Achmea Bank NV

Capital Adequacy, Liquidity Adequacy and

Risk Management Report 2014

Introduction

The Basel accords contain recommendations for banking legislation and regulations aimed at creating an international framework of standards for banking regulators. Regulators use the Basel accords to determine the minimum capital requirements to cover risks (credit risk, market risk and operational risk). Achmea Bank 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). 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. This package replaced the 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.

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 2014**
Scope of consolidation	"Scope" section
Risk management objectives, policies and methodologies (qualitative disclosures)	"Capital, liquidity and financial risk management" section
Capital structure	"Capital Management" section
Capital adequacy	
Funding	"Funding and Pledged mortgage receivables" section
Securitisations	
Credit risk	"Financial Risk Management" section
Market risk	
Liquidity risk	
Operational risk	
Interest rate in banking book	

Chapter 1 describes the company profile and the basis of consolidation. Chapter 2 describes the risk governance and framework. Detailed disclosure on capital resources, risk exposures and risk weighted assets are set out in chapter 3. Detailed disclosure on funding is set out in chapter 4. Chapter 5 contains the analysis of credit risk, operational risk, market risk and liquidity risk. Chapter 6 describes the stress testing of Achmea Bank, this concerns governance, methodology and frequency.

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1 COMPANY PROFILE AND BASIS OP CONSOLIDATION

1.1 Company profile

Achmea Bank N.V. (formerly known as Achmea Hypotheekbank N.V.) is the remaining entity of the legal merger between Achmea Hypotheekbank N.V., Achmea Bank Holding N.V. and Achmea Retail Bank N.V.

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

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. Achmea Bank is the competence- and service centre for retail savings and mortgage products within the Achmea group. Our products complement the wider offering of the Achmea Group as mortgage- and savings products are a complementary product to the different insurance products.

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 and Woonfonds Hypotheken.

At year end 2014 Vereniging Achmea is the largest shareholder within Achmea B.V., holding 62% of the outstanding shares and Rabobank Groep holds 28% of the shares.

1.2 Basis of consolidation

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

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

- DMPL III B.V.* (shares are held by Stichting Dutch Mortgage Portfolio Loans III Holding*)
- DMPL VI B.V.* (shares are held by Stichting Dutch Mortgage Portfolio Loans VI Holding *)
- DMPL VIII B.V.* (shares are held by Stichting Dutch Mortgage Portfolio Loans VIII Holding *)
- DMPL IX B.V.* (shares are held by Stichting Dutch Mortgage Portfolio Loans IX Holding *)
- DMPL X B.V.* (shares are held by Stichting Dutch Mortgage Portfolio Loans X Holding *)
- DMPL XI B.V.* (shares are held by Stichting Dutch Mortgage Portfolio Loans XI Holding *)
- DMPL XII B.V.* (shares are held by Stichting Dutch Mortgage Portfolio Loans XII Holding *)
- SGML I B.V.* (shares are held by Stichting Securitised Guaranteed Mortgage Loans I Holding *)**)
- SGML II B.V.* (shares are held by Stichting Securitised Guaranteed Mortgage Loans II Holding *)
- Stichting Trustee Achmea Hypotheekbank ***)
- Stichting Incasso Achmea Hypotheken *)
- Achmea Covered Bond Company B.V. *)

* Registered office in Amsterdam
** Called in 2014
*** Registered office in The Hague

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

In addition, the Bank has a covered bond programme with which the Bank manages and administers the portfolios of Achmea Covered Bond Company B.V. The shares of Achmea Covered Bond Company B.V. are held by Stichting Holding Achmea Covered Bond Company.

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

The above-mentioned companies are consolidated based on an evaluation of the substance of its relationship with the Bank and the entities risks and rewards. Based on the following circumstances the Bank controls and consequently consolidates an entity:

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

Any operations and transactions relating to group companies are specifically disclosed in the notes of the annual report of Achmea Bank. All transactions with group companies are at arm's length.

2 CAPITAL, LIQUIDITY AND FINANCIAL RISK MANAGEMENT

2.1 Introduction

The Executive Board[1] bears the ultimate responsibility for formulating the bank's strategy. An important element of the bank's strategy is the policy concerning capital and financial risk management and the resulting capital and funding plan. The Executive Board is responsible for the review, approval and execution of this plan. This also means that the Executive Board has the ultimate responsibility for the set up and effective operation of the processes that enable Achmea Bank to hold sufficient capital and liquidity considering its objectives and the statutory and regulatory capital and liquidity adequacy requirements. Within this scope, the Executive Board has delegated specific tasks to committees, including the Asset & Liability Committee (ALCO).

The objective of the bank's risk 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 Regulations and risk policies

2.2.1 Risk appetite

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:

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

[1] The position of Chairman of the Executive Board is held by Ms. Margreet van Ee. The position of Finance and Risk director is held by Mr. Ronald Buwalda. Mr. Vincent Teekens has been appointed Director of Operations of Achmea Bank N.V. as of 1 December 2014.

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

2.2.2 Rating agencies

Achmea Bank has a Fitch credit rating of A with a stable outlook (last update in 2015 on 17 August) and a S&P credit rating of A with a negative outlook (last update in 2014 on 10 June). Both agencies apply their own methodology to assess the capital and the liquidity of Achmea Bank. The assessment also considers the competitiveness and conditions of the Dutch financial market.

Liquidity

The rating agencies value the access to the (contingency) liquidity facilities at Achmea B.V.. With regard to the funding profile, the rating agencies indicate that there is a dependency on secured wholesale funding, but also mention the growth of savings and unsecured funding, which is regarded as an improvement of the Bank’s funding profile.

Capital

The rating agencies indicate that Achmea Bank has a strong capital base combined with a high quality mortgage portfolio and relatively low credit losses. The capital ratios (Core Equity Tier 1, total capital and leverage ratio) are reported monthly, this includes a 18 months forecast. The limits and trigger levels are set and described in the risk appetite.

