Achmea Bank NV

# Capital Adequacy, Liquidity Adequacy and

# Risk Management Report 2015

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## SUMMARY ANALYSIS

| Common Equity Tier 1 ratio (CET1-ratio) | Tier 1 Capital ratio | Total Capital ratio |
|---|---|---|
| **16.7%** | **16.7%** | **16.9%** |

| Leverage ratio | Total Risk Weighted Exposure Amounts |
|---|---|
| **4.8%** | **€ 4,594 mln** |

| Liquidity Coverage ratio (LCR) | Net Stable Funding ratio (NSFR) |
|---|---|
| **1,027%** | **117%** |

**Capital management**

Through consistent monitoring, stresstesting and capital projections Achmea Bank has determined that it is adequately capitalized and that the capital of the bank remains within the internal and external limits for both in short and long term.

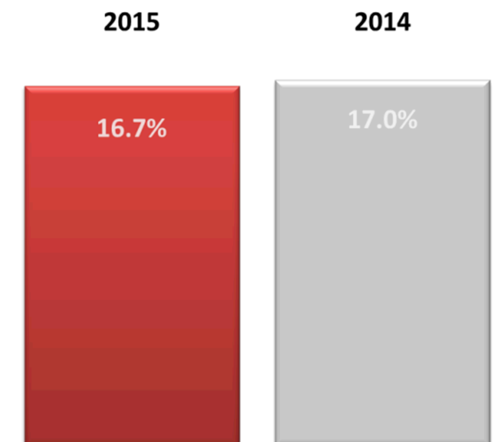
The ICAAP-ratio at 31 December 2015 amounted to 14.1% Total Capital Ratio and falls within the current standards and limits of the capital (risk) position of Achmea Bank. In the composition of its capital, Achmea Bank makes a distinction between going concern and gone-concern risks whereby common equity tier 1 and additional tier 1 capital is considered as going-concern capital.

A part of the interest rate risk, given its long term characteristics, is considered as gone-concern risk. This means that a part of the ICAAP-ratio, and thus risks, can be covered with additional forms of capital which leads to a minimum CET1-ratio of 12.9%.

**Liquidity management**

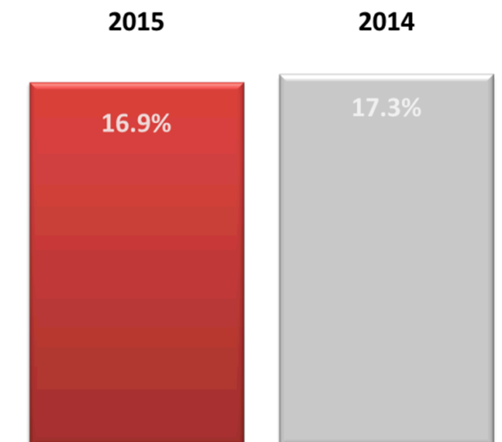
The liquidity risk management of Achmea Bank is adequate. The development of relevant indicators, such as cash and liquidity position, the survival period and the LCR are monitored consistently by the bank. The amount and composition of liquidity buffers at 31 December 2015 are adequate and enable the bank to be able to continue to meet its payment obligations both under normal and stress conditions. Achmea Bank complies structurally with the internal and external requirements, including standards for (maintaining) healthy balance sheet ratios: funding mix, asset encumbrance and overcollateralisation.

### Common Equity Tier 1 ratio




The Common Equity Tier 1 Capital ratio decreased slightly to 16.7% per December 2015 (17.0% at the end of 2014).

### Total Capital ratio




The Total Capital ratio slightly decreased to 16.9% per December 2015 (17.3% at the end of 2014).

This decrease of the ratios is due to the increase of the risk weighted exposure amounts from EUR 3,512 mln at 31 December 2014 to EUR 4,954 mln at 31 December 2015. This increase is mainly due to the redemption of RMBS notes in 2015 and the transfer of a major part of the former Staalbankiers credit portfolio to Achmea Bank. Achmea Bank received a capital injection related to this transfer from Achmea. The Bank's capital position remains strong.

### Risk Weighted Exposure Amounts

The Risk Weighted Exposure Amounts as at 31 December 2015 amounted to EUR 4,594 million. A summary breakdown of the total Risk Weighted Exposure Amounts by risk type is provided in the table below.

| Summary Risk Weighted Exposure Amounts | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Central governments and central banks | - | - |
| Regional governments and local authorities | - | - |
| Financial Institutions | 268 | 209 |
| Corporates | - | - |
| Retail secured by real estate | 3,067 | 1,807 |
| Retail other | 311 | 20 |
| Securitisation positions | 766 | 1,281 |
| Other items | 15 | 41 |
| **Total Credit Risk** | **4,426** | **3,358** |
| **Market Risk** | **-** | **-** |
| **Operational Risk** | **150** | **155** |
| **Credit valuation adjustment (CVA)** | **18** | **-** |
| **Total** | **4,594** | **3,512** |

### Credit Risk Exposures

The total Credit Risk exposures as at 31 December 2015 amounted to EUR 16,072 million (2014: EUR 15,125 million). A summary of credit risk exposures is provided in the table below.

| Summary Credit Risk Exposure | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Central governments and central banks | 731 | 448 |
| Regional governments and local authorities | 132 | 64 |
| Financial Institutions | 1,623 | 1,688 |
| Corporates | - | - |
| Retail secured by real estate | 9,798 | 7,407 |
| Retail other | 359 | 55 |
| Securitisation positions | 3,416 | 5,442 |
| Other items | 13 | 20 |
| **Total** | **16,072** | **15,125** |

# 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 and liquidity requirements to cover risks (liquidity risk, credit risk, market risk, counterparty risk and operational risk).

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 operates under the CRD IV capital framework which came into force at the start of 2014. The Pillar 3 requirements 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.

