Achmea Bank Holding NV

Capital Adequacy and Risk Management Report

2013

Introduction

The Basel accords contain recommendations for banking legislation and regulations aimed at creating an international framework of standards for banking regulators. Regulators use Basel to determine the minimum capital requirements to cover risks (credit risk, market risk and operational risk). Achmea Bank Holding has applied the Basel II framework since 2008. The framework is based on three pillars, each with its own objective and characteristics:

- Pillar 1 sets out the minimum capital requirements to cover credit risk, market risk and operational risk.
- Pillar 2 covers the consideration of whether additional capital is required over and above the Pillar 1 risk calculations.
- Pillar 3, market discipline, relates to the disclosure of relevant information. This pillar defines the requirements and makes recommendations for the manner in which banks give stakeholders insight into their risk profile. The object of pillar 3 is to make risk management policy more transparent to the market and enable counterparties to weight risks accurately in their pricing. Disclosure must be in accordance with the pillar 3 guidelines.

The recommendations of the Basel Committee on Banking Supervision were implemented in European legislation by the Capital Requirement Directive, 2006/48/EC and 2006/49/EC. This directive is legally enforced under Dutch law (WFT).

Achmea Bank's approach to Pillar 3

The purpose of this document is to set out how Achmea Bank manages risk and applies the Basel framework, especially the requirements of Pillar 3. In particular it focuses on regulatory measures of risk exposure and capital requirements for credit, counterparty, market and operational risk. Achmea Bank is committed to provide transparency of its capital resources and risk weighted assets. This provides better information to investors and improves comparability across the industry.

Table 1: Overview of Pillar 3 requirements

Pillar 3 requirement	Disclosure in Pillar 3 Report 2013
Scope of consolidation	"Scope" section
Capital structure	"Risk and Capital Management" section
Capital adequacy	"Regulatory capital requirements" section
Risk management objectives, policies and methodologies (qualitative disclosures)	"Risk and Capital Management" section
Credit risk	"Credit Risk" section
Market risk	"Market Risk" section
Operational risk	"Operational Risk" section
Interest rate in banking book	"Market Risk" section
Securitisation	"Securitisation" section
Liquidity risk	"Liquidity Risk" section

Detailed disclosures on capital resources, risk exposures and risk weighted assets are set out in the Capital Management section. Chapters 4 to 8 contain the analysis of credit risk, risk of exposures to securitisations, operational risk, market risk and liquidity risk.

The use of internal models to support risk based calculations relies on a robust control framework including the need for appropriate governance. While models are a core tool to understand and measure risk, we recognise that models have limitations and are only a part of the regulatory and risk management framework that includes alternative measures such as setting risk appetite limits, management of concentration risk and the coverage of extreme potential risks through stress testing, capital buffers and Pillar 2 assessments of the overall capital requirements.

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1 Basis of preparation

1.1 Profile

Achmea Bank Holding N.V. (Achmea Bank or the Bank) is the holding Company for a number of banking entities. On 31 December 2013, Achmea Bank held all the shares in Achmea Hypotheekbank N.V. and Achmea Retail Bank N.V. All shares in Achmea Bank are held by Achmea B.V. (hereinafter, together with its subsidiaries and affiliates, referred to as 'Achmea Group'). Achmea Bank Holding, Achmea Hypotheekbank and Achmea Retail Bank merged in Q2 2014.

Achmea Bank provides owner-occupied residential property mortgage loans to private customers under the labels Centraal Beheer Achmea, FBTO and Woonfonds Hypotheken. Centraal Beheer Achmea offers mortgage loans directly to consumers, FBTO operates via the mortgage service of Vereniging Eigen Huis and Woonfonds Hypotheken employs the distributive power of intermediaries. Mortgage lending is one of the key elements in the total array of financial products that Achmea Group offers its clients.

Mortgage lending is secured by a contingent claim on residential properties in the Netherlands. Achmea Bank obtains a substantial part of its funding in the form of notes issued on the capital markets. Funding is also provided by savings inflow from Achmea Retail Bank N.V. ('Achmea Retail Bank').

Achmea Group, one of the largest insurance companies in The Netherlands, offers its clients a range of insurance and banking products and services. Achmea Group is an innovative service provider with the ambition to provide financial comfort to its customers. Apart from the Achmea corporate label, the other main labels are Centraal Beheer Achmea, Interpolis, Zilveren Kruis Achmea, Avéro Achmea, FBTO, Woonfonds Hypotheken and Agis.

At year end Vereniging Achmea is the largest shareholder within Achmea B.V., holding 65% of the outstanding shares and Rabobank Groep holds 29% of the shares.

1.2 Scope of consolidation

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The consolidated financial statements of Achmea Bank include the financial statements of the following companies:

- Achmea Hypotheekbank N.V. (registred office: The Hague, The Netherlands)
- Achmea Retail Bank N.V. (registred office: The Hague, The Netherlands)

Achmea Bank's required capital is calculated in accordance with the requirements of the regulatory authority, the Dutch Central Bank (DNB). The capital of individual entities is

not subject to any restrictions which would impede the transfer of capital or settlement of liabilities between the entities.

2 Risk and Capital Management

2.1 Introduction

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

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

Risk appetite is defined as the level of financial and non-financial risk on its balance sheet the Bank is willing to take given the Bank's business objectives. The risk appetite is translated into the maximum decline in profit and in capital the Bank accepts under extreme conditions. With respect to capital and liquidity, the Bank aims to:

- maintain sufficient levels of capital and liquidity to meet internal and external requirements;
- be able to cope with the negative effects of stress scenarios;
- maintain a single A- credit rating (Standard & Poor's / Fitch);
- maintain a sound balance sheet with e.g. a diverse funding mix and an acceptable level of asset encumbrance;
- have a conservative investment policy.

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

2.2 Risk governance

Achmea Bank aims to achieve a sound balance between risk and return. Adequate risk management is key in order to support and supervise Achmea Bank's core activities.

