel-file).

Dividend

In line with Achmea Group's policy to manage excess capital at group level and given Achmea Bank's strong capital position, a dividend of EUR 15 million was paid out to its shareholder Achmea B.V. This amount includes the 2022 net distributable profit plus a small amount of the other reserves (EUR 2 million).

Until 2023 Achmea Bank's methodology was to pay out 100% of net distributable profits generated in the previous year. In 2023 Achmea Bank introduced a bank specific capital policy to manage (excess) capital in a more efficient manner. This policy is aligned with Achmea Group's Capital Adequacy Policy (CAP) which is applicable to Achmea Bank. Achmea Bank needs to have sufficient capital to cover its risks and to comply with internal and external requirements, on the other hand the bank tries to limit the amount of unused freely available capital for reasons of costs efficiency. The dividend upstream methodology as of 2024 can therefore deviate from the previous methodology.

Internal capital adequacy requirements

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

Capital contingency

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

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 (non-AIRB) and operational risk. The risk weighted assets for the AIRB exposures are determined according to the Standardised Approach (SA) or a RWA floor which is at least equal to SA. Achmea Bank's market risk is related to currency risk. Articles 351 and 352 of the CRR include the capital requirements for currency risk. Article 351 contains the provision for the materiality threshold and the weighting for the pillar 1 capital requirement: if the total net position exceeds 2% of the total equity, the bank must hold capital of 8% of the net position. Since the net position does not exceed the 2% threshold, regulatory capital required for market risk is set at zero.

QUALIFYING CAPITAL

Achmea Bank's capital consists of tier 1. 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 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 774 million that the Bank retains to compensate for potential losses, is well above the level of the total external and internal capital requirements. This underlines the financial solidity of Achmea Bank.

Common equity tier 1 capital

In 2023 Common Equity Tier 1 capital decreased by EUR 2 million from EUR 776 million to EUR 774 million, mainly due to the release of a small amount of other reserves. As the Bank does not hold any additional tier 1 instruments, tier 1 capital equals its core equity tier 1 capital.

Risk weighted assets

The Bank reports the risk weighted exposure amounts in line with the CRR II and CRD V. In 2023 the total risk exposure amount (TREA) increased with EUR 321 million from EUR 4.264 million to EUR 4.585 million, mainly due to an increase in the mortgage portfolio and outstanding mortgage offers.

CAPITAL RATIOS

Total capital ratio (TCR) and Common Equity Tier I Capital Ratio (CET-1)

Both TCR and CET-1 decreased to 16.9% (2022: 18.2%). The decrease is mainly due to higher mortgage origination. Since Total Capital is equal to Common Equity Tier 1 Capital, there is no difference between these ratio’s.

Total SREP capital ratio (TSCR)

The TSCR is the minimum capital level that the Bank has to maintain, which is determined by DNB and results from the bi-annual Supervisory Review and Evaluation Process (SREP). The TSCR is a measure of the Bank's minimum required capital expressed as a percentage of its risk exposure amount. The minimum required capital consists of pillar I and pillar II capital charges and any add-ons imposed by DNB. DNB has set the total SREP capital ratio in 2023 on 12.1% (2021/2022: 10.9%). 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 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 2023 of 3.0% and the (expected future) external minimum requirements; the LR at 31 December 2023 was 4.8% (2022: 5.4%). The LR decreased during 2023 due to higher mortgage origination.

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 the LR is detected early and corrective management actions can be taken in a timely manner.

Minimum requirement for own funds and Eligible Liabilities (MREL)

Pursuant to the Single Resolution Mechanism (SRM) Regulation, on 17 December 2021 De Nederlandsche Bank (DNB) in its capacity of National Resolution Authority (NRA) set the Minimum Requirement for own funds and Eligible Liabilities (MREL) for Achmea Bank at 12.1% of the Total Risk Exposure Amount (MREL-TREA) and at 3% of the Total Exposure Measure (MREL-TEM). At year-end 2023 the amount of available own funds was EUR 774 million, which adequately covers both requirements of EUR 555 million (MREL-TREA) and EUR 484 million (MREL-TEM).

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. Furthermore, the ALCo monitors Achmea Bank's liquidity risks on a monthly basis.

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

Liquidity and funding contingency

The 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 the Bank for at least six months of severe liquidity stress. The recovery plan contains a range of possible measures to generate cash liquidity in times of need and is reviewed at least once a year.

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. The Bank has a strong liquidity stress testing framework which includes an idiosyncratic, a market-wide, a combined stress scenario and reverse stress testing. Some of the most important drivers of liquidity stress are:

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

In 2015 the Bank entered into an Asset Switch agreement with Achmea Pensioen- en Leven N.V. (AP&L) in order to improve its liquidity position. The Bank legally (i.e. not commercially/economically) exchanged mortgages for government bonds held by AP&L at a market value ratio of 110:100. Due to the higher liquidity treatment of government bonds, this enhances the liquidity position of the Bank and provides more flexibility in the timing of new funding transactions in connection with managing the liquidity and the survival period of the Bank. The maximum amount of the Asset Switch is EUR 1.0 billion, with a current target amount of EUR 0.5 billion. At year-end 2023 EUR 668 million (2022: EUR 682 million) of mortgages at nominal value were exchanged for EUR 504 million (2022: EUR 458 million) of government bonds (market value).

The Bank's liquidity buffer mainly consists of on-demand Central Bank deposits and a portfolio of unencumbered high-quality liquid assets, including the government bonds under the Asset Switch. At year-end the Bank held approximately EUR 598 million cash available on demand at the Dutch Central Bank (excluding the mandatory cash reserve). Furthermore, the Bank had a portfolio of liquid debt securities amounting to EUR 1,311 million at year-end 2023 (2022: EUR 1,038 million), comprising of unencumbered retained RMBS notes (A-notes SRMP-I and A-notes SRMP-II) and Dutch government bonds.