**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. EBA has published guidelines -build on the Liquidity Coverage Ratio (LCR) disclosure standards published by the BCBS- aimed to specify key liquidity ratios and figures in a harmonised manner across the EU, as envisaged in Article 435 (1) CRR for the general disclosure framework, including liquidity risk. These guidelines contain a harmonised table on liquidity risk management and harmonised templates for the LCR disclosure. 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 2015 |
|---|---|
| Scope of consolidation | "Company profile and basis consolidation" section |
| Risk management objectives, policies and methodologies (qualitative disclosures) | "Risk management" section |
| Capital structure | "Capital management" section |
| Capital adequacy | |
| Liquidity risk | "Liquidity risk management" section |
| Funding | |
| Securitisations | |
| Credit risk | "Credit risk" section |
| Market risk | "Market risk" section |
| Interest rate in banking book | |
| Operational risk | "Operational risk" section |

Chapter "COMPANY PROFILE AND BASIS OP CONSOLIDATION" describes the company profile and the basis of consolidation. Chapter "RISK MANAGEMENT" describes the risk governance and framework. Detailed disclosure on capital resources, risk exposures and risk weighted assets are set out in chapter "CAPITAL MANAGEMENT". Detailed disclosure on liquidity, funding and securitisations is set out in chapter "LIQUIDITY RISK MANAGEMENT". Chapter "CREDIT RISK" contains the analysis of credit risk. Chapter "MARKET RISK" contains the analysis of market risk and interest rate risk in banking book. Chapter "OPERATIONAL RISK" describes the operational risk management of Achmea Bank.

# COMPANY PROFILE AND BASIS OP CONSOLIDATION

## 1 Company profile

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, Woonfonds and Staalbankiers[1]. Centraal Beheer Achmea offers mortgage loans directly to consumers and Woonfonds Hypotheken employs the distributive power of intermediaries[2]. The label Staalbankiers relates to the Staalbankiers portfolio that was acquired in 2015. Achmea Bank also provides savings products to private customers under the label Centraal Beheer.

Achmea Bank is the competence- and service centre for retail savings and mortgage products within the Achmea group. Our mortgage and savings products complement the wider range of insurance products provided by Achmea Group. The products of Achmea Bank play an important role in the retirement benefit plan strategy of Achmea Group .

Mortgage lending is secured by a contingent claim on residential properties in the Netherlands. Achmea Bank obtains its funding through retail savings and funding in the form of unsecured and secured notes issued on the capital markets.

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. The key brands in the Dutch market are Centraal Beheer Achmea, Interpolis and Zilveren Kruis.

At year end the main shareholders of Achmea B.V. were Vereniging Achmea (62%) and Coöperatieve Rabobank U.A. (28%).

## 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 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 )

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[1] As of 23 May 2016 the name of the label Staalbankiers is changed into Acier Financieringen
[2] As of 2016 Centraal Beheer Achmea also employs the distributive power of intermediaries

- 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 )
- DRMP I B.V. (shares are held by Stichting Holding Dutch Residential Mortgage Portfolio I)
- Stichting Trustee Achmea Hypotheekbank
- Stichting Incasso Achmea Hypotheken
- Achmea Covered Bond Company B.V.

* Called in 2015
** Liquidated 31 December 2015

All consolidated companies have their registered office in Amsterdam except for Stichting Trustee Achmea Hypotheekbank which has its 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 Bank has a Trust agreement with Stichting Trustee Achmea Hypotheekbank, under this Trust agreement the Bank pledges mortgage receivables to Stichting Trustee Achmea Hypotheekbank as collateral for liabilities of and funds entrusted to the Bank.

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. As mentioned in the annual report of Achmea Bank, 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.

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

# RISK MANAGEMENT

## 1 Introduction

The Executive Board[3] 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 Regulations and risk policies

### A 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, liquidity 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;
- have a conservative investment policy.

The Risk Appetite Statement (RAS) 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) and the Supervisory Board.

### B Rating agencies

Achmea Bank has a Fitch credit rating of A with a stable outlook (last update in 2016 on 10 August) and a S&P credit rating of A- with a stable outlook (last update in 2016 on 25 July). Both agencies

[3] The position of Chairman of the Executive Board was held by Ms. Margreet van Ee, as of 1 July 2016 Mr. Pierre Huurman is the Chairman of the Executive Board. The position of Finance and Risk director is held by Mr. Ronald Buwalda. The position of Director of Operations is held by Mr. Vincent Teekens.

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.. Due to growth of retail savings and unsecured funding, there is less dependency on secured wholesale 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 36 months forecast. The limits and trigger levels are set and described in the risk appetite.

## C Basel III and CRD IV

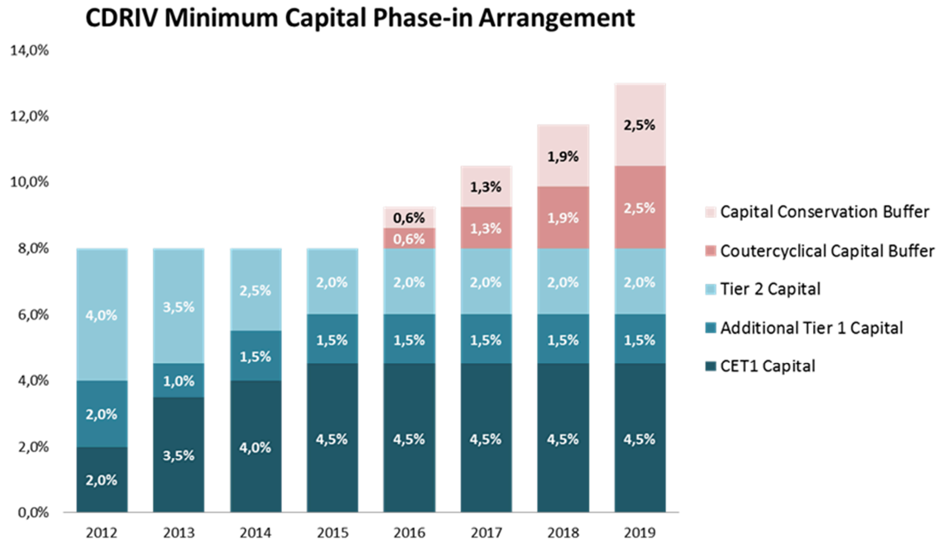
Basel III is a comprehensive set of reform measures in banking prudential regulation developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to:

- 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.

The phase-in arrangements of the Basel III capital requirements are shown in the figure on the next page.