2.2.3 Basel III and CRD IV

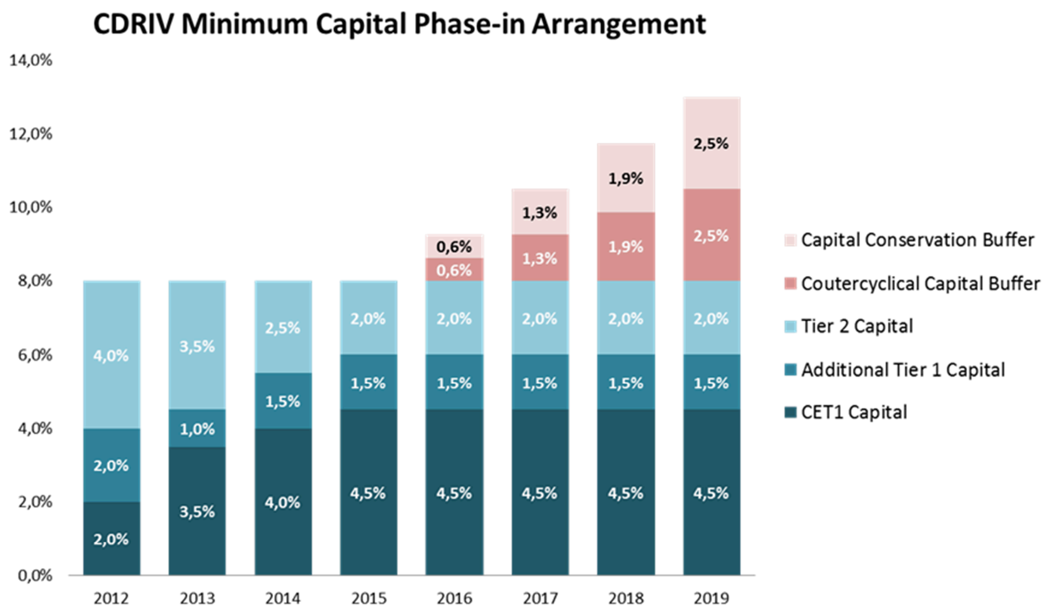
Basel III is a comprehensive set of reform measures in banking prudential regulation developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

- 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. This package replaced the 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.

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 were phased-in. The phase-in arrangements of the Basel III capital requirements are shown in the figure below.

Figure 1: Phase-in arrangements Basel III capital requirements



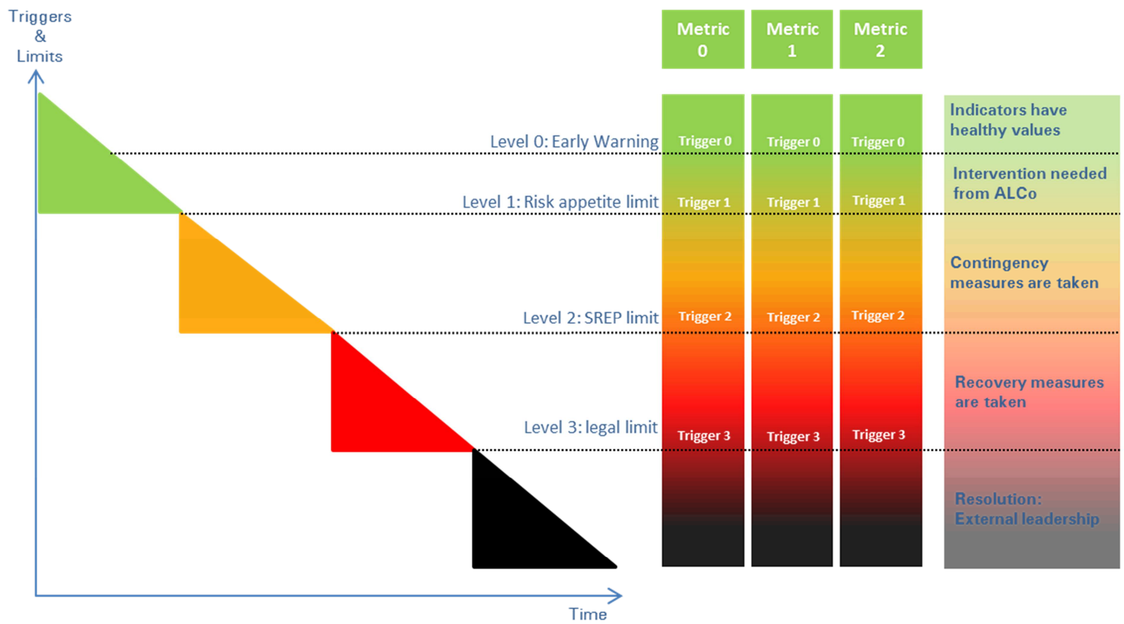
2.2.4 Recovery plan

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

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

For the defined liquidity and solvency metrics, the trigger framework contains trigger levels which present the depth of a crisis. The framework is displayed in the form of the "Slippery Slope".

Figure 2: Slippery Slope



Achmea Bank defines four crisis levels:

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

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

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

The monthly ALCO report is the main tool for monitoring the historic and expected, future development of the liquidity and capital metrics. The cash position is also monitored on a daily basis.

2.3 Risk governance

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

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

The Executive Board is responsible for setting up effective processes that enable the Bank to hold sufficient capital with respect to its objectives and the regulatory capital adequacy requirements. Within this scope, the Executive Board delegated specific tasks to different 'risk' committees (Finance & Risk Committee, ALCO, Credit Risk Management Committee, and Operational Risk Committee).

The ALCO, Credit Risk Management Committee and the Operational Risk Committee are sub-committees of the Finance & Risk Committee (F&RC) of the Bank, which is the ultimate decision making body for new and amendments to policies regarding financial risks.