The Executive Board is responsible for defining and executing the bank's strategy. An important element of the bank's strategy is the liquidity (risk) and capital management policy and the resulting Funding and Capitalization Plan.

The Executive Board has the responsibility for setting up effective processes that enables Achmea Bank to hold sufficient capital considering its objectives and the regulatory capital adequacy requirements. Within this scope, the Executive Board has delegated specific tasks to committees (Finance and Risk Committee, Asset and Liability

Management Committee, Credit Committee, , and Operational Risk Committee).The Asset and Liability Management Committee (ALCO) focuses on the management of interest rate risk, counterparty risk, liquidity risk and capital management. In addition the ALCO monitors the implementation and execution of the capital management policy, the Bank's Funding and Capitalisation plan and liquidity plan in terms of the execution of transactions. In addition the ALCO supervises compliance with the relevant regulatory guidelines, especially with regard to the capital, funding and liquidity. The members of the Executive Board and representatives of Balance Sheet Management & Financial Risk, Control, Capital & Value management Achmea B.V. and Treasury Achmea B.V. have a seat in the ALCO.

The Credit Committee (KC) focuses on the management of credit risk of private customers on portfolio level. The KC supervises the implementation and execution of the credit risk policy, the acceptance policy and the default and arrears management policy.

The Operational Risk Committee (ORC) is responsible for the implementation, execution and monitoring of the operational risk policy.

Together with the Credit Committee and the Operational Risk Committee the ALCO is a sub-committee of the Finance & Risk Committee (FRC) of the Bank, which is the ultimate decision making body for new and amendments to policies regarding financial risks.

2.3 Risk framework

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

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

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

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

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

Compliance is responsible for achieving compliance with laws and regulations to ensure the reputation and integrity of Achmea Bank and its employees, directors, auditors and other stakeholders.

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

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

2.4 Risk types

Achmea Bank identifies the following types of core risks:

- Credit risk: Credit risk is defined as the risk that a counterparty cannot fulfill its obligations to the bank;
- Operational risk: Operational risks are possible losses as a result of inadequate or defective internal processes and systems, inadequate or incorrect human actions, or external events and fraud;
- Market risk: possible losses as a result of changing financial markets, e.g. interest rates, currencies, credit spreads, stock markets, etc.;
- Liquidity risk: Liquidity risk is defined as the risk that the bank fails to fulfill its short-term liabilities. This includes both the risk that the bank is not able to attract funding with appropriate maturities or at appropriate interest rates and the risk that the bank fails to liquidate assets at a reasonable price or within a reasonable period of time.

3 Capital Management

3.1 Introduction

Under the capital adequacy rules, banks must hold sufficient buffer capital to cover the risks arising from banking operations. Pillar I offers guidelines for calculating the minimum amount of capital that needs to be present, according to regulators, in relation to credit risk, market risk and operational risk. Under these rules, the capital adequacy requirements relating to these risks can be calculated in a number of ways with varying degrees of sophistication.

Achmea Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence in order to sustain future development of the business. The tradeoff between risk and return is part of the bank's overall risk appetite framework of the bank.

Under the Dutch Financial Supervision Act (Wft), banks are required to maintain a minimum capital ratio (BIS ratio) of 8%. The Executive Board set the internally applied target for the minimum capital level at 13%. Achmea Bank complied with external and internal minimum capital requirements throughout the year with a core tier 1 ratio of 15.9% and a BIS ratio of 16.0% at December 31st 2013.

For Basel III, banks are required to maintain a minimum total capital ratio of 8% in 2013. Achmea Bank complied with the external and internal minimum capital requirements throughout the year with a tier 1 ratio of 16.6%, a total capital ratio of 16.8% and a leverage ratio of 3.3% at December 31st 2013. The Executive Board has set the internally applied target for the minimum tier 1 level at 13.5% in April 2014.

3.2 Capital structure and requirements

Achmea Bank's capital consists of tier 1 and tier 2 capital. Tier 1 capital consists of two components, the paid-up capital and the reserves and hybrid capital. Achmea Bank does not hold hybrid tier 1 capital. The reserves consist of the share premium reserve and the retained profits. The tier 2 capital is composed of subordinated loans. The deductions refer to the funds set aside and/or financing arranged to cover the first losses arising from the bank's securitisation transactions.

3.2.1 Core tier 1 capital

In 2013, tier 1 capital increased by EUR 20 million from EUR 554 million to EUR 574 million, mainly as a result of the contribution of the 2013 profit. Since the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its core tier 1 capital.

3.2.2 Tier 2 capital

Lower tier 2 capital (subordinated loans) slightly decreased compared to 2012 to EUR 3 million.

Table 2: Capital structure

In millions of Euros

	at 31 December 2013	at 31 December 2012
Share capital	45	45
Share premium reserve	207	207
Other reserves	322	305
Deductions	-	(3)
Core Tier 1 capital	***574***	***554***
Low er tier 2	3	5
Deductions	-	(3)
Tier 2 capital	***3***	***2***
Total qualifying capital	***577***	***556***

3.2.3 Capital requirements and risk weighted assets

Achmea Bank has opted for the standardised approach for credit risk and the basic indicator approach for operational risk, to calculate the minimum capital requirements under Basel II, pillar 1. Since Achmea Bank does not perform any trading activities, there is no minimum capital requirement for market risk under pillar 1.

In view of the new Basel III guidelines and the new securitisation reporting guidelines of DNB ("Regeling securitisaties"), Achmea Bank currently reports its exposure arising from securitisation positions within its risk weighted assets instead of directly deducting these from its tier 1 and tier 2 capital.