Figure 1: Phase-in arrangements Basel III capital requirements



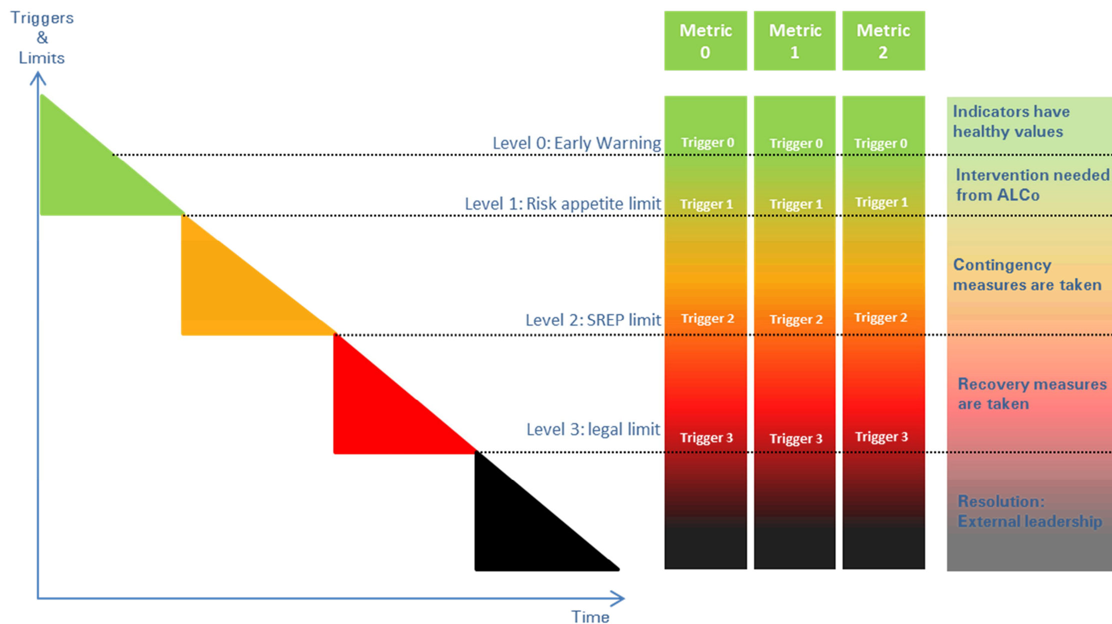

## D Recovery plan

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 (developing) 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 monitored on a daily basis.

## 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. The Executive Board is also responsible for setting up effective processes that enables 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 and Credit Risk Committee).

Together with the Credit Risk Committee, the ALCo is a sub-committee 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 Executive Board is part of this committee.

The ALCo focuses on the management of interest rate risk, market risk, professional counterparty risk[4], 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 & Financial Risk Management, Control, Corporate Finance (Achmea B.V.) and Treasury (Achmea B.V.).

## 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 performs objective audits on the risk framework.

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

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

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[4] Retail counterparty risk is the focus of the Credit Risk Committee.

## 5 Risk types

Achmea Bank identifies the following types of core risks:

- Capital 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;
- Liquidity risk: Liquidity risk is defined as the risk that the bank fails to fulfill its short and long-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;
- 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;
- 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.

## 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 and/or improves insight in the relevant risks Achmea Bank faces. 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.

### A Capital management

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. The economic crisis scenario consists of a combination of an economic recession and a crisis in the financial markets. This scenario 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 economic crisis scenarios, one "basis" and one "severe" stress scenario.

Although the impact of the "severe" stress scenario leads to a 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 interest rate risk on banking book and concentration risk.

### B 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 focusses on the effects of changes in the yieldcurve, credit ratings of counterparties and a limited access to the unsecured wholesale markets. Idiosyncratic stress is the result of a (sudden) loss of trust in the creditworthiness of Achmea Bank. This can have a negative effect on the credit rating of the Bank and leads to an outflow of a considerable amount of retail funding (customer savings) and will result in a limited access to the unlimited wholesale markets for several months.

Although the severe stress scenarios lead to substantial liquidity drains, the available liquid buffer of Achmea Bank is sufficient to compensate for these negative stress effects.

# CAPITAL MANAGEMENT

## 1 Introduction

The Bank must hold sufficient capital to cover the risks arising from its activities. Pillar I of the Basel framework offers guidelines for calculating the minimum amount of capital that needs to be held, according to the regulators, in relation to credit risk, market risk and operational risk. Under the rules, the capital adequacy requirements relating to these risks can be calculated in a number of ways with varying degrees of sophistication. The Bank uses the standardized approach for Credit Risk to calculate the risk weightings of its assets.

The Bank's policy is to maintain a strong capital base to maintain investor confidence and creditor and market confidence in order to sustain the future development of the business.

Under the Dutch Financial Supervision Act (Wft), banks are required to maintain minimum capital ratios. The Bank fully complied with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 16.7% and a Total Capital Ratio of 17.2% at 31 December 2015. For 2015 the Executive Board set the internally applied target for the minimum capital ratio level at 14.5%. The minimum capital level takes into account the pillar II risks.

## 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 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 a revaluation reserve.

Table 2: Qualifying capital

| **Qualifying Capital** | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Share capital | 18 | 18 |
| Share premium reserve | 472 | 302 |
| Reserves | 287 | 282 |
| Deductions | -8 | -5 |
| **Common Equity Tier 1 capital** | **769** | **597** |
| Lower Tier 2 | 7 | 9 |
| **Tier 2 capital** | **7** | **9** |
| **Total qualifying capital** | **776** | **606** |
| Total risk weighted exposure amount | 4,594 | 3,512 |
| **Pillar 1 capital requirement** | **368** | **281** |

The total qualifying capital of EUR 776 million consist mainly out core equity tier 1 and is more than sufficient for the pillar 1 capital requirements of EUR 368 million.

### A Common equity tier 1 capital

In 2015, tier 1 capital increased by EUR 172 million from EUR 597 million to EUR 769 million, mainly as a result of the capital contribution of EUR 170.5 million as part of the acquisition of the former Staalbankiers portfolio. Since the Bank does not hold any hybrid tier 1 instruments, tier 1 capital

equals its core equity tier 1 capital. The deductions mainly relate to the revaluation reserve and prudent valuation.

## B Tier 2 capital

As at 31 December 2015 an amount of EUR 7 million (2014: EUR 9 million) is qualified as Lower Tier 2 and consist of subordinated loans.

## C 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 line with the CRD IV/CRR and the securitisation reporting guidelines of DNB ("Regeling securitisaties"), Achmea Bank reports its exposure arising from securitisation positions within its risk weighted assets.