The ALCO focuses on the management of interest rate risk, (professional) counterparty risk, liquidity risk, funding risk and capital management. The ALCO bases its decisions, among others, on the standard reports in which actual as well as forecasting figures with several (stress) scenarios are represented. In addition the ALCO supervises compliance with the relevant regulatory guidelines, especially with regard to the capital, funding, liquidity and market risk. The ALCO is chaired by the Director of Finance and Risk of Achmea Bank. Other members of the ALCO are representatives of Balance Sheet Management and Financial Risk, Control and representatives of the Achmea group units Corporate Finance and Treasury.

2.4 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 defense are the following:

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

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

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

The core function of the third line of defense is Internal Audit:

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

2.5 Risk types

Achmea Bank identifies the following types of core risks:

- 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;
- Interest rate risk on banking book: Interest rate risk is the present or future risk of a decline in total equity due to changes in market interest rates;
- Liquidity risk: Liquidity risk is defined as the risk that the bank fails to fulfill its short-term liabilities. This includes the risk that the bank is not able to attract funding with appropriate maturities or at appropriate interest rates and the risk that the bank fails to liquidate assets at a reasonable price or within a reasonable period of time;
- Solvency risk: Solvency risk is defined as the risk that the bank solvency ratios are too low, causing the market to lose its confidence in 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.

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 regulation 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 trade-off between risk and return is part of the bank's overall risk appetite framework of the bank.

For Basel III (CRR) and under the Dutch Financial Supervision Act (Wft), banks are currently required to maintain a minimum capital ratio of 8%. The Executive Board set the internally applied target for the minimum capital level at 14.5%. The minimum capital level takes into account the pillar II risks. Achmea Bank complied with external and internal minimum capital requirements throughout the year with a common equity tier 1 ratio of 17.0% and a total capital ratio of 17.2% at December 31st 2014.

3.2 Changes due to implementation of CRR

The CRR package came into force on 1 January 2014. Achmea Bank studied the new rules and directives, the impact on the bank's financial risk measures and implemented the resulting changes.

In the second half of 2014, Achmea Bank reassessed the calculation of the solvency ratios in line with the Capital Requirement Regulation. Based on this reassessment, the risk-weighting of assets related to retained securitization positions was changed going forward. The risk weightings and solvency were recalculated taking into account recent interpretation following the CRR / CRD IV rules. For comparative reasons the 2013 capital ratios are adjusted.

The adjustments result in a decrease of the Common Equity tier 1 ratio as at ultimo 2013 from 15.9% to 15.0%. This reduction is caused by the following changes to risk weighted assets:

- adjustment arising from retained securitisation positions, which results in an increase of the risk weighted assets for an amount of EUR 313 million;
- the application of Basel III guidelines results in a different calculation of mortgages. The current calculation is based on the Loan to market value instead of the Loan to Foreclosure Value. This change results in a decrease of the risk weighted assets for an amount of EUR 130 million.

3.3 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 any hybrid tier 1 capital. The reserves consist of the share premium reserve and the retained profits. The tier 2 capital is composed of subordinated loans. The deductions mainly relate to the revaluation reserve.

Table 2: Capital structure

In millions of Euros

	at 31 December 2014	at 31 December 2013	Change in Capital
Share capital	18	18	0
Share premium reserve	302	302	0
Reserves	282	260	22
Deductions	-5	-8	3
Core Equity Tier 1 capital	**597**	**572**	**25**
Lower Tier 2	9	9	0
Tier 2 capital	**9**	**9**	**0**
Total qualifying capital	**606**	**581**	**25**
Total risk exposure amount	**3,513**	**3,813**	
Pillar 1 capital requirement	**281**	**305**	**-24**

The total qualifying capital of EUR 606 million is more than sufficient for the pillar 1 capital requirements of EUR 281.

3.3.1 Core equity tier 1 capital

In 2014, tier 1 capital increased by EUR 25 million from EUR 572 million to EUR 597 million, mainly as a result of the contribution of the 2014 profit (EUR 22 million). Since the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its core equity tier 1 capital.

3.3.2 Tier 2 capital

The lower tier 2 capital (subordinated loans) remained constant at EUR 9 million compared to 2013.

3.3.3 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 CRR, 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 CRD IV/CRR and the 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	Change in Capital requirement
	at 31 December 2014		at 31 December 2013		
Credit risk					
Mortgage portfolio					
- not pledged	3,008	241	3,220	258	-17
- pledged	0	0	0	0	0
Consumer Credit	20	2	23	2	0
Treasury Exposures	289	23	251	20	3
Other	13	1	18	1	0
Contingent liabilities and commitments	29	2	154	12	-10
	3,358	**269**	**3,667**	**293**	**-25**
Operational Risk (Basic Indicator Approach)	**155**	**12**	**146**	**12**	**1**
Market Risk (not applicable)	**-**	**-**	**-**	**-**	**-**
Total	**3,513**	**281**	**3,813**	**305**	**-24**

The largest part of the capital requirements relates to credit risk (86%), of which a significant proportion (90%) relates to the mortgage portfolio.

The capital requirement has decreased by EUR 24 million, of which EUR 10 million is caused by a lower number of mortgage applications (contingent liabilities and commitments) compared to December 2013.

Although the mortgage portfolio has increased in 2014 the capital requirement has decreased by EUR 17 million. This decrease can be explained by the following:

- Mortgages issued in 2014 are mainly NHG mortgages (lower capital requirement) while repayments are mainly made on non-NHG mortgages (higher capital requirement);
- The house prices in the Netherlands show a small increase of 0.9% in 2014[2] with respect to the prices in 2013;
- A securitisation transaction (DMPL XII) in 2014 which has led to a lower RWA;
- In the last quarter of 2014 there was an increase in prepayments mortgages which can be explained by the change in legislation concerning tax exemption of financial donations from parents.

[2] Source: CBS Statline “Bestaande koopwoningen; regio; verkoopprijzen prijsindex 2010 = 100”

3.3.4 Capital ratios

The bank's capital ratios are shown in Table 4.