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

The bank manages the LCR 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 70 million for 2023. 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 110% for 2023. Both limits are higher than the minimum external requirements. The Bank complies with all external and internal minimum requirements in 2023. At year-end 2023 the LCR was 164% (2022: 211%) and the NSFR was 129% (2022: 130%).

FUNDING STRATEGY

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

Unsecured wholesale funding

Unsecured EMTN Programme
Since 2012 the Bank has a EUR 10 billion Unsecured European Medium Term Note programme. The total outstanding amount under the Programme was EUR 0.7 billion at year-end 2023 (2022: EUR 0.6 billion), including CHF denominated loans for an amount of CHF 0.3 billion (2022: CHF 0.3 billion).

French commercial paper programme
As of 2013 the Bank has a French commercial paper programme of EUR 1.5 billion. With this programme the Bank is able to access the international money markets for its short-term funding needs. The total outstanding amount under the programme was EUR 0.8 billion as at year-end 2023 (2022: EUR 0.6 billion).

Other Unsecured wholesale funding
The Bank has deposits with financial and non-financial institutions. Total outstanding amount was EUR 0.1 billion at year-end 2023 (2022: EUR 0.2 billion).

Retail funding
Achmea Bank attracts consumer savings under Achmea's Centraal Beheer label. The total savings portfolio consists of available on demand accounts of EUR 6.0 billion (2022: EUR 4.4 billion), deposits with agreed maturity of EUR 1.1 billion (2022: EUR 0.6 billion), saving deposits linked to mortgages of EUR 0.6 billion (2022: EUR 0.7 billion) and pension savings of EUR 1.5 billion (2022: EUR 2.2 billion).

Transfer of Parts
In December 2019, Achmea Bank entered into a Transfer of Parts agreement with Achmea Pensioen- en Levensverzekeringen N.V. The purpose of this agreement is to reduce the credit risk of Achmea Pensioen- en Levensverzekeringen N.V. on Achmea Bank related to the saving deposits which are linked to mortgages of Achmea Bank. Within this agreement, only the legal ownership of the mortgages for the size of the saving deposits is transferred to Achmea Pensioen- en Levensverzekeringen N.V. and therefore continues to be recognized at the consolidated statement of financial position Achmea Bank. As at December 2023 the total amount of transferred mortgages is EUR 0.3 billion (2022: EUR 0.1 billion).

Deposits from Banks, including Central Bank
This category consists of cash collateral received on derivative exposures (EUR 25 million), cash collateral SPV (EUR 5 million), money market loans (EUR 30 million) and, ECB main refinancing operations (EUR 300 million).

Secured wholesale funding

Covered Bond
In 2021 Achmea Bank has set up a EUR 5 billion Soft Bullet Covered Bond (SBCB) Programme in addition to its conditional pass-through covered bond (CPTCB) programme which was established in 2017. In June 2023 the outstanding bonds in the CPTCB programme (EUR 1.5 billion) were transferred to the SBCB programme after noteholders' approval and the CPTCB programme has been terminated.

In 2023 the Bank issued two tranches under the SBCB Programme, in January a EUR 0.5 billion 7 years tenor and in October 2023 a EUR 0.5 billion 3-years tenor. The total outstanding amount of covered bond at year-end 2023 was EUR 3.5 billion (2022: EUR 2.5 billion).

The bonds issued under both programmes are backed by high quality Dutch residential mortgage loans. Investors benefit from a so-called 'double recourse' which means that in the event of a default of the Bank an investor has recourse on the bank and on the underlying mortgage portfolio.

The programmes are UCITS eligible and Dutch Central Bank (DNB) registered. All issuances under these programmes are compliant with article 129 of CRR and AAA-rated.

In November 2023 Achmea Bank set up an additional EUR 5 billion Retained Soft Bullet Covered Bond Programme (SBCB2). As per 31 December 2023 no issuance has taken place. The shares of Achmea SB Covered Bond Company II B.V. are held by Stichting Achmea SB Covered Bond Company II.

Securitisations
After the redemption of DRMP II on the first optional redemption date in December 2022 the Bank no longer has any securitisations of residential mortgages (RMBS) outstanding externally. This excludes retained notes for an amount of EUR 1.1

billion (2022: EUR 1.5 billion). There are no RMBS notes held by other Achmea entities. The director of these companies is Intertrust Management B.V.

For RMBS, the Bank assigns a portfolio of mortgage receivables to a special purpose vehicle (SPV) which issues notes. The SPV uses the proceeds of the notes to finance the assigned mortgage receivables and uses the interest from the mortgage receivables to pay the interest on the notes.

Trustee

The Bank has entered into a Trust Agreement under which it periodically pledges mortgage receivables to Stichting Trustee Achmea Bank as collateral for some of its banking liabilities, such as private loans. In the event of default by the Bank, investors can recover their investments from the pledged mortgage receivables. The Bank intends to terminate the Trust structure and is actively repurchasing loans. As a result the outstanding volume of private loans covered by the Trustee guarantee has decreased to EUR 8 million (2022: EUR 41 million).

ASSET ENCUMBRANCE (RATIO)

EBA states that an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balancesheet or off-balancesheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered. At year-end 2023, EUR 5.4 billion of total assets were encumbered, resulting in an asset encumbrance ratio per year-end 2023 of 32.6% (2022: 32.6%)[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 the bank only swaps illiquid collateral for highly liquid collateral. Without the Asset Switch the asset encumbrance ratio would amount to 29.5% per year end 2023.