Table 3: Regulatory capital requirements and risk weighted assets

| Risk Weighted Exposure Amounts and regulatory capital requirements | | | | |
|---|---|---|---|---|
| | At 31 December 2015 | | At 31 December 2014 | |
| In millions of Euros | Risk weighted Exposure Amount | Capital Requirement | Risk weighted Exposure Amount | Capital Requirement |
| Central governments and central banks | - | - | - | - |
| Regional governments and local authorities | - | - | - | - |
| Financial Institutions | 268 | 21 | 209 | 17 |
| Corporates | - | - | - | - |
| Retail secured by real estate | 3,067 | 245 | 1,807 | 145 |
| Not pledged | 3,067 | 245 | 1,807 | 145 |
| Government guaranteed (NHG) - covered | 250 | 20 | 28 | 2 |
| LTMV <= 80% | 1,998 | 160 | 1,397 | 112 |
| LTMV > 80% | 630 | 50 | 287 | 23 |
| Other | 160 | 13 | 94 | 8 |
| Commerciele woningmaatschappen | 29 | 2 | - | - |
| Pledged | - | - | - | - |
| Securitisation positions | 766 | 61 | 1,281 | 102 |
| Retail other | 311 | 25 | 20 | 2 |
| Contingent liabilities and commitments | 8 | 1 | 29 | 2 |
| Other items | 7 | 1 | 12 | 1 |
| **Total Credit Risk** | **4,426** | **354** | **3,358** | **269** |
| **Operational Risk** | **150** | **12** | **155** | **12** |
| **Credit valuation adjustment Risk** | **18** | **1** | **-** | **-** |
| **Market Risk** | **-** | **-** | **-** | **-** |
| **Total** | **4,594** | **368** | **3,512** | **281** |

The largest part of the capital requirements relates to credit risk (94%), of which a significant proportion (76%) relates to the mortgage portfolio.

The capital requirement has increased by EUR 87 million, this increase is mainly due to the redemption of RMBS notes in 2015 and the acquired Staalbankiers portfolio in July 2015.

## D Capital ratios

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

Table 4: Capital ratios[5]

| Capital ratios | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Common Equity Tier 1 capital | 769 | 597 |
| Tier 1 capital | 769 | 597 |
| Total qualifying capital | 776 | 606 |
| Risk Weighted Exposure Amount | 4,594 | 3,512 |
| Total Leverage ratio Exposure | 15,976 | 14,954 |
| Common Equity Tier 1 ratio | 16.7% | 17.0% |
| Tier 1 ratio | 16.7% | 17.0% |
| Total Capital ratio | 16.9% | 17.3% |
| Leverage ratio | 4.8% | 4.0% |

Although the Common Equity Tier 1 capital has increased by EUR 172 million (of which EUR 170 million due to the acquired Staalbankiers portfolio), the increase of the risk weighted exposure amount by EUR 1,081 million (mainly due to the acquired Staalbankiers portfolio and the redemption of RMBS notes) have led to a light decrease of the Common Equity Tier 1 ratio to 16.7% (2014: 17.0%) and a decrease of the Total Capital ratio to 16.9% (2014: 17.3%).

The leverage ratio has increased with 0.8% from 4.0% in 2014 to 4.8% in 2015. The acquired Staalbankiers portfolio have led to an increase of Common Equity Tier 1 capital and an increase in the size of the balance sheet. Because the credit risk RWA and required CET1 for the Staalbankiers portfolio is higher than for the original Achmea Bank portfolio, this results in a higher leverage ratio.

The capital ratios show that Achmea Bank has a strong capital position.

# 3 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 (31-12-2015), the internal capital adequacy requirement consists of (required) pillar I capital, pillar II capital and surcharges imposed by the central bank.

# 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 and projects its solvency position on a monthly basis.

[5] The Common Equity Tier 1 ratio excluding the Staalbankiers portfolio is 15.3% at December 2015.

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 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.

# LIQUIDITY RISK MANAGEMENT

## 1 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 executed through Achmea B.V.'s central Treasury department, which monitors the daily minimum cash position of EUR 75 million. Liquidity risk monitoring and reporting, which include actual and forecasted figures, is the responsibility of the Balance Sheet Management & Financial Risk department (2nd line of defense). Furthermore, the ALCo monitors Achmea Bank's liquidity risks on a monthly basis.

### A 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 objective of ILAAP is to assess liquidity risks and maintain the current and future liquidity adequacy of the bank on a continuous basis.

### B 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 Achmea Bank's Recovery plan[6]. The Recovery plan provides solutions to ensure the survival of the Bank for at least six months in case of severe liquidity stress. The recovery plan contains possible measures to add liquidity in times of need and is reviewed on (at least) an annual basis.

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

[6] Recovery plan is described in the Risk Management section, paragraph 2D.

Table 5: Undiscounted contractual cash flows of the liabilities

| Undiscounted contractual cash flows of the liabilities | | | | | | |
|---|---|---|---|---|---|---|
| At 31 December 2015<br>In millions of Euros | Less than 3 months | Between 3 months and 1 year | Between 1 and 5 years | Longer than 5 years | Total | Total carrying amount |
| Deposits from banks | 0.8 | 2.4 | 114.8 | - | 117.9 | 117.9 |
| Funds entrusted | 2,908.4 | 848.0 | 1,836.5 | 1,726.9 | 7,319.8 | 6,586.7 |
| Debt securities issued | 712.1 | 927.7 | 4,484.0 | 1,866.5 | 7,990.3 | 7,578.2 |
| Subordinated liabilities | 0.8 | - | 8.6 | 1.4 | 10.8 | 8.3 |
| Derivative liabilities held for risk management | 11.1 | 37.2 | 388.7 | 471.1 | 908.2 | 896.1 |
| **Total cashflows** | **3,633** | **1,815** | **6,833** | **4,066** | **16,347** | **15,187** |

| At 31 December 2014<br>In millions of Euros | Less than 3 months | Between 3 months and 1 year | Between 1 and 5 years | Longer than 5 years | Total | Total carrying amount |
|---|---|---|---|---|---|---|
| Deposits from banks | 100.2 | 7.0 | 76.4 | 19.0 | 202.5 | 202.1 |
| Funds entrusted | 2,697.8 | 647.9 | 1,357.0 | 1,827.2 | 6,530.0 | 5,991.0 |
| Debt securities issued | 388.5 | 1,715.3 | 3,504.1 | 1,696.2 | 7,304.0 | 7,050.3 |
| Subordinated liabilities | 0.2 | 6.9 | 1.8 | 8.3 | 17.1 | 14.6 |
| Derivative liabilities held for risk management | - | 55.3 | 448.8 | 668.6 | 1,172.7 | 1,158.4 |
| **Total cashflows** | **3,187** | **2,432** | **5,388** | **4,219** | **15,226** | **14,416** |

## C Liquidity buffer and liquidity ratios

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 strong withdrawal or bank run on retail savings (on demand);
- Volatility of cash collateral call on (interest rate) derivatives;
- Postponed roll refinancing of (unsecured wholesale) funding transactions.