Table 4: Capital ratios

In millions of Euros	at 31 December 2014	at 31 December 2013	Change in capital/RWA
Core Equity Tier 1 capital	597	572	25
Tier 2 capital	9	9	0
Total qualifying capital	606	581	25
Risk-weighted assets	3,513	3,813	-300
Total exposure	15,712	17,170	-1,458
			Change in ratio
Core equity Tier 1 ratio	17.0%	15.0%	2.0%
Tier 2 ratio	0.2%	0.2%	0.0%
Total Capital ratio	17.2%	15.2%	2.0%
Leverage ratio	3.8%	3.3%	0.5%

The increase of the Core Equity Tier 1 capital (EUR 25 million of which EUR 22 million due to profit) and the decrease of the risk weighted assets (EUR 300 million due to decrease of contingent liabilities and commitments and the mortgage portfolio) have led to an increase of the Core Equity Tier 1 ratio and the Total Capital ratio of 2.0% to a Core Equity Tier 1 ratio of 17.0% and a Total Capital ratio of 17.2%.

The leverage ratio has increased with 0.5% from 3.3% in 2013 to 3.8% in 2014. The cash and deposits held at DNB has decreased from EUR 1.8 billion at year end 2013 to EUR 216 million at year end 2014 and explains the decrease of the total exposure. In February 2014 the Bank redeemed a EUR 1.5 billion covered bond, this explains the high amount of cash and deposits held at DNB at year end 2013.

3.4 Internal capital adequacy process and 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 (31-12-2014), the internal capital adequacy requirement consists of (required) pillar I capital, pillar II capital and surcharges imposed by the central bank.

3.5 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 recovery plan and an Internal Capital Adequacy Assessment Process (ICAAP) in which the objective to have the appropriate measures in place to bring the solvency of the Bank back at the desired level in such situations is described. The ICAAP and the recovery plan are reviewed at least annually.

4 FUNDING AND PLEDGED MORTGAGE RECEIVABLES

The Bank uses different types of funding to finance its activities. The Bank's diversified funding mix comprises retail financing, secured and unsecured wholesale financing. In addition, the Bank maintains different maturity profiles of its funding instruments to avoid and mitigate potential future refinancing risk.

The following table presents the funding mix, excluding derivatives and equity, of the Bank (notional amounts).

Table 5: Fundingmix

In millions of euros

	at 31 December 2014	at 31 December 2013	Change in amount
Entrusted Funds (retail)	5,579	5,130	449
Secured wholesale funds	4,512	6,317	-1,805
Unsecured wholesale funds	2,850	1,932	918
Banks (excluding Central Bank)	101	152	-51
Dutch State Guaranteed Note	0	967	-967
Central Bank funding	101	709	-608
Other Funding	221	218	3
Total funding	13,364	15,425	-2,061

4.1 Entrusted Funds (retail)

Achmea Bank offers consumer savings under the Centraal Beheer Achmea and FBTO labels. The total savings portfolio of approx. EUR 5.6 billion at year end 2014 consists of 42% on demand deposits, 43% term deposits and 15% residential mortgage-related savings.

In 2014 the total savings volume increased by EUR 0.5 billion, of which about + EUR 1 billion term deposits and –EUR 0.5 billion on demand deposits.

4.2 Secured wholesale funds

The Bank finances itself partly via secured funding. For this type of funding mortgage receivables are pledged as collateral to third parties. The pledges are shown in table 6.

Table 6: Total pledges mortgage receivables (against nominal value)

In thousands of euros

	at 31 December 2014	at 31 December 2013	Change in amount
Trustee	332,734	365,366	-32,632
Stichting Trustee Achmea Hypotheekbank	332,734	365,366	-32,632
Covered bond	300,427	2,416,291	-2,115,864
Achmea Covered Bond Programma	300,427	2,416,291	-2,115,864
Securitisations	5,140,832	5,408,748	-267,916
Dutch Mortgage Portfolio Loans VI B.V.	539,884	581,504	-41,620
Dutch Mortgage Portfolio Loans VIII B.V.	1,042,976	1,117,082	-74,106
Dutch Mortgage Portfolio Loans IX B.V.	701,592	759,324	-57,732
Dutch Mortgage Portfolio Loans X B.V.	761,400	809,611	-48,211
Dutch Mortgage Portfolio Loans XI B.V.	772,286	825,648	-53,362
Dutch Mortgage Portfolio Loans XII B.V.	881,105	0	881,105
Securitised Guaranteed Mortgage Loans I B.V.	0	844,197	-844,197
Securitised Guaranteed Mortgage Loans II B.V.	441,589	471,382	-29,793
Total pledged mortgage receivables	**5,773,993**	**8,190,405**	**-2,416,412**

These transactions were effected on market terms and conditions as mentioned in the prospectus of each transaction. All the bonds issued by SGML II B.V. and the B and C tranches of the bonds issued by DMPL VI B.V., DMPL VIII B.V., DMPL IX B.V., DMPL X B.V., DMPL XI B.V. and DMPL XII B.V. are held by Achmea Bank.

Achmea Bank uses securitisation (RMBS) as a funding source. In all these transactions, Achmea Bank assigns a portfolio of mortgage receivables to a special-purpose vehicle (SPV) which issues notes on the capital markets. The director of these companies is Intertrust Management B.V. With the proceeds of the notes the SPV finances the mortgage receivables and with the received interest on the mortgage receivables the SPV pays the interest on the notes.

4.2.1 Trustee

Under the Trust agreement the Bank pledges mortgage receivables to Stichting Trustee Achmea Hypotheekbank as collateral for some of the Bank liabilities such as private loans, derivatives and the Secured Medium Term Notes (the ‘Secured EMTN Programme’). In the event of default by Achmea Bank, investors can recover their investments from the pledged mortgage receivables.

The Secured EMTN Programme is used to fund a limited portion of the mortgage portfolio. As at 31 December 2014, a total of EUR 61 million was outstanding (2013:

EUR 76 million). Two of the issued notes (EUR 20 million) are listed on Société de la Bourse de Luxembourg.

Furthermore, at 31 December 2014 an outstanding amount of EUR 139 million private loans was collateralized under the Trust agreement (2013: EUR 144 million).