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 securitisation framework (Securitisation chapter).

Within Achmea Bank, credit risk is defined as 'the risk that the bank suffers a financial loss or a material decrease in solvency, due to the fact that a borrower or counterparty does not meet the financial or other contractual obligations to the bank or due to a significant deterioration of the creditworthiness of the specific borrower or counterparty'. To cover credit risk, Achmea Bank applies forward looking IFRS9 Expected Credit Loss (ECL) models to calculate an impairment/loan-loss provision and A-IRB models to calculate own funds requirements for credit risk.

CREDIT PORTFOLIO

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

Regular mortgage portfolio
The Regular mortgage portfolio, including the acquired portfolios and external platforms, consists of residential, owner-occupied property loans and niche propositions such as buy-to-let. Collateral for these loans consists of residential property, pledged life insurance policies or saving accounts.

Acier loan portfolio
The Acier loan portfolio is a run-off portfolio and differs in characteristics from the Regular mortgage portfolio. The principal amount of Acier loans is higher than average mortgage loans in the Netherlands, resulting in higher exposure risk on a single client. Also, the collateral may be residential and/or commercial properties with higher values and/or properties that may be more volatile in value and less marketable. The majority of the loans have a variable interest rate and part of the loans are denominated in Swiss Francs (CHF). All loans denominated in Swiss Francs have a variable interest rate (EUR 355 million at year-end 2023).

In 2023 the Acier loan portfolio decreased with EUR 56 million to EUR 590 million at year-end (2022: EUR 646 million). As of December 2023 the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 18.8 million (2022: EUR 12.8 million), which is an increase of EUR 6.0 million compared to December 2022.

Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this acquired portfolio (2015 and 2016). In 2023 EUR 4.7 million is claimed on the guarantee (2022: EUR 4.8 million) consisting of ECL additions exceeding the threshold of 20 bps of the average gross carrying amount of the Acier portfolio and legal costs or claims. The total amount claimed by Achmea Bank up to year end 2023 is EUR 30 million (2022: EUR 25 million). At year- end 2023, the remaining maximum guarantee amount is EUR 265 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.

Contingent liabilities, commitments and other risks
Liabilities due to off balance irrevocable facilities which may lead to an actual credit risk exposure, are construction deposits, undrawn credit facilities of credit mortgages and loan commitments. 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 other receivables.

Legal proceedings
In October 2023, Achmea Bank N.V. received a summons for a class-action lawsuit from Stichting Compensatie Zwitserse Frank Leningen (CZFL). This summons relates to mortgage loans denominated in Swiss Franc (CHF), provided by Staalbankiers N.V. (which loans have been transferred to Achmea Bank N.V.) to several of its private banking clients. In the summons for the class action Stichting CZFL, acting as claim foundation, holds Achmea Bank N.V. liable for any loss these clients with mortgage loans denominated in Swiss Franc, have suffered or may suffer resulting from (unforeseen) CHF/EUR exchange rate developments. Achmea Bank N.V. will defend herself against the claim. In earlier proceedings against Staalbankiers N.V. and Achmea Bank N.V., initiated by individual clients, courts ruled in favour of Achmea Bank N.V. Given the assessment of the complaints and claims on the grounds stated in CZFL's summons, no provision has been made. The class action legal proceedings will start in the beginning of 2024 for the court of The Hague.

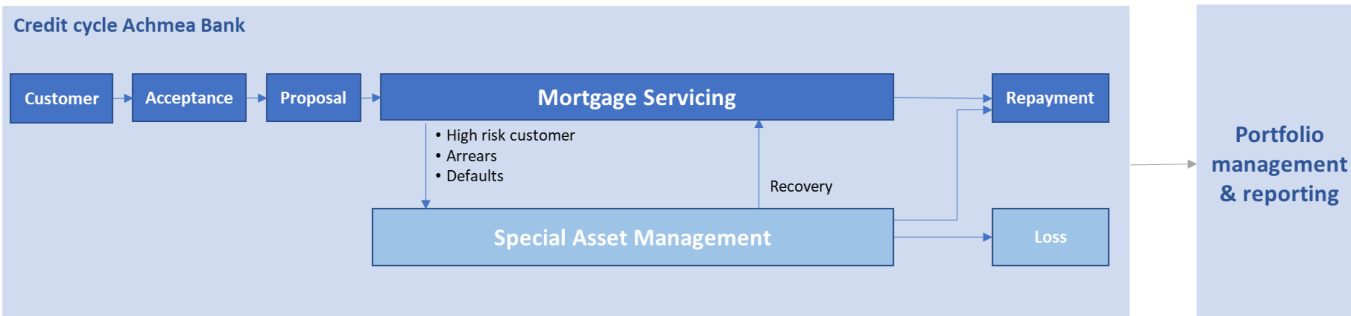
Contractual obligations
At year-end 2023 the Bank had contractual obligations for the coming year with Achmea Group companies amounting to EUR 68.3 million (2022: EUR 55.9 million), primarily in connection with outsourcing of the servicing of the regular mortgage portfolio by Syntrus Achmea Real Estate & Finance, ICT-related contracts and with Centraal Beheer for distribution.

The Bank had external contractual obligations for the coming year amounting to EUR 3.8 million (2022: EUR 3.2 million) for the servicing of the saving and investment portfolio, EUR 12.8 million in contractual obligations for the servicing of the mortgage portfolio (2022: EUR 7.0 million).