In 2015 the Bank entered into an Asset Switch agreement with Achmea Pensioen- en Levensverzekeringen N.V. (AP&L), to improve its liquidity position. The Bank exchanged legally (not economically) mortgages for government bonds of AP&L at a market value ratio of 110:100. Due to higher liquidity treatment of government bonds this enhances the liquidity position of the Bank and provides more flexibility in the timing of new funding transactions to manage the survival period of the Bank. At year end 2015 EUR 1.094 million of mortgages were exchanged with EUR 926 million of government bonds.

Achmea Bank's liquidity buffer mainly consists of on demand Central Bank deposits and an unencumbered portfolio of high quality liquid assets, including the government bonds under the Asset Switch. At year-end 2015 the Bank's portfolio of liquid assets (interest bearing securities) amounted to EUR 1.746 million that can easily be sold or posted as collateral and approximately EUR 731 million cash on demand at Central Bank. In addition, the Bank has a revolving credit facility agreement of EUR 200 million with Achmea B.V. This facility will terminate in 2019; the Bank has the right to extend the facility in 2019 for a maximum period of two years. 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.

Achmea Bank applies a liquidity minimum position that ensures the bank's survival for at least six months, based on combined market liquidity and funding liquidity stress conditions. The 'survival period' at year-end was 9.4 months (2014: 6.2 months).

In 2015 two new regulatory liquidity measures were introduced with CRD IV/CRR: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The aim of the first metric is to monitor whether sufficient liquid assets are available to absorb outflows during a 30-day stress scenario. The NSFR aims to ensure that long-term assets are financed with stable forms of funding. Achmea Bank set its internal target for the minimum Liquidity Coverage Ratio at 105% and for the Net Stable Funding Ratio at 102%. The bank fully complied with all external and internal minimum liquidity requirements: The LCR was 1027% and the NSFR was 117% at year-end 2015.

## 2 Funding and pledged mortgage receivables

The Bank uses several instruments to finance its activities. Because of the importance of a diversified funding mix, the Bank decides when and in what way financing needs are being used with retail financing, secured and unsecured wholesale financing. In addition to that, the Bank maintains different maturity profiles of its funding instruments to mitigate potential concentration of liquidity risk in the future.

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

Table 6: Fundingmix

| **Funding mix** | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Entrusted Funds (retail) | 5,878 | 5,579 |
| Secured wholesale funds | 3,704 | 4,512 |
| Unsecured wholesale funds | 4,370 | 2,850 |
| Deposits (excluding Central Bank) | 118 | 101 |
| Central Bank funding | - | 101 |
| Other Funding | 100 | 221 |
| **Total funding** | **14,170** | **13,364** |

## 3 Entrusted Funds (retail)

Achmea Bank offers consumer savings under the Centraal Beheer label. The total savings portfolio consists of 40% available on demand accounts and 60% deposits.

At 31 December 2015, the total amount of savings was EUR 5.9 billion (2014: EUR 5.6 billion).

## 4 Secured wholesale funding

The Bank partly finances itself via secured funding. For this type of funding pledges are given on mortgage receivables as collateral to third parties.

Table 7: Total pledges mortgage receivables (against nominal value)

| **Pledged mortgage reveivables** | | |
|---|---|---|
| | At 31 December | At 31 December |
| In millions of Euros | 2015 | 2014 |
| Trustee | 258 | 323 |
| Stichting Trustee Achmea Hypotheekbank | 258 | 323 |
| Covered bond | 274 | 300 |
| Achmea Covered Bond Programma | 274 | 300 |
| Securitisations | 4,236 | 5,141 |
| Dutch Mortgage Portfolio Loans VI B.V. | - | 540 |
| Dutch Mortgage Portfolio Loans VIII B.V. | - | 1,043 |
| Dutch Mortgage Portfolio Loans IX B.V. | 643 | 702 |
| Dutch Mortgage Portfolio Loans X B.V. | 705 | 761 |
| Dutch Mortgage Portfolio Loans XI B.V. | 712 | 772 |
| Dutch Mortgage Portfolio Loans XII B.V. | 802 | 881 |
| Dutch Redential Mortgage Portfolio I B.V. | 970 | - |
| Securitised Guaranteed Mortgage Loans II B.V. | 405 | 442 |
| Asset Switch | 1,094 | - |
| **Total Pledged mortgage reveivables** | **5,862** | **5,764** |

These transactions were effected on market terms and conditions as mentioned in the prospectus of each transaction. All notes issued by SGML II B.V. and the B and C tranches of the bonds issued by DMPL IX B.V., DMPL X B.V., DMPL XI B.V., DMPL XII B.V. and DRMP I 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. With the proceeds of the notes the SPV can finance the assigned mortgage receivables and with the received interest on the mortgage receivables the SPV can pay the interest on the notes.

### A Trustee guarantee

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 placements, 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 2015, a total of EUR 61 million was outstanding (2014: EUR 76 million). Two of the issued notes (EUR 20 million) are listed on Société de la Bourse de Luxembourg.

### B Covered bond programme

Under the covered bond programme the Bank has issued eight covered bonds. Seven of these transactions were redeemed before 31 December 2015. The Bank acts as both the originator and issuer under this 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 pledging the mortgage receivables of the Bank to the ACBC and a parallel debt agreement with the Security Trustee.

The 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.

### C Securitisations of retail mortgages

Achmea Bank uses securitisation (RMBS) as a source of funding. In May 2015 Achmea Bank successfully issued a new programme, DRMP I. Furthermore, in October 2015 the Bank redeemed its DMPL VI and DMPL VIII transactions at the first optional redemption date. At 31 December 2015, the Bank had five outstanding securitisation transactions, excluding EUR 0,8 billion retained notes, for a total outstanding amount of EUR 3.3 billion (2014: EUR 4.2 billion). Approximately EUR 1.5 billion of the RMBS notes are held by units of the Achmea Group. Securitisation is not only a source of funding for 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.