4.2.2 Covered bond programme

Under the covered bond programme the Bank has issued eight covered bonds. Seven of these transactions matured before 31 December 2014; In February 2014 the Bank redeemed a EUR 1.5 billion covered bond. The remaining outstanding amount at year end 2014 is CHF 200 million (or EUR 166 million). The Bank acts as both the originator and issuer under the programme and consequently has the primary obligation to pay interest and principal payable on the covered bonds issued under the programme.

The Achmea Covered Bond Company ('ACBC'), a bankruptcy remote special purpose vehicle, provides the covered bond investors a guarantee for full payment of interest and principal on the outstanding bonds under the programme by the pledging of the mortgage receivables of the Bank to the ACBC and a parallel debt agreement with the Security Trustee.

The outstanding amount of these pledged mortgage receivables will at all times be at least 33% higher than the outstanding amount of the bonds issued under the programme.

4.2.3 Securitisations of retail mortgages

Achmea Bank also uses securitisation as a funding source. At 31 December 2014, the Bank has six outstanding transactions, with a total outstanding amount of EUR 4.2 billion (excluding the notes which are held by the Bank for an amount of EUR 0.9 billion). In May 2014 the EUR 0.8 billion DMPL XII RMBS was issued; the notes were placed at Achmea Pensioen & Leven. In October 2014 SGMLI (EUR 772 million) was redeemed at the first optional redemption date.

The Bank services the assigned portfolio of mortgage receivables. Securitisation does not only provide funding to the Bank but also reduces a small part of its capital charges because the credit risk of the mortgages is partially being transferred to the SPV.

Table 7: Total outstanding exposures and capital charge of securitisations

In thousands of euros	at 31 December 2014		at 31 December 2013	
	Exposure	**Capital charge**	**Exposure**	**Capital charge**
Traditional securitisations				
- residential mortgages	5,098,189	102,472	6,150,800	91,311
DMPL/SGML	*4,699,522*	*96,093*	*5,733,855*	*84,639*
Investments	*398,667*	*6,379*	*416,945*	*6,671*
- commercial mortgages	0	0	0	0
- SME loans	0	0	0	0
Subtotal	***5,098,189***	***102,472***	***6,150,800***	***91,311***
Synthetic securitisations	0	0	0	0
Total portfolio	***5,098,189***	***102,472***	***6,150,800***	***91,311***

4.3 Unsecured wholesale funds

4.3.1 Unsecured MTN Programme

Achmea Bank has established a senior unsecured MTN programme in Q4 2012, with a current size of EUR 10 billion and issues frequently under this programme. In February 2014 Achmea Bank issued a EUR 0.75 billion MTN. Private placements in 2014 amounted to EUR 92 million. At 31 December 2014 the outstanding amount under the programme was EUR 2.3 billion (2013: EUR 1.4 billion).

4.3.2 French commercial paper programme

In 2013 the Bank set up a French commercial paper programme of EUR 1.5 billion. With this programme the Bank is able to access the international money markets to further diversify its funding mix. In 2014, the Bank regularly issued new paper, resulting in a total outstanding amount of EUR 309 million at 31 December 2014 (2013: EUR 138 million).

4.4 Banks (excluding Central Bank)

The use of bank funding is very limited: EUR 101 million at 31 December 2014. This amount mainly consists of one loan of EUR 75 million, maturing in August 2017.

4.5 Dutch State Guaranteed Note

In 2009 Achmea Bank entered into a financing programme under the 2008 Credit Guarantee Scheme of the State of The Netherlands. Under this programme, the State of The Netherlands guarantees the payment of principal and interest relating to the notes. In November 2014, the remaining outstanding amount of USD 1.45 billion (EUR 967 million) was redeemed.

4.6 Central Bank Funding

Achmea Bank also reduced its Long-Term-Refinancing-Operation (LTRO) funding of the European Central Bank from EUR 700 million to EUR 100 million in 2014. The remaining amount was redeemed in February 2015.

4.7 Other Funding

Other funding includes accruals, tax liabilities and other liabilities; EUR 221 million.

5 FINANCIAL AND OPERATIONAL RISK

5.1 Credit Risk

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

5.1.1 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 8: Gross credit risk exposure per balance sheet item by counterparty

In thousands of Euros

at 31 December 2014	Government & central banks	Treasury exposure	Retail	Total
Loans and advances to banks		1,319,577		1,319,577
Loans and advances to public sector	64,220			64,220
Loans and advances to customers			12,505,739	12,505,739
Interest-bearing securities, derivative assets held for risk management and Investments		1,000,602		1,000,602
	64,220	**2,320,179**	**12,505,739**	**14,890,138**

In thousands of Euros

at 31 December 2013	Government & central banks	Treasury exposure	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**

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 (paragraph 5.1.2.2). 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.

5.1.2 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 Achmea Bank's Default Management Department. This department is responsible for account management and debt collection.

5.1.2.1 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 five categories with different risk weights:

- Government guaranteed (NHG):

  These mortgages are covered by the Dutch National Mortgage Guarantee (abbreviated in Dutch to 'NHG') provided by Stichting Waarborgfonds Eigen Woningen.
  - The mortgage part which is not guaranteed, is weighted at 75%;
  - When determining the non-guaranteed mortgage part, the mortgage is assumed to be an annuity mortgage. In addition a fixed own risk percentage is taken into account.
- Pledged mortgage loans:

  This concerns the securitized mortgages whereby the credit risk is divided between the investors and Achmea Bank.

- § The pledged mortgage loans have an average risk weight of 25.6% at 31 December 2014.

- LTMV < = 80%

  This concerns the portion of the mortgage loans of less than 80% of the market value:

  - § The portion of these mortgage loans are weighted at 35%;

- LTMV > 80%

  This concerns the portion of the mortgage loans exceeding 80% of the market value:

  - § For the remaining mortgages, the portion of these mortgage loans are weighted at 75%.

- Other

  This concerns mortgages in default and mortgages for which a provision is made:

  - § The mortgages have a 100 percent weight but the provision amount is subtracted of the risk weighted amount.