Table 3: Minimum capital requirements and risk weighted assets

In millions of Euros

		Risk weighted amount	Capital requirement	Risk weighted amount	Capital requirement
		at 31 December 2013		at 31 December 2012	
Credit risk					
	Mortgage portfolio				
	- not pledged	3,026	242	3,295	264
	- pledged	0	0	0	0
	Consumer Credit	23	2	30	2
	Treasury Exposures	251	20	371	30
	Other	17	1	14	1
	Contingent liabilities and commitments	149	12	13	1
		3,467	***277***	***3,723***	***298***
Operational Risk (Basic Indicator Approach)		***146***	***12***	***191***	***15***
Market Risk (not applicable)		-	-	-	-
Total		***3,613***	***289***	***3,914***	***313***

The largest part of the capital requirements relates to credit risk (96%), of which a significant proportion (86%) relates to the mortgage portfolio.

3.2.4 Capital ratios

The bank's capital ratios are shown in Table 4. Because a significant proportion of the tier 1 and tier 2 ratios is attributable to one subsidiary, Achmea Hypotheekbank, the ratios for Achmea Hypotheekbank are also stated.

Table 4: Capital ratios Basel II

In millions of Euros	Achmea Bank		Achmea Hypotheekbank	
	at 31 December 2013	at 31 December 2012	at 31 December 2013	at 31 December 2012
Tier 1 capital	574	554	543	519
Tier 2 capital	3	2	2	2
Total qualifying capital	577	556	545	521
Risk-weighted assets	3,613	3,914	3,507	3,787
Tier 1 ratio	15.9%	14.2%	15.5%	13.7%
Tier 2 ratio	0.1%	0.1%	0.1%	0.1%
Capital ratio (BIS ratio)	16.0%	14.2%	15.6%	13.8%

The total qualifying capital of EUR 577 million is more than sufficient for the capital requirements of EUR 289 million regarding pillar 1.

3.3 Internal capital adequacy requirements

The bank has implemented internal processes to align with the required capital for the risks the Bank faces. These processes are included in the Internal Capital Adequacy Assessment Process (ICAAP) manual. Amongst others, this manual describes the governance structure, the procedures, the assumptions and the methods used to determine the required capital. ICAAP serves to assess and maintain both the current and future capital adequacy of the bank.

At present (31-12-2013), the internal capital adequacy requirement is based on the requirements of pillar I, supplemented with:

- an add-on for Dutch state guaranteed mortgages (NHG);
- a surcharge for interest rate risk;
- an add-on for concentration risk related to the mortgage portfolio and exposures in professional counterparties;
- add-ons for elevated credit risk of the mortgage portfolio and counterparty credit risk under stressed conditions;
- a surcharge for model risk (interest rate risk model); and
- a surcharge for being part of a financial conglomerate.

3.4 Capital contingency

The purpose of capital contingency is to ensure that appropriate measures are taken in case of an (imminent) solvency deficit. The Bank monitors its solvency position on a monthly basis. However, the Bank recognizes that unexpected events, both internally and externally, during a short or long period may adversely affect the capital position and that this may jeopardize the continuity of the Bank. It is important to consistently be able to obtain sufficient capital, not only in a going concern situation but also in times of stress. The Bank has a Capital Contingency Plan (CCP) with the objective to have the appropriate measures in place to bring the solvency of the Bank back at the desired level in such situations. The CCP is an integral part of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and its recovery plan. The CCP is reviewed at least annually.

3.5 Basel III and CRD IV

Basel III is a comprehensive set of reform measures in banking prudential regulation developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

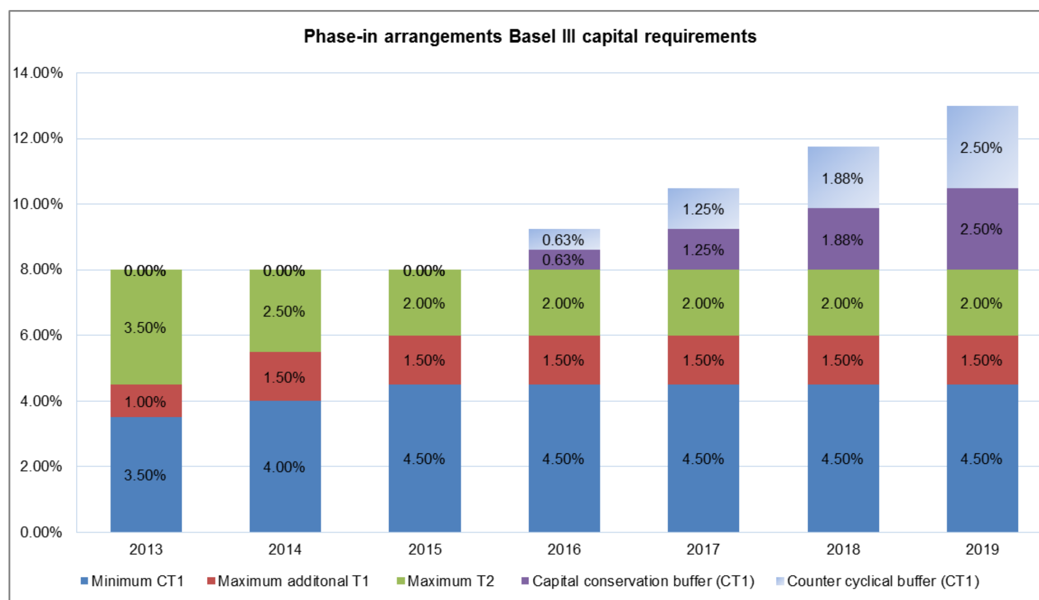
- improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source;
- improve risk management and governance; and
- strengthen banks' transparency and disclosures.

In 2013, the European Union adopted a legislative package to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. The new package replaces the current directives with a Directive (CRD IV) and a Regulation (CRR). The CRD IV package entered into force on 1 January 2014. Some of the new provisions will be phased-in between 2014 and 2019.

The new Regulation and Directive cover need to be transposed by Member States in a way suitable to their respective environment. In the Netherlands, the options and discretions for the Member States will be exercised by the Minister of Finance. The transposition of CRD IV into the Financial Supervision Act (Wet op het financieel toezicht or Wft) and related general administrative orders is set for 2014.