## 5 Unsecured wholesale funds

### A Unsecured MTN Programme

In October 2012 the Bank set up a EUR 10 billion (unsecured) Medium Term Note (MTN) programme. In 2015 Achmea Bank successfully issued two benchmark MTNs for a total amount of EUR 1.2 billion. In addition, Achmea Bank expanded its volume in private placements by EUR 0.6 billion in 2015. The total outstanding amount, issued under the unsecured MTN programme, equaled EUR 3.7 billion at year end 2015 (2014: EUR 2.3 billion).

### B French commercial paper programme

In 2013 the Bank set up a EUR 1.5 billion French commercial paper (FCP) programme. This programme enables the Bank to access the international money markets to further diversify its funding mix. In 2015 the Bank continued to issue frequently under its FCP programme 2015, resulting in a total outstanding amount of EUR 262 million at 31 December 2015 (2014: EUR 309 million).

## 6 Other Funding

Achmea Bank redeemed the remaining part (EUR 100 million) of the ECB's Long-Term-Refinancing-Operation (LTRO) funding in February 2015. In addition, Achmea bank acquired a CHF 200 million loan of Achmea B.V. as part of the acquisition of the former Staalbankiers credit portfolio.

# 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.

## 1 Credit risk management

### A Retail credit risk

<u>Credit committees</u>

Achmea Bank has two credit committees, one committee dedicated to the Achmea Bank portfolio and one committee dedicated to the Acier mortgage portfolio (acquired credit portfolio of Staalbankiers). Both Credit Committees are chaired by the director Finance & Risk, other members of the Credit Committees are the managers of the Balance Sheet & Financial Risk Management department, Operations – Mortgages department, Product Management and the team manager of the arrears management department. The Credit Committees monitor the risk profile (policies, procedures, control) and the credit risk of the mortgage portfolio.

<u>Credit approval</u>

The credit approval policy sets the parameters to approve mortgage applications. Loan applications which don't meet the acceptance criteria can be presented to the Credit Approval Committee. The Credit Approval Committee has the remit to accept these loan applications and is chaired by the manager of Balance Sheet & Financial Risk Management and the director Finance & Risk with respect to the Acier portfolio.

### B Credit risk related to professional counterparties

Counterparty credit risk of professional counterparties is monitored by the Asset & Liability Committee (ALCo). The ALCo is chaired by the director Finance & Risk, other members of the ALCo are delegates of the Balance Sheet & Financial Risk department, Finance department, Treasury and Corporate Finance department.

The counterparty risk policy of Achmea Bank restricts or prohibits certain counterparty types or countries. All counterparty limits are reviewed at least once a year.

## 2 Credit risk reporting

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

### A Retail portfolio

Balance Sheet & Financial Risk Management compiles a monthly report on the developments in the credit portfolio, which is distributed in the Credit Committee. This monthly credit risk report monitors the developments within the portfolio. The report structure is based on the credit cycle and

provides insight into new mortgages, the portfolio as a whole, collections and write-off and links these subjects to policy. Quarterly reports additionally contain a more in depth analysis.

### B Professional counterparties

Loans and advances to professional counterparties are reported on a daily basis. This report monitors, among other things, the exposure and the corresponding limits of the professional counterparties.

## 3 Credit portfolio

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

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.

Achmea Bank's mortgages and consumer credits activities are concentrated in the Netherlands, except for a small number of the Acier mortgages. 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

| **Maximum credit risk (gross exposure)** | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Loans and advances to government & central banks | 132 | 64 |
| Loans and advances to banks | 1,248 | 1,320 |
| Loans and advances to customers | 13,173 | 12,506 |
| Interest-bearing securities, derivative assets held for risk management and Investments | 775 | 1,001 |
| **Total** | **15,328** | **14,890** |

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

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

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

## 4 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.

### A 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.

Achmea Bank divides the mortgage portfolio into the following categories:

- Government guaranteed (NHG):

  These mortgages are covered by the Dutch National Mortgage Guarantee (abbreviated in Dutch to 'NHG') provided by Stichting Waarborgfonds Eigen Woningen.
- Pledged mortgage loans:

  This concerns the securitized mortgages whereby the credit risk is divided between the investors and Achmea Bank.
- Not pledged mortgage loans Achmea Bank:
  - § LTMV <=80%

    This concerns the portion of the mortgage loans of less than 80% of the market value:
  - § LTMV >80%

    This concerns the portion of the mortgage loans exceeding 80% of the market value:
  - § Mortgages in default
- Not pledged mortgage loans Acier:
  - § Mortgages with an gross exposure lower than EUR 1 million
    - o LTMV <=80%
    - o LTMV >80%
  - § Mortgages with an gross exposure higher than EUR 1 million
  - § Property partnerships (Vastgoedmaatschappen)
  - § Home partnerships (Woningmaatschappen)
  - § Mortgages in default

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

Table 9: Mortgage portfolio

| Mortgage portfolio (gross exposure) | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Government guaranteed (NHG) - covered | 2,424 | 2,901 |
| Pledged mortgage portfolio | 3,016 | 5,044 |
| Not pledged mortgage portfolio | 7,375 | 4,513 |
| LTMV <= 80% | 6,286 | 3,993 |
| LTMV > 80% | 905 | 420 |
| Other | 165 | 101 |
| Home and property partnerships | 19 | - |
| **Total** | 12,815 | 12,459 |

The decrease of the pledged mortgage portfolio is due to the redemption of RMBS notes in 2015. The increase of the not pledged mortgage portfolio is due the redemption of the RMBS notes and the acquired Staalbankiers portfolio.

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.

### B Consumer and corporate credit portfolio

Consumer credit is credit used by the borrower to finance consumer expenditure. The main forms of consumer credit are revolving credit facilities and personal loans. Achmea Bank 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. Achmea Bank has defined the Acier mortgage loans with an exposure above EUR 1 million as corporate credit.

The consumer/ corporate credit portfolio is divided into four categories:

- Consumer loans with government guarantee[7];
- Retail loans;
- Revolving credit facilities and personal loans; and
- Corporate exposures.

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

Table 10: Consumer/ corporate credit portfolio

| Consumer/ corporate credit | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Government guaranteed consumer credit | 15 | 34 |
| Retail loans | 128 | - |
| Revolving credit and personal loan | 214 | 20 |
| Commercial/Business Credit | - | - |
| **Total** | 358 | 54 |

The increase of the consumer/ corporate credit portfolio (ca. EUR 300 million) is due to:

- Acier mortgages with an (gross) exposure of EUR 1 million and higher, these mortgages are treated as corporate credits and are given a 100% risk weight (revolving credits and personal loans);
- Expired mortgages of ca. EUR 128 million. These mortgages are extended without the intervention of the notary, so these items are treated as retail loans (retail exposures).