Irrevocable facilities
This refers to all liabilities relating to irrevocable undertakings which could lead to credit losses, including mortgage loan proposals for EUR 681 million (2022: EUR 663 million), EUR 300 million related to acquisition of newly originated mortgages (2022: EUR 75 million), construction accounts of EUR 123 million (2022: EUR 119 million) and undrawn credit facilities of credit mortgages of EUR 21 million (2022: EUR 20 million).

Post foreclosure claim
Achmea Bank has a residual claim after write-off of mortgage receivables of EUR 22 million (2022: EUR 35 million). The expected net recovery of this exposure is limited.

Credit committee
The Credit Committee monitors the risk profile (policies, procedures, products) and the mortgage portfolios' credit risk by means of the credit cycle. The credit cycle, as illustrated below, is the foundation on which Financial Risk Management forms its objective and independent judgement about the overall credit risk profile.

Credit policy


Achmea Bank's policy on credit risk is mainly focused on 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 based on legislation, Risk Appetite and credit risk monitoring. Financial Risk Management is responsible for the review of the updated and/or revised policies as part of their 2nd line role. Credit risk is monitored by the Credit Committee.

Credit approval
The underwriting policy sets the parameters to approve mortgage applications. In highly exceptional cases loan applications which do not meet the underwriting criteria can be discussed via the procedure for 'explain' applications. This is part of the comply or explain process. Financial Risk Management monitors the level of 'explain' applications quarterly based on the Risk Appetite limits.

Achmea also uses an application score card based on the AIRB model for credit approvals (excluding acquired portfolios and external platforms). Based on internal and external data a score determines if there is an increased risk for a specific mortgage application.

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

Arrears management
Stringent procedures are in place to monitor payment arrears. Borrowers that fail to pay the scheduled payment will be approached (by telephone) by the Special Asset Management department. If regular customer contact fails, a physical house call can be made. Special Asset Management treatment starts from the first month of arrears.

In case of foreclosure or forced sale the Special Asset Management department realises the collateral sale and any remainder debt will be written off. Any income from the residual debt is recognised in the income statement, as part of the other income.

Credit risk monitoring also takes place for the acquired portfolios and mortgage production via external platforms. These mortgage portfolios are highly comparable with Achmea bank's own portfolio in terms of credit risk. Special Asset Management treatment of the acquired portfolios is outsourced to the parties that have issued the mortgages. Achmea Bank receives ISAE 3402 reports from all respective organisations.

Due to the specific nature of the Acier portfolio a specialized Account Team and Special Asset Management Team is in place for the treatment and foreclosures.

Definition of default

Achmea Bank has a Definition of Default, Forbearance and Non-performing exposure policy in place. This definition is based on the standard as laid down in the Guidelines of European Banking Authority. This Definition of Default is also used in the calculation of the IFRS 9 provision.

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

- ➢ A facility is materially past due for more than 90 days;
- ➢ The obligor of the facility is unlikely to pay.

Examples of unlikely to pay (UtP) indicators applied by Achmea Bank are:

- ➢ Distressed restructuring;
- ➢ Bankruptcy;
- ➢ Fraud;
- ➢ Insufficient sources of recurring income;
- ➢ Seizure;
- ➢ Sale (by the Special Asset Management department or with a residual debt).

A facility only recovers from the default status once the arrears have been repaid in full or the UtP triggers have lapsed and at least three-month probation period has expired. In case of defaults with forbearance measures the probation period is 12 months from the start of the measure. All default exposures are also non performing exposures and are classified as credit impaired and included in stage 3.

Forbearance

Forbearance measures may be applied in situations where the Bank considers the borrower unable to meet the terms and conditions of the contract due to financial difficulties. Depending on the nature of those difficulties, Achmea Bank may decide to modify the terms and conditions of the contract to maximise collection opportunities and minimise the risk of default. Forbearance is the temporary or structural modification of the terms and conditions. Some examples of the forbearance measures Achmea Bank applies:

- ➢ temporary payment holidays longer than 6 months;
- ➢ temporary lowering of interest rate;
- ➢ restructuring and/or extension of the loan; and/or
- ➢ interest or cost forgiveness;

The registration of the forbearance measures and default triggers of the acquired portfolios takes place at the issuing party. The relevant information of the portfolios is added to the data warehouse of Achmea Bank.

As of 31 December 2023 the forborne exposure amounted to EUR 56 million (2022: EUR 76 million), of which EUR 32 million relates to performing forborne exposures (2022: EUR 46 million). The remaining part of EUR 24 million (2022: EUR 30 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 per 1 January 2018. 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 Management department for stress testing.

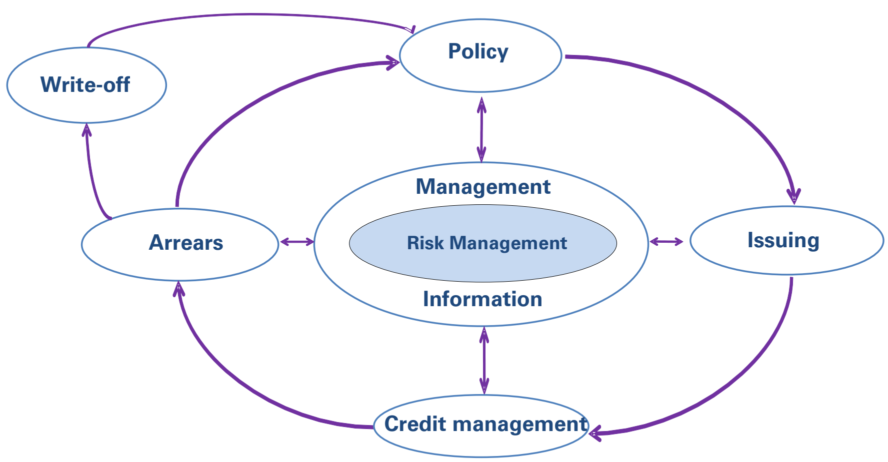
The ECL model for the regular portfolio consist of several sub-models which are common in the banking world. The sub-models are amongst others: Probability of Default (PD), Loss Given Default (LGD), Exposure at Default (EAD) and Discounting. All models are validated by Group Model Validation, and have 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 2023 the total write offs for the regular retail portfolio amounted EUR 0.1 million (2022: EUR 0.0 million). For the Acier portfolio the write offs amounted EUR 0.0 million (2022: EUR 1.2 million). Achmea Bank has a (capped) guarantee of Achmea B.V. to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited.