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 9: Mortgage portfolio by risk weight

In thousands of Euros

	Risk weight	at 31 December 2014	at 31 December 2013	change in exposure
Government guaranteed (NHG)	0%	2,901,372	1,613,284	1,288,088
Pledged mortgage portfolio	0%	5,043,794	5,233,706	-189,911
LTMV < = 80%	35%	3,992,685	4,654,371	-661,686
LTMV > 80%	75%	419,607	693,204	-273,597
Other	100%	93,353	107,291	-13,938
Total		12,450,811	12,301,856	148,955

The increase of the NHG portfolio is due to the redemption of SGML in November 2014 and the increase of newly issued NHG mortgages. The decrease of the non-pledged mortgage portfolio is due the increase of prepayments. This increase can be explained by the low interest rate and a change of legislation concerning tax exemption of financial donations from parents.

Achmea Bank manages credit risk by applying a strict acceptance policy. The Product Management department is responsible for the annual update and/or review of the 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 & Financial Risk Management analyses the acceptance policy. Credit risk is monitored by the Credit Committee.

5.1.2.2 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 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. A small 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[3];
- Revolving credit facilities and personal loans are given a risk weight of 100%; and
- Corporate exposures are given a 100% risk weight.

Table 10: Consumer credit portfolio by risk weight

In thousands of Euros

	Risk weight	at 31 December 2014	at 31 December 2013	change in exposure
Government guaranteed consumer credit	0%	34,108	39,607	-5,499
Revolving credit and personal loan	100%	20,820	23,872	-3,052
Commercial/Business Credit	100%	0	0	0
Total		54,928	63,479	-8,551

5.1.2.3 Impairment and past due loans

Table 11 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 11: Past due but not impaired loans

In thousands of euros

Category	at 31 December 2014 Outstanding amount	at 31 December 2013 Outstanding amount	Change in Outstanding amount
Less than 1 month	142,168	89,169	52,999
1 < 2 months	48,622	50,129	-1,507
2 < 3 months	20,317	13,050	7,267
>3 months	33,849	0	33,849
Total	244,956	152,348	92,608

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

Of the total amount of loans and advances to customers, an amount of EUR 245 million (2013: EUR 152 million) is past due but not impaired.

The large increase of past due customers is partially caused by the aftermath of the economic crisis. The increase is also caused by a change in definition for determining the total amount of loans and advances to customers which are past due but not impaired. When the collateral value of the mortgage covers the mortgage loan, no provision and therefor no impairment is needed.

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. 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 12.

Table 12: Allowance for losses on loans and advances

In thousands of euros

	at 31 December 2014	**at 31 December 2013**	**mutation 2013-2014**
Balance as at 1 January	22,799	19,481	
Additions	9,428	15,849	-6,421
Releases	-1,601	-2,553	952
Write-off	-7,870	-9,978	2,108
Other changes	-	-	-
Balance	22,756	22,799	-43
Specific allowance for impairment	16,092	15,842	250
IBNR	6,664	6,957	-293
Balance	22,756	22,799	-43

5.1.3 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 exposure. These limits are approved by the ALCO and the F&RC 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 counterparty risk exposure on derivatives by means of (cash) collateral. No impairments on counterparty positions occurred in 2014.

The application of (cash) collateral is expected to increase further as a result of the introduction of central clearing to the European Markets Infrastructure Regulation (EMIR) which is expected become effective in 2016.

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 2014, the net exposure for professional counterparties amounts to EUR 21 million (2013: 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 0.3 million at year-end (2013: EUR 0.05 million). 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 13: Financial assets by external credit ratings

In thousands of euros

at 31 December 2014	AA- to AAA	A- to A+	BBB- to BBB+	BB+ and below	Not rated	Total
Cash and balances with Central Banks	-	-	-	-	215,214	215,214
Derivative assets held for risk management	1,756	361,957	4,339	-	-	368,052
Loans and advances to banks	140,367	1,041,619	49,554	-	88,037	1,319,577
Loans and advances to public sector	-	-	-	-	64,220	64,220
Interest-bearing securities	537,672	-	-	-	94,183	631,855
	679,795	*1,403,576*	*53,893*	*0*	*461,654*	*2,598,918*

at 31 December 2013	AA- to AAA	A- to A+	BBB- to BBB+	BB+ and below	Not rated	Total
Cash and balances with Central Banks	-	-	-	-	1,846,822	1,846,822
Derivative assets held for risk management	91,649	365,430	-	-	-	457,079
Loans and advances to banks	352,191	674,163	193,350	-	114,527	1,334,231
Loans and advances to public sector	-	-	-	-	73,800	73,800
Interest-bearing securities	928,011	54,057	-	-	55,683	1,037,751
	1,371,851	*1,093,650*	*193,350*	*0*	*2,090,832*	*4,749,683*

The lowest rating at the year end of 2014 is BBB (EUR 0.2 million) (2013: EUR 0.2 million). The Loans and advances include all collateral positions. At year-end there are two collateral position reported as liability (EUR 25 million), which is included in the deposits from banks. The related credit rating are A/AA+.

5.1.4 Contingent liabilities, commitments and other risks

Liabilities due to off balance irrevocable facilities which may lead to an actual credit risk exposure, are mainly offers to customers for mortgage loans and credit facilities. Mortgage offers and proposals are given a 20% 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. Other credit risks include tax receivables, tangible assets and other assets, which are given a 100% risk weight.

Table 14: Contingent liabilities, commitments and other credit risks by risk weight

	Risk weight	at 31 December 2014	at 31 December 2013	change in exposure
Contingent liabilities	50%	16	0	16
Credit replacing guarantees	75%	0	0	0
Irrevocable facilities, of which		340,361	98,575	241,786
Government guaranteed (NHG) mortgage offer	0%	195,046	18,858	176,188
Not government guaranteed (NHG) mortgage offer	20%	145,315	79,717	65,599
Other irrevocable facilities	75%	0	0	0
Revocable facilities	0%	0	0	0
Other credit risk	100%	20,458	49,710	-29,252
Total		360,835	148,285	212,550

The change in exposure is due to the increase in irrevocable facilities concerning mortgage offers to customers.