In 2013 the Bank calculated the impact of Basel III for both internal purposes and as part of the Basel III monitoring exercise by the Dutch Central Bank. In 2014 the new CRR prudential and liquidity reports will be phased-in. The phase-in arrangements of the Basel III capital requirements are shown in the figure below.

Figuur 1: Phase-in arrangements Basel III capital requirements



The bank's Basel III capital ratios are shown in Table 5.

Table 5: Capital ratios Basel III

In millions of Euros	Achmea Bank	
	at 31 December 2013	**at 31 December 2012**
Common Tier 1 capital	577	562
Tier 1 capital	577	562
Tier 2 capital	8	0
Total capital	585	562
Total exposure	17,331	16,565
Risk-weighted assets	3,479	3,999
Common Equity Capital Ratio	16.6%	14.1%
Tier 1 ratio	16.6%	14.1%
Total Capital Ratio	16.8%	14.1%
Leverage ratio	3.3%	3.4%

Based on the current rules, the outcome of 2012 and 2013 and the outcome of the current projections of Achmea Bank Holding, the bank complies to current requirements and will comply to future requirements.

4 Credit Risk

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

4.1 Credit portfolio

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

The tables below show the credit risk for various balance sheet items and the receivables by counterparty. The maximum credit risk shown here is the gross figure, not taking into account the reduction in credit risk as a result of underlying collateral agreements and other credit risk mitigating factors.

All of Achmea Bank's mortgage and consumer credits activities are concentrated in the Netherlands. Achmea Bank's exposure to other banks (for example in the case of derivatives) are both in and outside the Netherlands. No geographical segmentation is applied.

Table 6: Gross credit risk exposure per balance sheet item by counterparty

In thousands of Euros

at 31 December 2013	Government & central banks	Financials & corporates	Retail	Total
Loans and advances to banks		1,336,231		1,336,231
Loans and advances to public sector	73,800			73,800
Loans and advances to customers			12,343,499	12,343,499
Interest-bearing securities, derivative assets held for risk management and Investments	459,652	1,035,666		1,495,318
	533,452	***2,371,897***	***12,343,499***	***15,248,848***

In thousands of Euros

at 31 December 2012	Government & central banks	Financials & corporates	Retail	Total
Loans and advances to banks		1,578,408		1,578,408
Loans and advances to public sector	290,218			290,218
Loans and advances to customers			12,945,036	12,945,036
Interest-bearing securities, derivative assets held for risk management and Investments	377,589	730,796		1,108,385
	667,807	***2,309,204***	***12,945,036***	***15,922,047***

Credit risk consists of risks relating to mortgage lending and 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 on the consumer credit portfolio. Risks of professional counterparties are related to treasury related 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.

4.2 Private sector

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

Stringent procedures are in place to monitor payment arrears. Borrowers who are in arrears for more than three months are transferred to the bank's Default Management Department. This department is responsible for account management and debt collection.

4.2.1 Mortgage portfolio

The mortgage portfolio consists of residential property loans (owner-occupied). Collateral for these loans consist of residential property, pledged life insurance policies or savings and security accounts.

The mortgage portfolio can be divided into four categories with different risk weights in a Basel II capital perspective:

- Mortgages covered by the Dutch National Mortgage Guarantee (abbreviated in Dutch to 'NHG') provided by Stichting Waarborgfonds Eigen Woningen are weighted at zero percent. Securitized mortgages whereby the credit risk is transferred to investors, also have a zero percent weight.
- The second category consists of mortgage loans of less than 75% of the indexed foreclosure value.
- The third category consists of the portion of loans exceeding 75% of the indexed foreclosure value.
- The last category 'Other items' relates to mortgages in arrears and mortgages for which a provision is made.

Mortgages covered by NHG have a zero percent weight as these loans are guaranteed. As of December 2013 provisions are being made for NHG mortgages in arrears since the loan is not fully guaranteed when it does not concern an annuity mortgage or a linear mortgage. In the new NHG conditions (starting January 1st 2014) banks have a 10% own risk excess on potential losses.

With the implementation of CRD IV (January 2014) the second and third category will be changed into:

- The second category consists of mortgage loans of less than 80% of the market value.
- The third category consists of the portion of mortgage loans exceeding 80% of the market value.

The market value of the mortgaged residential properties is indexed periodically based on data from the Dutch land registry office (Kadaster), a company which collects details of properties and also registers properties.

Table 7: Mortgage portfolio by risk weight

In thousands of Euros

	Risk weight	at 31 December 2013	at 31 December 2012
Government guaranteed (NHG)	0%	1,126,146	951,833
Pledged mortgage portfolio	0%	5,733,855	5,986,276
LTFV < 75%	35%	4,365,462	4,727,039
LTFV > 75%	75%	981,536	1,143,708
Other	100%	73,020	67,031
Total		12,280,019	12,875,887

Achmea Bank manages credit risk by applying a strict acceptance policy. The Mid-Office and Default Management department are responsible for implementation of and compliance with the acceptance policy and supplementary credit risk management measures. Balance Sheet Management & Financial Risk analyses the acceptance policy and submits its credit and acceptance policy proposals. Credit risk is monitored by the Credit Committee.

4.2.2 Consumer credit portfolio

Consumer credit is credit used by the borrower to finance consumer expenditure. The main forms of consumer credit are revolving credit facilities and personal loans. Achmea Retail Bank N.V. has been active in consumer credit via various distribution channels until mid-2009. No new loans have been granted since then. A substantial part of the revolving credit and personal loan portfolio was sold to a third party in December 2010. The remaining part of this portfolio is still being managed by Achmea Bank.

The consumer credit portfolio is divided into three categories with different risk weights in a Basel II capital perspective:

- Consumer loans with government guarantee are zero weighted[1];
- Revolving credit facilities and personal loans are given a risk weight of 75%; and
- Corporate exposures are given a 100% risk weight.