Credit risk measurement

Credit risk measurement framework

Credit risk is managed by means of the 'credit cycle'. The credit cycle monitors for each part of the mortgage process (policies, underwriting, 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, AIRB models are being used for actively identifying high risk clients. An example of the AIRB use case is applying the underlying models for pre-emptive arrears management.



Credit risk reporting

Financial Risk Management compiles monthly and quarterly reports for both the regular and the Acier portfolios. The reports focus on the developments in the credit portfolio and are discussed in 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.

Advanced Internal Rating Based (A-IRB) approach

Achmea Bank aims to apply the A-IRB approach for substantial credit portfolios. In September 2023, Achmea Bank obtained permission from the Dutch Central Bank (DNB) to use advanced internal models to calculate its credit risks for its most material portfolio; the Retail - Secured by Residential Real Estate (non-SME) portfolio. Internal credit models are used to estimate Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) parameters. The three credit risk parameters are used by Achmea Bank for the calculation of the capital requirements and for a wide range of other purposes, such as improving risk management and customer service, both in the acceptance and management of mortgages.

MODEL	EXPLANATION	METHOD
PD	The Probability of Default (PD) indicates the likelihood that a facility defaults within a one-year time horizon	A statistical model developed using internal data. Key risk drivers are based on arrears information (both internal and external) and loan-to-value. A regulatory floor of 3bps applies.
LGD	Loss Given Default (LGD) models estimate the amount the bank would lose if the counterparty were to default. LGD is estimated differently for facilities that are not in default and facilities that are already in default.	A statistical model developed using internal data. Important components are the probability of cure, probability of refinance and the estimated losses in each of these scenarios. Key risk drivers are based on arrears information (internal), workout information and loan-to-value. The downturn methodology reflects the potential decrease of house prices reflecting those observed in previous downturns.
EAD	Exposure at Default (EAD) models estimate the expected exposure at the time a counterparty defaults.	A model which makes a distinction between products which have only on-balance exposure and products which also have off-balance exposure. For the latter, a conservative Credit Conversion Factor (CCF) of 100% applies.

Standardized Approach (SA)

Achmea Bank applies the Standardized Approach (SA) for those portfolios that are immaterial in size and risk. DNB has granted Achmea Bank permission to use Permanent Partial Use of the Standardized Approach for the following portfolios:

- Exposures to central governments or central banks;
- Exposures to institutions;
- Exposures to corporates ;
- Retail exposures in the sub-portfolios of Acier, DCH and Obvion (Residential Real Estate).

SPECIFIC COUNTERPARTY CREDIT RISK

Counterparty risk policy

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

Credit risk measurement

To reduce the counterparty risk on derivatives contracts, the Bank has Credit Support Annexes (CSA) in place with all counterparties and all exposure is fully collateralised with cash. In line with the European Market Infrastructure Regulation (EMIR) the bank only enters into new contracts via Central Clearing Parties (CCP).

No write offs on counterparty positions occurred in 2023 (2022: EUR 0). Furthermore, as at 31 December 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 524 million (2022: EUR 517 million) and mainly concern direct debit accounts related to mortgage repayments and the total fair value of the derivatives versus the collateral positions. As at year-end of 2023 the net exposure for the derivative exposures amounted to EUR 157 million (2022: EUR 182 million) and consisted of the total fair value of the derivatives versus the collateral position, initial margin for central clearing .

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

The lowest rating at year-end 2022 was BBB (EUR 3.8 million) (year-end 2022: rating BBB, EUR 5.4 million). The unrated exposure consists of the exposure to London Clearing House Limited and EUREX Clearing AG. Most of the collateral positions are included in the category loans and advances to banks.

At year-end 2023 EUR 248 million (2022: EUR 251 million) of the collateral position is reported as an asset and recognised under loans and advances to banks and EUR 25 million (2022: EUR 196 million) is reported as a liability and recognised under deposits from banks.

Qualifying central counterparties

Following regulatory requirements, Achmea Bank clears all new derivatives (IRS) through a qualifying central counterparty (QCCP), via its clearing members. For QCCPs appropriate limits are set in the Bank's counterparty risk policy. Achmea Bank's exposure to QCCPs at year-end 2023 amounted to EUR 307 million (2022: 254 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. A potential collateral requirement is related to a Back-to-Back cap in a retained securitisation transaction (SRMP-I). In case of a rating downgrade of three notches of the cap counterparty the additional collateral to be posted was EUR 6 million at year-end 2023.

SECURITISATIONS

RETAINED SECURITISATION

Achmea Bank uses securitisation (RMBS) as part of its funding mix. At year-end 2023 there are two outstanding transactions: SRMP I and SRMP II. For SRMP I and SRMP II, all notes are retained by Achmea Bank. The class A notes of SRMP I and SRMP II are ECB eligible and can be used as collateral for e.g. central bank funding. The total amount was EUR 1.1 billion (SRMP I and II A notes) as per 31 December 2023 (2022: EUR 1.3 billion).