Legal proceedings

As at 31 December 2014, 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.

Contractual obligations

As at 31 December 2014, the Bank had contractual obligations amounting to EUR 13.8 million (2013: EUR 18.5 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 outstanding bank guarantees at 31 December 2014 amounting to EUR 0.02 million (2013: EUR 0.0 million).

Irrevocable facilities

This refers to all liabilities relating to irrevocable undertakings which may lead to credit losses. In 2014 this amounted to EUR 340 million of which EUR 331 million (2013: EUR 99 million) can be allocated to offers to customers for mortgage loans and credit facilities. The increase of offers to customers can be explained by a combination of the following factors: low interest rates, change in legislation concerning mortgages covered by NHG and achieving the target concerning the mortgage portfolio.

Fiscal unity

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

5.2 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 Corporate Finance 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 and therefore does not calculate a pillar 1 market risk capital charge.

5.2.1 Interest rate risk banking book

Interest rate risk is the present or future risk of a decline in total equity due to changes in market interest rates. The Bank hedges the interest rate risk arising from its mortgage lending and funding operations mainly with interest rate derivatives (swaps) and sometimes with investments (i.e. government bonds).

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

1. Effects of a change in interest rates on the economic value of total equity;
2. Effects of a change in interest rates on the interest income (and therefore P&L).

Several limits have been set on the bank's fixed-interest positions under the interest rate risk policy. ALCO uses Value-at-Risk (VAR), duration and Income-at-Risk techniques to manage interest rate risk. Treasury is responsible for executing the decisions of ALCO.

During 2014 the management of interest rate risk has been further improved. E.g. the scenario-analysis is extended with scenario's for interest curves and client behaviour. Financial departments base their forecasts on the same assumptions. Also a validation on interest risk management has been carried out.

5.2.1.1 Effects of a change in interest rates on total equity

The impact of a yield change on the market value of total equity is based on the market value of all financial instruments. Changes in the market value of equity are not directly visible in the income statement. In a way, changes in the market value of equity, reflect future profitability streams.

Various methodologies are used to monitor the impact on total equity:

- Duration: measures the sensitivity of the market value of equity 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 yield 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 duration 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;
- Income at Risk: measures the impact on the interest income (P&L) by a fluctuation of the interest rates.

These sensitivity analysis are also used in management reports and discussed in ALCO. The outcome of the sensitivity analysis are within the limits.

Table 15: Delta duration impact

In years	at 31 December 2014	at 31 December 2013	change in duration
Equity Duration	5.72	4.79	0.93

The table above shows that the duration of total equity of Achmea Bank increased from 4.79 years as at 31 December 2013 to 5.72 years as at 31 December 2014. This increase is partly due the increase of new mortgages which resulted in an increase of the duration.

Table 16: Sensitivity analysis of market value of equity

In thousands of euros	change in market value equity		
	at 31 December	at 31 December	delta 2013 - 2014
Change in the interest rate of 200 basis points negative	49,906	60,034	-10,128
Change in the interest rate of 200 basis points positive	-79,347	-48,320	-31,027

The effect of a 200 basis point upward shift of the yield curve on total equity value is EUR –79 million at 31 December 2014, compared to EUR –48 million at 31 December 2013. This is mainly due to an increase of the duration of equity. In 2013 the duration was expressed in nominal value of equity, in 2014 the duration was expressed in market value of equity (the duration in 2014 would be higher on the former method).

5.2.1.2 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 2014	at 31 December 2013	change in income
Income at Risk	147	121	26

The table above shows that the income at risk has increased by EUR 26 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 1 basis point is EUR 188 thousand.

5.2.2 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 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 2014			at 31 December 2013		
	Total exposure	Hedging instruments	Net Exposure	Total exposure	Hedging instruments	Net Exposure
Assets						
US Dollar	-	-	-	-	-	-
Swiss Franc	-	-	-	-	-	-
	-	**-**	**-**	**-**	**-**	**-**
Liabilities						
US Dollar	-	-	-	(1,073,622)	1,073,622	-
Swiss Franc	(185,173)	185,173	-	(234,566)	234,566	-
	(185,173)	***185,173***	**-**	***(1,308,188)***	***1,308,188***	**-**
Net						
US Dollar		-	-	(1,073,622)	1,073,622	-
Swiss Franc	(185,173)	185,173	-	(234,566)	234,566	-
	(185,173)	***185,173***	**-**	***(1,308,188)***	***1,308,188***	**-**

All foreign exchange positions are fully hedged and therefore there is no remaining exposure on foreign currency. The US Dollar exposure at December 2013 relates to the Notes of Dutch State Guarantee programme, which is fully redeemed in 2014.

The following exchange rates have been used:

	Closing rate		Average rate	
	2014	2013	2014	2013
US Dollar	1.2524	1.3770	1.3147	1.3473
Swiss Franc	1.2024	1.2265	1.2145	1.2165

5.3 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 acceptable costs.
- Funding liquidity risk: The possibility that, over a specific horizon, Achmea Bank will become unable to settle obligations when due. A typical example of this type of risk is a 'bank run'.

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. Input on liquidity risk reporting, including forecasting figures, is the responsibility of the Balance Sheet Management & Financial Risk department. 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 6.2 months (2013: 7.4 months).

5.3.1 Internal liquidity adequacy process

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.

5.3.2 Liquidity Contingency Plan

Achmea Bank has a Liquidity Contingency Plan (LCP) available in case of a liquidity stress event. The LCP is part of the Recovery plan[4]. 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 possible measures to add liquidity in times of need and is reviewed on an annual basis.

[4] Recovery plan is described in paragraph 2.2.4.