Table 8: Consumer credit portfolio by risk weight

In thousands of Euros

	Risk weight	at 31 December 2013	at 31 December 2012
Government guaranteed consumer credit	0%	39,607	40,110
Revolving credit and personal loan	75%	23,872	30,108
Commercial/Business Credit	100%	0	0
Total		63,479	70,218

[1] These are loans to corporates with government guarantee and consist of loans to mostly living foundations, i.e. Stichting Woonzorg Nederland.

4.2.3 Impairment and past due loans

Table 8 shows the outstanding amount of loans and advances to the private sector divided by arrears category. Arrears for both the mortgage and the consumer credit portfolio are included.

Table 9: Past due but not impaired loans

In thousands of euros

Category	at 31 December 2013 Outstanding amount	at 31 December 2012 Outstanding amount
Less than 1 month	89,169	47,302
1 < 2 months	50,129	21,677
2 < 3 months	13,050	14,368
>3 months	0	0
Total	152,348	83,347

Of the total amount of loans and advances to customers, an amount of EUR 152 million (2012: EUR 83 million) is past due but not impaired.

The large increase of past due customers is partially caused by the economic crisis. Another cause is the increase in the number of divorces.

Achmea Bank conducts regular assessments to establish whether an impairment loss has been sustained on the outstanding loans. Under IFRS, recognition of an impairment loss is required if it is probable that Achmea Bank will not be able to collect the principal amount and interest in accordance with a loan agreement. The impairment is determined item by item for loans that are individually material. This is referred to as 'specific impairment'. Achmea Bank conducts regular assessments to establish whether there is any objective evidence of impairment of a financial asset or group of financial assets.

When determining the timing of the future cash flows, Achmea Bank uses estimates based on historical loss data for assets with similar credit risk characteristics and objective evidence of impairments similar to those in the portfolio. The method and assumptions used to estimate both the amount and the timing of future cash flows are reviewed regularly in order to reduce differences between estimates and actual losses.

IFRS also requires that any losses resulting from events that have occurred before the balance sheet date, but which have not yet manifested themselves to Achmea Bank, also have to be taken into account. These are known as 'incurred but not reported' (IBNR). A general IBNR is calculated using the average inflow into the Default Management portfolio combined with empirical figures. Historical loss rates are adjusted on the basis of current observable data in order to take into account the impact of current conditions that did not apply in the period which the historical data cover, and to eliminate the impact of the conditions in the historical period that do not currently exist.

Movements in impairment losses on receivables carried at amortised cost are shown in table 9.

Table 10: Allowance for losses on loans and advances

In thousands of euros

	at 31 December 2013	at 31 December 2012
Balance as at 1 January	19,481	15,645
Additions	15,849	13,207
Releases	(2,553)	(1,153)
Write-off	(9,978)	(8,218)
Other changes	-	-
Balance	22,799	19,481
Specific allowance for impairment	15,842	13,399
IBNR	6,957	6,082
Balance	22,799	19,481

4.3 Professional counterparties

The counterparty risk on exposures to governments and financial institutions is primarily associated with investment activities and cash 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. These limits are approved by the ALCO during the year. Positions are monitored by Balance Sheet Management & Financial Risk and the treasury department. The credit risk exposure to professional counterparties is coordinated by ALCO.

Furthermore, Achmea Bank uses Credit Support Annexes (CSA) to reduce the exposure on counterparty risk on derivatives. No impairments on counterparty positions occurred in 2013.

The use of CSAs will further increase due to the European Markets Infrastructure Regulation (EMIR) which will become effective in 2015.

Achmea Bank uses data from credit rating agencies to determine the counterparty's creditworthiness. Achmea Bank uses the long-term ratings to set the exposure limits for professional counterparties.

At the end of 2013, the net exposure amounts to EUR 38 million and consists of the total fair value of the derivatives and the collateral position. This net exposure is mainly related to exposures of counterparties, for which the bank has no CSA. The net counterparty risk related value adjustment was EUR 0.05 million at year-end. This includes both credit valuation adjustment (CVA) and debt valuation adjustment (DVA) exposure.

The financial assets of the bank (investments and derivatives) are categorised by the external credit ratings (Standard & Poor's).

Table 11: Financial assets by external credit ratings

In thousands of euros

at 31 December 2013

	AA- to AAA	A- to A+	BBB- to BBB+	BB+ and below	Not rated	Total
Cash and cash equivalents	-	-	-	-	1,846,822	1,846,822
Derivative assets held for risk management	91,649	365,430	-	-	-	457,079
Loans and advances to banks	448,064	670,069	195,350	-	22,748	1,336,231
Loans and advances to public sector	-	-	-	-	73,800	73,800
Interest-bearing securities	982,057	-	-	-	55,694	1,037,751
	1,521,770	*1,035,499*	*195,350*	*0*	*1,999,064*	*4,751,683*

at 31 December 2012

	AA- to AAA	A- to A+	BBB- to BBB+	BB+ and below	Not rated	Total
Cash and cash equivalents	-	-	-	-	49,813	49,813
Derivative assets held for risk management	116,877	519,508	-	-	4,017	640,402
Loans and advances to banks	135,433	1,187,508	66,700	-	188,767	1,578,408
Loans and advances to public sector	-	-	-	-	290,218	290,218
Interest-bearing securities	430,498	1,481	-	-	35,096	467,075
	682,808	*1,708,497*	*66,700*	*0*	*567,911*	*3,025,916*

The Loans and advances include all collateral positions. At year-end there is one collateral position reported as liability (EUR 77 million), which is included in the deposits from banks. The related credit rating is A.

4.4 Other credit risks

Other credit risks include guarantees, which are given a risk weight of 37.5–75%, and tax receivables, tangible assets and other assets, which are given a 100% risk weight.