An amount of liquidity risk in securitisation transactions is retained by Achmea Bank by acting as liquidity facility provider in some of its retained 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.

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. Compliance risk is in scope of operational risk from a classification perspective, as this risk is not regarded as a separate event. However, as regulatory supervisors expect specific management and reporting on compliance risk, Achmea Bank ensures that identified compliance risks are earmarked as such. Operational risk events can lead to a financial loss for Achmea Bank and our customers and may also harm our reputation. Therefore, it is important to have a timely and adequate understanding of the risks we run, respond to these risks and implement effective control measures.

OPERATIONAL RISK AREAS

Achmea Bank has categorised operational risk into four main categories, i.e. business/process risk, compliance risk, IT risk and reporting risk. The main categories are divided further into risk themes which are also mapped to the operational risk categories as defined in the Basel regulations. In the section below, we describe the various subcategories of operational risk and the way they are dealt with within Achmea Bank.

Information security and cybercrime

The risks for cybercrime are high, due to malware and ransomware attacks by cyber criminals using changing techniques. Like most industries, Achmea Bank finds itself in a cybersecurity “arms race.” 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. Information security management within Achmea Bank focusses 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 and reputational damage and to comply with laws and regulations. Control measures for this risk have been included in the Control Framework (CFW), focusing on cyber security, IT architecture, data centre facilities, IT operations, logical access security and change management.

External and internal fraud

Mutual trust is an essential condition in the relationship between employees, customers and other relations and Achmea Bank. Fraud has negative consequences in this relationship and for the reputation of Achmea Bank and the industry. Prevention of, and action against, fraud is therefore necessary. Achmea Bank never accepts fraud ('zero tolerance'). We therefore pursue an active fraud policy and consistently take measures against any form of fraud. We are also obliged to do this by law and regulations. The fraud management policy focuses on both internal fraud (employees and directors) and external fraud (customers, suppliers and other relations).

Privacy

Personal data are processed within Achmea Bank on a daily basis. In order to protect the privacy of all those involved, it is important that the processing of personal data is performed with care and in compliance with regulations and laws. Achmea Group has drafted a privacy policy, which is also applicable to Achmea Bank. The policy provides guidelines for, among other things, the lawful and unlawful processing of personal data, transparency and disclosure obligation and the (timely) reporting of data breaches. Furthermore, Achmea Bank has appointed a Privacy Officer, who acts as the point of contact for all privacy-related matters within the organisation and towards partners. Privacy risks are classified as high and are therefore an important point of attention for management. Where deemed necessary measures have been taken and improvements have been implemented (or are in progress) to adequately manage privacy risks. In 2023, data retention in particular was an important area of focus.

Data risk

Data plays a significant role in organizations. This is certainly true for Achmea Bank, which aims to be a data driven network bank. In addition to increasingly stringent legal requirements, there is also a growing need to manage data from a commercial and operational perspective: by translating data into information and transforming it into knowledge, it can be used to create business value; e.g. more sales, insight into customer needs and/or lower costs. Data management is an absolute precondition for this. Achmea Bank has a robust Data Governance framework, in which we take care of the assurance of data quality throughout the chain. For a solid data management organization, clear roles, decision making bodies, rules and procedures are essential. In this way Achmea Bank can ensure that data is correctly defined, monitored and used throughout the data life cycle.

Outsourcing

Achmea Bank is a data driven network bank and has a strategy of optimizing results by adding value with our business partners. The responsibility of being a prudent financial institution sets strict obligations on how these partnerships are to be managed. Outsourcing risk is the risk that the continuity, integrity and quality of the outsourced activities are harmed. Achmea Bank follows a strict process when entering into and managing outsourcing arrangements, to ensure compliance with internal policies, regulations and laws. Outsourcing risks are classified as high, partly due to dependencies on internal and external service providers. This risk therefore has the continuous attention of management. In 2023, Achmea Bank has implemented a number of improvements deemed necessary in the way in which outsourcing and its associated risks are managed.

Business Continuity Management

Achmea Bank has measures to safeguard business continuity and ensure a timely disaster recovery, both in terms of policies and the functioning of physical assets, including IT systems. 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.

Model risk

Achmea Bank uses several internal models in conducting its business. The use of such models invariably presents model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk can lead to financial loss, poor business and strategic decision making, or damage to the bank's reputation. To mitigate model risk Achmea Bank has a structured model risk management process in place. Individual models are subjected to different controls and model validations across their lifecycle depending on their impact and complexity. It is therefore required to perform a model risk assessment which results in an overview of categorized models. Reassessment takes place on a yearly basis. The assessment consists of an inventory of all models, risk assessment, mitigating measures (e.g. documentation, testing, 4-eyes etc.), and additional measures to be taken.

Customer due diligence

Anti- money laundering and countering terrorism financing are high attention topics on the monitoring agenda of the supervising authorities. Achmea Bank functions as a gatekeeper for the financial system and in this role helps to detect and prevent financial crime and terrorism financing. Risks in this respect are mitigated by performing Customer Due Diligence, Sanction screening and Transaction Monitoring in operational activities. Achmea Bank continues to strengthen capabilities in this domain, both in personnel and in systems, and the compliance function (1st and 2nd line) is continuously working to improve the CDD framework. This includes improving efficiency and effectiveness within Achmea Group.