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

Table 19: Undiscounted contractual cash flows of the liabilities

As at 31 December 2014	**< 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**> 5 years**	**Total**	**Total carrying amount**
In thousands of euros						
Deposits from banks	100,223	6,954	76,367	19,000	202,544	202,072
Funds entrusted	2,695,331	647,871	1,357,033	1,827,244	6,527,479	5,993,447
Debt securities issued	388,520	1,715,251	3,504,065	1,696,169	7,304,005	7,050,274
Subordinated liabilities	207	6,859	1,774	8,250	17,090	14,598
Derivative liabilities held for risk management	0	55,348	448,797	668,580	1,172,725	1,158,441
Total interest cashflows	3,184,281	2,432,283	5,388,036	4,219,243	15,223,843	14,418,832

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						
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	0	15,779	14,598
Derivative liabilities held for risk management	108,016	226,403	544,436	146,838	1,025,693	995,554
Total interest cashflows	4,832,437	3,813,563	6,254,234	1,914,657	16,814,891	16,422,465

5.3.3 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. Achmea Bank recognises at least the following liquidity stress situations, for which it holds a liquidity buffer:

- A bank run on retail savings (on demand deposits);
- Volatility of cash collateral call on (interest rate) derivatives;
- Lower roll over of maturing funding.

Achmea Bank's liquidity buffer mainly consists of on demand Central Bank deposits and an unencumbered portfolio of high quality liquid assets. At year-end 2014 Achmea Bank held a portfolio of unencumbered liquid assets amounting to about EUR 800 million (interest bearing securities) that can easily be sold or posted as collateral and approximately EUR 215 million of available cash balances. In addition, Achmea Bank has a standby liquidity facility of EUR 200 million with Achmea B.V.

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

5.4 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.

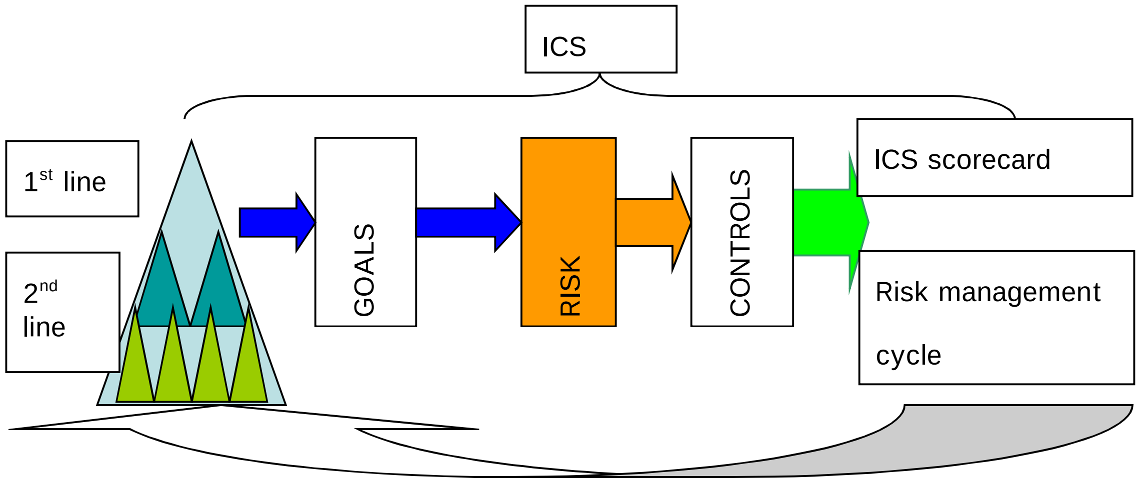
The responsibility to manage operational risks is primarily assigned to the operating and commercial departments (first line of defense).

The risk management cycle is monitored continuously by means of a wide internal control framework. At least on a quarterly basis the risk management cycle is thoroughly discussed within the Risk Board. The risk management governance, processes, techniques and methods are described in the Operational Risk Policy, which is reviewed every year. Additionally, the result of the evaluation of the quarterly risk management cycle is reflected in the Bank’s yearly 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. The comprehensive ICS is written once a year.

Achmea Bank applies the basic indicator approach for calculating the capital charge for operational risk under pillar I of Basel III. 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.

5.4.1 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, CFO and COO 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.

5.4.2 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 task 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.

6 STRESSTESTING

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

Stresstesting is a standard part of risk management at Achmea Bank. Achmea Bank has drawn up a stresstesting policy and several scenarios for stresstesting solvency and liquidity. The governance, methodology and use of stresstesting in the capital and liquidity management process are described in the policy as well as the risk factors for Achmea Bank. These documents are reviewed at least annually.

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

The results of the stress scenarios are reported (at least) on a quarterly basis. The time horizon of the scenarios concerning solvency is three years. Based on the outcomes, the ALCO will have to control the risks, where necessary, so that the risk appetite (with regard to the ratios) will not be exceeded and the minimum liquidity position is maintained.

<u>Capital management</u>

On a quarterly basis, the impact of an economic crisis and the scenario which leads to exceeding the risk appetite limit after stress (reverse stresstesting) are determined. During an economic crisis there is an economic recession and a crisis in the financial markets, this leads to higher unemployment, lower house prices and to a downgrade cycle for credit ratings of professional counterparties. Achmea Bank calculates the impact of two scenarios, one “normal” and one “severe” stress scenario.

Although the impact of the “severe” stress scenario leads to an decrease of the CET1 ratio, the ratio does not exceeds the limit which is defined in the risk appetite. This means that Achmea Bank is comfortable with the amount of stress it can withstand.

Stresstesting is also used to determine the pillar II capital for concentration risk and interest rate risk on banking book.

Liquidity management

On a quarterly basis the impact of a market-wide stress scenario (moderate and severe) and a severe idiosyncratic stress scenario are determined. Market-wide stress concerns changes in the yield, credit ratings of counterparties and the limited access to the capital market. Idiosyncratic stress concerns the credit rating of Achmea Bank, limited access to the capital market and customers savings.

Although the severe stress scenarios can lead to a substantial loss of liquidity, the available liquid buffer of Achmea Bank is sufficient to compensate for these substantial liquidity outflows.