Table 12: Guarantees by risk weight

In thousands of Euros

	Risk weight	at 31 December 2013	at 31 December 2012
Guarantees	37.5%	0	137
Credit replacing guarantees	75%	0	0
Other credit risk	100%	49,710	70,523
Total		49,710	70,660

4.5 Contingent liabilities and commitments

Liabilities due to off balance irrevocable facilities which may lead to an actual credit risk exposure, are mainly offers accepted by customers for mortgage loans and credit facilities. Mortgage offers and proposals covered by an NHG guarantee are given a zero risk weight. Other offers are given a 15% risk weight. 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.

Legal proceedings

As at 31 December 2013, a number of cases against the Bank appeared in court. Based on legal advice, the Executive Board does not expect the outcome of the various proceedings to have a material effect on the company's financial position at 31 December 2013.

Contractual obligations

As at 31 December 2013, the Bank had contractual obligations amounting to EUR 18.5 million (2012: EUR 18.8 million), primarily in connection with the use of ICT-related contracts with Achmea Group companies.

Contingent liabilities

This includes all liabilities arising from transactions in which the Bank acts as guarantor for third parties. There are no outstanding bank guarantees at 31 December 2013 (2012: EUR 0.1 million).

Irrevocable facilities

This refers to all liabilities relating to irrevocable undertakings which may lead to credit losses. Which includes offers accepted by customers for mortgage loans and credit facilities amounting to EUR 99 million (2012: EUR 102 million).

Fiscal unity

Together with Achmea Bank Holding N.V. and its subsidiaries, the Bank forms a fiscal unity with Achmea B.V. for corporate income tax purposes. Therefore the tax expenses are accounted in the current account with the Group.

Table 13: Contingent liabilities and commitments by risk weight

In thousands of Euros

	Risk weight	at 31 December 2013	at 31 December 2012
Government guaranteed (NHG) mortgage offer	0%	18,858	17,312
Not government guaranteed (NHG) mortgage offer	15%	79,717	85,122
Revocable facilities	0%	0	0
Irrevocable facilities	75%	0	0
Total		98,575	102,435

5 Market risk

An objective of Achmea Bank is to generate interest margin on its banking operations. Achmea Bank's market risk mainly consists of interest rate risk arising from its banking operations. Achmea Bank has a strict policy on mitigating foreign currency risk and uses financial instruments to hedge interest rate risk.

The Balance Sheet Management & Financial Risk department is responsible for monitoring and managing the Bank's market risks. Transactions on the financial markets are executed by Achmea B.V.'s central Treasury Department and the Achmea B.V. Capital & Value Management department. In the ALCO meetings the Bank's risk exposure is discussed and, if required, appropriate action is taken.

Achmea Bank does not engage in proprietary trading activities on financial markets.

5.1 Interest rate risk banking book

Interest rate risk is the present or future risk of a decline in Shareholders' equity due to changes in market interest rates. The Bank hedges the interest rate risk arising from its mortgage lending and funding operations with interest rate derivatives (swaps).

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

1. Effects of a change in interest rates on Shareholder's equity;
2. Effects of a change in interest rates on the interest margin (and therefore net result).

Several limits have been set on the bank's fixed-interest positions under the interest rate risk policy. Within these limits, ALCO optimises the positions based on interest rate risk mismatch reports. This is a two-step process: ALCO first defines a view of short-term and long-term interest rate trends and this scenario is then used to analyse the bank's position based on the reports. ALCO uses Value-at-Risk (VAR), Duration and Income-at-Risk techniques to manage interest rate risk. These measures are discussed in more detail in the financial statements. Treasury is responsible for executing the decisions of ALCO.

5.1.1 Effects of a change in interest rates on Shareholders' equity

The impact on Shareholders' 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 because many instruments are recognised at amortised cost.

Various methodologies are used to monitor the impact on Shareholders' equity:

- Delta (duration): measures the sensitivity of the market value to a parallel shift (shock) of the interest rates by one basis point;
- Sensitivity analysis: measures the effects of an event that is exceptional, but relevant to the bank. It comprises a sudden, parallel shift of the interest rate curve by 200 basis points (up and down). The risk of a non-parallel shift can be higher than that of a parallel shift. In contrast with the delta method, which only measures

the sensitivity to minor interest rate changes, sensitivity analysis recalculates the market value of the entire portfolio under the new conditions.

- Value at Risk: gives the maximum loss of market value that will not be exceeded with a probability of 99% over a time horizon of one year. This is based on historical simulation covering five years of interest rate history.
- Income at Risk: measures the impact on the interest income by a fluctuation of the interest rates.

Table 14: Delta duration impact

In thousands of euros

	at 31 December 2013	at 31 December 2012
Delta	-269	-226

The table above shows that the market value of the Bank's equity decreases by approx. EUR 0.3 million in case of a one basis point parallel upward shift of the yield curve. The increased impact can be explained by an increase in duration of Shareholders' equity Achmea Holding Bank N.V. from 4.19 years as at 31 December 2012 to 4.79 years as at 31 December 2013. The Bank's limit for duration of the equity is 7.

Table 15: Sensitivity analysis

In thousands of euros

	at 31 December 2013	at 31 December 2012
Change in the interest rate of 200 basis points negative	60,034	51,578
Change in the interest rate of 200 basis points positive	-48,320	-39,894

The negative effect of a 200 basis point upward shift of the yield curve on Shareholders' equity value is EUR 48 million at 31 December 2013, compared to EUR 40 million at 31 December 2012), mainly due to the higher duration of Shareholders' equity of 4.79 years at year-end 2013 (31 December 2012: 4.19 years).

Table 16: Value at Risk

In thousands of euros

	at 31 December 2013	at 31 December 2012
Value at Risk	53,051	62,171

This shows that the fair value decline will not exceed EUR 53 million with a confidence level of 99%. Achmea Bank applies a VaR limit of EUR 99 million.