Duty of care

Achmea Bank offers savings and mortgage products. Achmea Bank considers it important to enable its customers to make informed choices based on information that meets legal requirements and that is understandable to an average customer. Achmea Bank has implemented a duty of care policy, based on guiding principles and compliant with laws and regulations. Effective application of the policy by the business is tested as part of the CFW.

Integrity risk

For clients to have confidence in financial institutions, it is essential that institutions operate with integrity. For Achmea Bank integrity is a precondition for a healthy financial system. To contribute to these objectives, Achmea Bank conducts an annual Systematic Integrity Risk Analysis (SIRA). For each integrity risk relevant scenarios are described, indicating how risks may arise through factors such as clients, employees, third parties, products and services or countries. Integrity risks in scope of the SIRA are: money laundering, fiscal fraud, corruption, circumvention of sanctions, financing of terrorism, conflict of interest, internal fraud, external fraud, cybercrime, market manipulation and misconduct.

MANAGEMENT AND CONTROL

Operational Risk Management Process

Achmea Bank has a structured process for identifying, assessing, monitoring and reporting operational risks as described above. This process comprises the following key activities:

- Identification: identification of all (key) risks and related controls;
- Assessment and response: evaluation of risks and controls and formulation of appropriate actions;
- Monitoring: regular review of the risk profile and exposure in relation to risk appetite;
- Reporting: articulating the risk profile for internal governance and external reporting requirements.

Achmea Bank's Operational Risk Management Framework (ORMF) is supported by the following tools:

- Loss Event Management and loss database: analysis of events to identify new operational risks, understanding the underlying causes and control weaknesses, and formulating an appropriate response to prevent recurrence of similar events; Risk events are registered in a central database;
- Risk Self Assessments: performing self-assessments of operational risks and controls on different levels. These include Strategic Risk Assessments, Project Risk Assessments, Operational Risk Assessments and specific variants of the latter, e.g. Model Risk Assessments, Systematic Integrity Risk Analysis, Privacy Impact Assessments;
- CFW: a structured approach to evaluate, review, test and monitor the key controls in place;
- Metrics: monitoring of Key Risk Indicators and related trends through time against agreed thresholds or limits to provide early warning information;
- Issue Management: ongoing monitoring of the timely remediation of observed issues in the management and controlling of risks.

Operational Risk Governance and Policy

To manage operational risks Achmea Bank relies on a three lines organisation model. The first line is business unit management which is responsible for identifying and managing the risks inherent in the products, activities, processes and systems for which it is accountable. Compliance & Operational Risk Management is the second line and provides independent risk oversight over business processes and the proper implementation of the risk management policies and framework. The third line comprises the internal audit function which provides independent assurance to the board of the appropriateness of Achmea Bank's ORMF. At least every three months the risk management cycle is discussed in detail by the Finance & Risk Committee.

The Operational Risk Policy describes the objectives of operational risk management, the governance structure, roles and responsibilities and the overall design of the ORMF. The policy is reviewed every year and contains additional policies and procedures for specific risk events, such as for information security, business continuity, outsourcing and compliance/integrity.

RESULTS 2023

Losses related to operational risks

Operational losses related to operational risks include direct losses, as well as provisions for legal claims. Operational losses are recorded in the loss database and reported according to the risk categories as mentioned before. A net operational loss of EUR 145 thousand was recorded in 2023. This was mainly attributable to the event category of *Execution, Delivery and Process Management*. No security incidents occurred in 2023 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.

Effectiveness of the Control Framework

Achmea Bank has in place a robust internal Control Framework (CFW). This framework adapts continuously to changes in both the internal and external environment, to ensure controls are well-designed and operationally effective. Key controls are assessed quarterly and action is taken if deficiencies are identified. Throughout 2023, Achmea Bank has focused on improving the control environment in high-priority areas such as Outsourcing, Cyber security, Privacy and CDD. Although improvements were recorded, challenges remain in these areas. Based on testing and monitoring results of the effectiveness of the CFW, the Managing Board has concluded that Achmea Bank has been sufficiently in control during 2023.

Capital Calculation

The Bank applies the basic indicator approach for calculating its operational risk capital charge under Pillar I of the Basel framework.

MARKET RISK

INTEREST RATE RISK BANKING ENVIRONMENT

Interest rate risk framework

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

The department Balance Sheet Management (1st line) is responsible for monitoring and managing the Bank's market risk. The department Financial Risk Management (2nd line) is responsible for the Bank's policies on market risk Transactions on the financial markets are supported and executed by Achmea Treasury department and Corporate Finance department. The Bank's risk exposure is discussed during ALCo meetings and appropriate action is taken if necessary.

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

Governance

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

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

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

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

Risk measurement

Effects of a change in interest rates on total equity

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

The Bank uses various methodologies to monitor the impact 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 the Bank. It comprises a sudden, parallel shift of the interest rate curve (swap curve) by 200 basis points (up and down). The impact of a non-parallel shift can be higher than that of a parallel shift. The sensitivity analysis recalculates the market value of the entire portfolio under the above mentioned scenarios;

- Income at Risk: measures the impact on the interest income by a fluctuation of the interest rates.

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

DURATION

IN YEARS	2023	2022
Duration of equity	-1.3	0.7

The table above shows that the duration of equity of Achmea Bank has decreased from 0.7 years at 31 December 2022 to -1.3 years at 31 December 2023. A positive duration protects the Economic Value of Equity (EVE) against a decline in interest rates, but as a result of the inverse term structure has a negative impact on NII. Given the negative impact on NII and the steep drop in long term interest rates observed in the last few months of 2023 the bank decided to temporarily steer at a negative duration of equity going into 2024.