## C 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[8]

| Aging analyses of past due but not impaired loans | | | | |
|---|---|---|---|---|
| | At 31 December 2015 | | At 31 December 2014 | |
| In millions of Euros | Regular mortgage portfolio | Acier mortgage portfolio | Regular mortgage portfolio | Acier mortgage portfolio |
| Less than 1 month | 16 | 7 | 142 | - |
| Between 1 and 2 months | 126 | 12 | 49 | - |
| Between 2 and 3 months | 11 | 6 | 20 | - |
| 3 months and longer | 5 | 14 | 34 | - |
| **Total** | **158** | **39** | **245** | **-** |

Of the total amount of loans and advances to customers, an amount of EUR 197 million (2014: EUR 245 million) is past due but not impaired. The amount of past due but not impaired loans decreased in 2015, due to the efforts of Achmea Bank's Default Management Department.

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.

For the regular Achmea Bank portfolio the Bank conducts monthly assessments to establish whether there is any objective evidence of impairment of a financial asset or group of financial assets. For the former Staalbankiers portfolio these assessments are conducted periodically through formal revisions. A financial asset is impaired and is treated accordingly if, and only if, there are objective

[8] When the collateral value of the mortgage covers the mortgage loan, no provision and therefor no impairment is needed.

indications of impairment. This is the case when a 'loss' event[9] has occurred since initial recognition of the asset.

If there is objective evidence that assets measured at amortised cost have been subject to impairment, the loss is calculated as the difference between the carrying amount of the asset and value of the collateral and additional warranties. The latter is calculated using the effective interest method, based on an average residual period of 6 months for the regular Achmea Bank portfolio and 2 years for the former Staalbankiers portfolio.

IFRS also requires any losses resulting from events that have occurred before the balance sheet date, but which have not yet manifested themselves, to be taken into account. These are known as IBNR (incurred but not reported) losses.

The IBNR impairment provision for the regular Achmea Bank portfolio is calculated using the average inflow into the credit management portfolio as percentage of the outstanding loans and the loss given default (LGD). The LGD is calculated using the carrying amount and the indexed collateral value and additional warranties. The indexed value is based on official static data from the 'Kadaster[10]'. These historical figures of both portfolios are reviewed twice a year, and corrected for the recovery ratio for the regular Achmea Bank portfolio.

The IBNR impairment provision for the former Staalbankiers portfolio is calculated by estimating of probability of default (PD), the loss given default (LGD), exposure at default (EAD) and the incubation period. The estimates are based on historical performance of the former Staalbankiers portfolio.

Movements in impairment losses on receivables carried at amortised cost are shown in table 12.

Table 12: Allowance for losses on loans and advances

| **Allowance for losses on loans and advances** | | |
|---|---|---|
| In millions of Euros | 2015 | 2014 |
| **Balance as at 1 January** | **23** | **23** |
| Acquisition former Staalbankiers | 73 | - |
| Additions | 9 | 9 |
| Releases | -3 | -2 |
| Write-offs | -13 | -8 |
| **Balance as at 31 December** | **89** | **23** |
| | | |
| Specific allowances for impairment | 82 | 16 |
| IBNR | 7 | 7 |
| **Balance as at 31 December** | **89** | **23** |
| | | |
| Regular Achmea Bank portfolio | 18 | 23 |
| Former Staalbankiers portfolio | 71 | - |
| **Balance as at 31 December** | **89** | **23** |

In July 2015 the Bank acquired a substantial part of the loan portfolio of Staalbankiers, which also included an allowance for losses on loans and advances for an amount of EUR 72.8 million . As per December 2015 the allowance for losses on loans and advances related to this portfolio amounts to

[9] A loss event is defined as an arrear exceeding 3 months an indication of fraud or any other contract violation.
[10] Kadaster is a Dutch land registry office, a company which collects details of properties and also registers properties.

EUR 70.7 million. Achmea B.V. issued a capped guarantee to Achmea Bank to cover specific risks, including credit risk and legal risk, related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited.

The allowance for losses on loans and advances for the regular Achmea Bank portfolio has decreased to EUR 18 million (2014: EUR 23 million), this decrease is due to:

- An increase in write-offs due to acceleration in sales of long term case files;
- The positive development in the housing market which leads to a decrease of the allowance for losses after revaluation.

## 5 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. The individual limits are approved by the ALCo. Positions are monitored by Balance Sheet Management & Financial Risk and the treasury department. The credit risk exposure to professional counterparties is coordinated by ALCo.

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 2015. As per 31 December 2015 there are no concentrations of credit risk within the internally applied target for the concentration credit risks.

The application of (cash) collateral is expected to increase as a result of the introduction of central clearing to the European Markets Infrastructure Regulation (EMIR) in the course of 2016 for new CSAs.

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 2015, the net exposure for professional counterparties amounts to EUR 75 million (2014: EUR 21 million) and consists of the total fair value of the derivatives versus the collateral position. This net exposure is mainly related to counterparty exposures, for which the bank has no CSA in place. The net counterparty risk related value adjustment was EUR 46 thousand at year-end (2014: EUR 0.3 million). This value adjustment includes both a Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA).

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

Table 13: Financial assets by external credit ratings

| Financial assets by external credit rating | | | | | | |
|---|---|---|---|---|---|---|
| At 31 December 2015<br>In millions of Euros | AA- to AAA | A- to A+ | BBB- to BBB+ | BB+ and below | Not rated | Total |
| Cash and cash equivalents | - | - | - | - | 731 | **731** |
| Derivative assets held for risk management | 26 | 255 | 20 | - | - | **301** |
| Loans and advances to banks | 255 | 991 | 0 | - | 3 | **1,248** |
| Loans and advances to public sector | - | - | - | - | 132 | **132** |
| Interest-bearing securities | 333 | 30 | - | - | 112 | **475** |
| **Total** | **613** | **1,276** | **20** | **-** | **978** | **2,887** |

| At 31 December 2014<br>In millions of Euros | AA- to AAA | A- to A+ | BBB- to BBB+ | BB+ and below | Not rated | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | - | - | - | - | 215 | **215** |
| Derivative assets held for risk management | 2 | 362 | 4 | - | - | **368** |
| Loans and advances to banks | 140 | 1,042 | 50 | - | 88 | **1,320** |
| Loans and advances to public sector | - | - | - | - | 64 | **64** |
| Interest-bearing securities | 538 | - | - | - | 94 | **632** |
| **Total cashflows** | **680** | **1,404** | **54** | **-** | **462** | **2,599** |