5.1.2 Effects of a change in interest rates on interest income

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

Table 17: Income at Risk

In thousands of euros

	at 31 December 2013	at 31 December 2012
Income at Risk	121	1

The table above shows that the income at risk has increased by EUR 120 thousand. This increase can be explained by the increase of the Bank's cash position at the central bank. The Bank's limit for income at risk if the underlying interest rates are raised by 75

basis points is EUR 14.1 million. This corresponds with a EUR 188 thousand limit if the underlying interest rates are raised by 1 basis point.

5.2 Currency risk

With respect to foreign currencies, Achmea Bank's policy is to fully hedge its exposure to foreign currency risk. Achmea Bank's exposure relates to certain funding transactions in foreign currency.

This funding is converted into Euros and the exposure is hedged with cross currency swaps (and micro hedge accounting is applied). The following table gives an overview of the cash flows from this foreign currency funding and the non-Euro part of the cash flow of the related cross currency swap.

Table 18: Cash flows of foreign currencies

In thousands of euros	at 31 December 2013			at 31 December 2012		
	Total exposure	Hedging instruments	Net Exposure	Total exposure	Hedging instruments	Net Exposure
Assets						
US Dollar	-	-	-	-	-	-
Swiss Franc	-	-	-	-	-	-
	-	-	-	-	-	-
Liabilities						
US Dollar	(969,519)	969,519	-	(1,100,569)	1,100,569	-
Swiss Franc	(155,957)	155,957	-	(215,499)	215,499	-
	(1,125,476)	***1,125,476***	***-***	***(1,316,068)***	***1,316,068***	***-***
Net						
US Dollar	(969,519)	969,519	-	(1,100,569)	1,100,569	-
Swiss Franc	(155,957)	155,957	-	(215,499)	215,499	-
	(1,125,476)	***1,125,476***	***-***	***(1,316,068)***	***1,316,068***	***-***

All foreign exchange positions are fully hedged and therefore there is no remaining exposure on foreign exchange rate risk.

The following exchange rates have been used:

	Closing rate		Average rate	
	2013	2012	2013	2012
US Dollar	1.3770	1.3175	1.3473	1.3054
Swiss Franc	1.2265	1.2065	1.2165	1.2115

6 Operational Risk

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

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

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

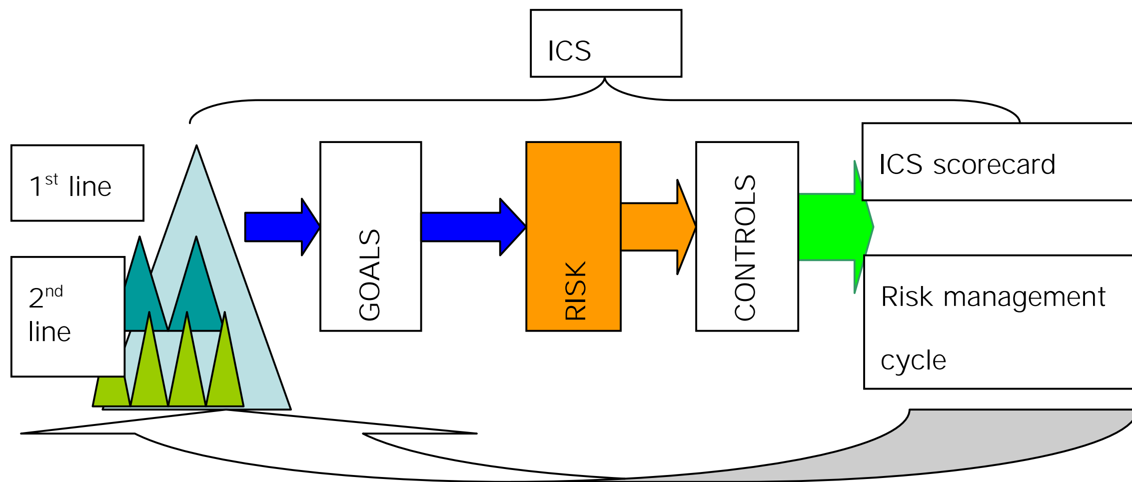
The responsibility to manage operational risks is primarily assigned to the operating and commercial departments (first line of defence).

The risk management cycle is monitored continuously by means of a wide internal control framework. The result of the evaluation of the risk management cycle is reflected in the Bank's internal control statement (ICS). The processes, methods and techniques applied for this evaluation are described in the ICS Manual. The internal control framework supports the risk management process by determining the effectiveness of the controls in its key risk areas. A comprehensive ICS is set up once a year.

Achmea Bank applies the basic indicator approach for calculating the capital charge for operational risk under pillar I of Basel II. On the basis of the activities and risk analysis of Achmea Bank, there is no reason in general to assume that the actual risk is greater than that indicated by the basic indicator approach.

6.1 ICS scorecard

The risk management cycle is evaluated in the Internal Control Statement (ICS), with its associated processes, methods and techniques as starting point. These processes, methods and techniques are described in the ICS Manual of the corresponding year. The ICS framework supports the risk management process.



For the ICS, the following responsibilities can be distinguished:

- The CEO and CFO are jointly responsible for leading the implementation of the ICS process, resulting in an ICS statement;
- The implementation of the ICS process is managed and supported by Operational Risk management;
- Group Risk Management is responsible for the content aspect of ICS, the planning of the ICS process within Achmea BV and consolidating the results of the various business units into a Achmea Group wide report. Internal Audit Bank reviews the ICS process and the products of the business units and gives her opinion on the statements issued.

Starting point of the ICS is the cyclical control through the management cycle (identifying goals, identifying risks involved, implementing controls for setting risk management and assessment / monitoring of results). From the top-down concept, the choice has been made to demonstrate the existence and operation (if applicable) through monitoring.

6.2 Reputational risk

Reputational risk is the present or future risk of reputational damage, such as might result from non-compliance with legislation and regulations. The Compliance and Legal departments have a specific responsibility for avoiding reputational risk, while the Legislation and Regulations Committee ensures that relevant new legislation and regulations are incorporated into the bank's policy and governance.