SENSITIVITY ANALYSIS

IN MILLIONS OF EUROS	2023	2022
Parallel shift in the yield curve of 200 basis points downward	-153	-9
Parallel shift in the yield curve of 200 basis points upward	-40	-25

Large interest rate shocks not only have an impact on the present value of expected cashflow but also on client behaviour. Currently prepayments on mortgages are relatively low. The Bank expects mortgage prepayments to increase significantly in case of a 200 basis points instant downward shift of the yield curve, whereas the impact of a 200 basis points instant upward shift of the yield curve is limited.

In practice the bank will adjust its interest rate risk position in response to changes in interest rates and client behaviour as part of its regular IRRBB management process. This is not possible in a scenario with an immediate shock.

The impact on the EVE of a 200 basis points upward shift of the yield curve is EUR -40 million at 31 December 2023, compared to EUR -25 million at 31 December 2022. The EVE impact is higher (more negative) than in 2022.

The impact on EVE of a minus 200 basis points downward shift of the yield curve is EUR -153 million at 31 December 2023, compared to EUR -9 million at 31 December 2022. The large decline in long term interest rates during 20231 had a positive impact on the market value of the bank's mortgage portfolio, leading to a significantly higher market value loss in a scenario with increasing prepayments. The outcome of this scenario is also negatively impacted by the decrease in the duration of equity.

Effects of a change in the interest rate on income statement

Income at Risk measures the sensitivity of the net interest income to several interest rates shock scenario's and has a time horizon of one year, in line with EBA guidelines.

By the end of June 2023 the Bank had to comply to new EBA guidelines on IRRBB, introducing a limit on the NII at Risk of 5% of Tier 1 Capital. In the first half of 2023 the bank actively managed down the NII at Risk. As a result the NII at Risk amounts to EUR -36 million, compared to EUR -56 million at 31 December 2022 and is based upon a scenario with a 200 basis points downward shift of the yield curve.

INTEREST RATE RISK EXPOSURE

IN MILLIONS OF EUROS	2023	2022
Income at Risk	-36	-56

FOREIGN CURRENCY RISK

Part of the Acier loan portfolio is denominated in CHF (EUR 355 million at year-end 2023). This position is hedged by CHF unsecured bonds (EUR 324 million). The remaining CHF exposure is hedged on a monthly basis with foreign exchange derivatives (EUR 36 million nett amount). The net valuation effect over 2023 amounts to a EUR 0.4 million loss (2022: EUR 0.1 million loss) and is recognised in changes in fair value of financial instruments.

FOREIGN CURRENCY EXPOSURE

IN THOUSANDS OF EUROS	2023			2022		
	Total exposure	Hedging instruments	Net exposure	Total exposure	Hedging instruments	Net exposure
CHF	357,037	361,771	−4,734	364,510	362,547	1,963
	357,037	361,771	−4,734	364,510	362,547	1,963

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

The following exchange rates have been used:

	CLOSING RATE		AVERAGE RATE	
	2023	2022	2023	2022
CHF	0.97	0.98	0.98	1.01

REMUNERATION PRINCIPLES AND POLICY

The Supervisory Board periodically evaluates remunerations in the context of the Achmea Group remuneration policy. Remuneration issues are discussed by the entire board rather than in a separate remuneration committee. The Supervisory Board gave opinion on the remuneration of the Managing Board as determined by the Group. More details regarding remuneration policies can be found in the Remuneration Report and on achmea.nl or achmea.com.

CLIMATE-RELATED RISK

Our aim is to further integrate climate risks into the bank's risk management framework in 2024. For this purpose, a climate-related and environment risk framework (CERF) is being set up, based on the Achmea risk cycle approach. Elements of the CERF will tie in existing periodic processes as much as possible, including the bank's risk appetite. This way, the relevant expectations as published in the 'ECB guide on climate-related and environmental risks' will also be further implemented. Achmea Bank is aiming to further integrate climate risks into the bank's credit risk management framework. Achmea Bank will actively continue to contribute through several initiatives to come to insights and action, primarily regarding the sustainability of the mortgage portfolio.

Physical risk
Physical climate-related risks of our mortgage portfolio are specific to collateral buildings. Therefore, the location and other building characteristics are relevant to the exposure to physical risks, such as:

- Foundation support (pole rot and land subsidence)
- Water nuisance (precipitation)
- Flooding (likelihood and maximum depth levels)
- Wildfires

We have acquired data to map these physical climate risks to the majority of individual collateral buildings in our portfolio. In addition, together with our partners, we are putting effort in obtaining physical climate risk data for the investment mortgage portfolios.

For non-financial risk, the focus of our analysis has been on assessing the extent to which physical climate risks could result in material disruptions to the services we provide our savings and mortgage customers. Critical and important functions are central to this, with Achmea Bank having outsourced various key operational activities to third parties. Preliminary results show that no major impact is expected in the short term.

Transition risk
Climate risks relating to the transition to the carbon neutral economy arise from changes in policies, technology or market sentiment. Transition risks are more challenging to assess and manage, since these risks impact many facets, including the macro-economy. For instance, house price developments are relevant to our mortgage portfolio. The transition is expected to impact house prices through elements such as policies, the marketability of homes with less favourable EPC labels or preferences for more efficient housing. This will positively impact customers with better (green) labelled buildings and may also negatively impact customers with worse labels.

APPENDIX: PILLAR III DISCLOSURE TEMPLATE TABLES

The Pillar III tables with quantitative data can be found in the MS Excel document '*Pillar III disclosure templates 2023*'.

Colophon

This is the English version of our 2023 pillar III report. There is no Dutch version of this report. The pillar III report can be downloaded from our website achmeabank.com.

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