7 Securitisations

Achmea Bank acts both as a sponsor, originator and servicer and as an investor of securitisations (RMBS).

The exposures of its 'own' securitizations consist of retained DMPL and SGML notes. For a large part (EUR 456 million), these notes are eligible as collateral for ECB funding.

At year end 2013 the bank invested EUR 417 million in prime Dutch and UK RMBS. These investments are held primarily for liquidity purposes. The majority of these investments has a AAA credit rating, resulting in a low capital charge of less than EUR 7 million.

In 2013 the bank did not invest in CMBS, securitisations in SME loans or synthetic securitisations.

Table 19: Total outstanding exposures and capital charge of securitisations

In thousands of euros	at 31 December 2013		at 31 December 2012	
	Exposure	**Capital charge**	**Exposure**	**Capital charge**
Traditional securitisations				
- residential mortgages	1,232,097	66,053	801,722	57,281
DMPL/SGML	*815,152*	*59,382*	*765,220*	*56,697*
Investments	*416,945*	*6,671*	*36,502*	*584*
- commercial mortgages	0	0	0	0
- SME loans	0	0	0	0
Subtotal	***1,232,097***	***66,053***	***801,722***	***57,281***
Synthetic securitisations	0	0	0	0
Total portfolio	***1,232,097***	***66,053***	***801,722***	***57,281***

8 Liquidity Risk

Liquidity risk includes both the risk that Achmea Bank is not able to attract funding with appropriate maturities or at appropriate interest rates and the risk that Achmea Bank fails to liquidate assets at a reasonable price or within a reasonable period of time. Control of 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 against acceptable costs.
- Funding liquidity risk: The possibility that, over a specific horizon, the bank will become unable to settle obligations when due. A typical example of is this type of risk is a 'run on the bank'.

The day-to-day cash management is the responsibility of Achmea B.V.'s central Treasury department, which monitors the daily minimum cash position of EUR 75 million. The ALCO monitors Achmea Bank's liquidity risks and the Balance Sheet Management & Financial Risk department is responsible for liquidity risk reporting. Achmea Bank applies a liquidity minimum position that ensures the bank's survival for at least six months in case of combined market liquidity and funding liquidity stress conditions. The actual 'survival period' at year-end was 7.4 months.

8.1 Internal liquidity adequacy requirements

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 de 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 ILAAP process serves to assess and maintain both the current and future liquidity adequacy of the bank.

8.2 Liquidity Contingency Plan

The Bank has a Liquidity Contingency Plan (LCP) available in case of a liquidity stress event. In this LCP measures are being stated to continue or survive as a bank in a stress situation and to fulfil its financial commitments for at least 3 months.

The LCP is being reviewed on an annual basis and it is part of the recovery plan the Internal Liquidity Adequacy Assessment Process (ILAAP).

The stress situations the Bank recognises are the following:

- Downgrades of its external credit rating (S&P, Fitch);
- A signal that external counterparties (such as swap counterparties) have less interest to do business with Achmea Bank;
- Higher (secondary) credit spreads of Achmea Bank's outstanding funding;

- Capital market crisis, as we have seen in 2008 after the bankruptcy of Lehman Brothers (financial system crisis).

In the LCP there are four levels to divide certain levels of liquidity stress and the measures against it:

- Going concern situation;
- Limited liquidity stress;
- Significant liquidity stress;
- Critical (to survive) liquidity stress.

Table 20: Undiscounted contractual cash flows of the liabilities

As at 31 December 2013	< 3 months	Between 3 months and 1 year	Between 1 and 5 years	> 5 years	Total	Total carrying amount
In thousands of euros						
Derivative liabilities held for risk management	108,016	226,403	544,436	146,838	1,025,693	995,554
Deposits from banks	469	748,686	233,606	-41,220	941,541	861,426
Funds entrusted	3,216,641	324,444	1,283,518	924,546	5,749,149	5,632,852
Debt securities issued	1,507,311	2,512,069	4,178,856	884,493	9,082,729	8,918,035
Subordinated liabilities	0	1,961	13,818	-	15,779	14,598
Total interest cashflows	4,832,437	3,813,563	6,254,234	1,914,657	16,814,891	16,422,465

As at 31 December 2012	< 3 months	Between 3 months and 1 year	Between 1 and 5 years	> 5 years	Total	Total carrying amount
In thousands of euros						
Derivative liabilities held for risk management	65,929	204,975	651,857	272,165	1,194,926	1,378,295
Deposits from banks	469	14,811	734,524	7,192	756,996	798,118
Funds entrusted	3,523,771	280,136	691,224	542,896	5,038,027	4,932,585
Debt securities issued	368,785	881,310	7,011,322	52,439	8,313,856	8,191,591
Subordinated liabilities	565	26,950	16,730	-	44,245	40,002
Total interest cashflows	3,959,519	1,408,182	9,105,657	874,692	15,348,050	15,340,591

8.3 Liquidity buffer

As a part of adequate liquidity management it is necessary for banks to have a sufficient liquidity buffer to sustain unforeseen liquidity stress situations. The Bank recognises at least the following liquidity stress situations and therefore holds a liquidity buffer:

- A bank run on retail savings (demand deposits);
- Volatility of cash collateral call on (interest rate) derivatives;
- Postpone roll forward of funding transactions.

The Bank's liquidity buffer mainly consists of on demand central bank deposits and an unencumbered portfolio of high quality liquid assets. At year-end the Bank has a portfolio of liquid assets amounting to EUR 0.7 billion that can easily be sold or posted as collateral and about EUR 1.8 billion cash position. Furthermore, the Bank has a standby credit facility of EUR 0.2 billion from Achmea B.V.

Furthermore, the Bank has a commitment from Achmea Pensioen en Levensverzekeringen N.V. that enables the Bank to transfer EUR 1.5 billion of mortgage loans exchange for cash in case of a liquidity emergency.

The relatively high amount of liquid assets at year end 2013 is partly used for front loading for the redemption of wholesale funding in February 2014.