The lowest rating at the year end of 2015 is BBB (EUR 20.2 million) (2014: rating BBB EUR 0.2 million). Most of the collateral positions are included in the Loans and advances to banks. At year-end there are four collateral positions (with credit rating A) for an amount of EUR 118 million (2014: EUR 25 million) reported as liability, which are included in the deposits from banks

## 6 Contingent liabilities, commitments and other risks

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

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

| Contingent liabilities, commitments and other risks | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Credit replacing guarantees | - | - |
| Irrevocable facilities, of which | 63 | 340 |
| Government guaranteed (NHG) mortgage offer | 10 | 195 |
| Not government guaranteed (NHG) mortgage offer | 52 | 145 |
| Guarantees | 0 | 0 |
| Other irrevocable facilities | - | - |
| Revocable facilities | - | - |
| Deferred tax assets | 0 | - |
| Other credit risk | 12 | 20 |
| **Total** | **76** | **360** |

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

### Legal proceedings

As at 31 December 2015, 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 2015, the Bank had contractual obligations amounting to EUR 8.7 million (2014: EUR 13.8 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 outstanding bank guarantees at 31 December 2015 amounting to EUR 16 thousand (2014: EUR 16 thousand).

### 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 amounting to EUR 53 million (2014: EUR 331 million) and the undrawn credit facility amounting to EUR 10 million (2014: EUR 9 million).

### Fiscal unity

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

### Post foreclosure claim

Achmea Bank has a cumulative residual claim after write-off of mortgage receivables of EUR 38 million, the expected net recovery of this exposure is limited.

# MARKET RISK

The main income of Achmea Bank results from the net interest margin on its banking operations. Achmea Bank's market risk mainly consists of interest rate risk arising from its banking operations. Achmea Bank uses financial instruments to hedge interest rate risk and has a strict policy on mitigating foreign currency 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 Corporate Finance department. In the ALCo meetings the Bank's risk exposure is discussed. 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.

## 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), but also with investments (for example government bonds) and (long-term) funding instruments like retail savings.

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

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 net interest income (and therefore in net result).

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

During 2015 the risk control of interest rate risk has been further improved. Interest rate risk reporting is integrated in an overall financial risk report (ALCo-report) and is expanded with backtesting. The assumptions which are used for forecasting have been further improved.

In the first half year of 2016 an extensive research on consumer prepayment rate on mortgages and client behaviour have taken place. The outcomes of this research are implemented or will be further elaborated in 2016.

### A 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. 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 total equity:

- Duration: measures the sensitivity of the market value of equity to a parallel shift (shock) of the interest rate curve of one basis point;

- Sensitivity analysis: measures the effect on the market value of total equity of an event that is relevant to the bank. It comprises parallel as well as non-parallel yield curve shifts. The sensitivity analysis recalculates the market value of the entire portfolio under several scenarios;
- Income at Risk: measures the impact on the net interest income 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

| **Duration** | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Equity duration | 4.53 | 5.72 |

The table above shows that the duration of total equity of Achmea Bank decreased from 5.72 years as at 31 December 2014 to 4.53 years as at 31 December 2015. This decrease is partly due to the unsecured transaction in the second half of 2015 which was not hedged with an interest rate derivative. Furthermore the increase of new mortgages which resulted in an increase of the duration is offsetted by an increase in long term savings and new long term funding in 2015..

Table 16: Sensitivity analysis of market value of equity

| **Sensitivity analysis** | | |
|---|---|---|
| In millions of Euros | At 31 December 2015 | At 31 December 2014 |
| Change in the interest rate of 200 basis points **negative** | 3 | 50 |
| Change in the interest rate of 200 basis points **positive** | -88 | -79 |

In 2014, a floor of -0.5% has been used in the interest rate scenarios. Because the decrease of the interest rates has continued in 2015, the floor is not applied anymore. Therefore, a decrease in the interest rates show a greater negative impact on the market value of equity, although it still remains positive in a decreasing interest rate scenario. The effect of a 200 basis point upward shift of the yield curve on total equity value is EUR -88 million at 31 December 2015, compared to EUR -79 million at 31 December 2014. This is mainly due to a decrease of the duration combined with an increased market value of equity.

### B 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

| **Interest rate risk exposure** | | |
|---|---|---|
| In thousands of Euros | At 31 December 2015 | At 31 December 2014 |
| Income at Risk | 199 | 147 |

Income at Risk in the table above measures the sensitivity of the net interest income when the underlying interest rates are raised by 1 basis point. The table shows that the income at risk has increased by EUR 52 thousand.

## 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 per 31 December 2015 is limited to a Covered Bond funding transaction in CHF and the CHF mortgage portfolio and CHF loan as part of the former Staalbankiers portfolio.

### Covered Bond

This funding is converted into Euros with a cross currency swap (where 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.

### CHF mortgage portfolio

Part of the former Staalbankiers portfolio that has been transferred to Achmea Bank in 2015 is denominated in CHF (CHF mortgages EUR 370 million at year end 2015). This CHF position is partly hedged by a 200 million CHF loan. The remaining CHF exposure is hedged on a monthly basis via foreign exchange derivatives.

Table 18: Cash flows of foreign currencies

| **Foreign currency exposure** | | | | | | |
|---|---|---|---|---|---|---|
| | | At 31 December 2015 | | | At 31 December 2014 | |
| In millions of Euros | Total Exposure | Hedging instruments | Net Exposure | Total Exposure | Hedging instruments | Net Exposure |
| **Assets** | | | | | | |
| Swiss Franc | 370 | -368 | 3 | - | - | - |
| Total assets | 370 | -368 | 3 | - | - | - |
| **Liabilities** | | | | | | |
| Swiss Franc | -185 | 185 | - | -185 | 185 | - |
| Total liabilities | -185 | 185 | - | -185 | 185 | - |
| **Net** | | | | | | |
| Swiss Franc | 186 | -183 | 3 | -185 | 185 | - |
| **Total** | **186** | **-183** | **3** | **-185** | **185** | **-** |

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

The following exchange rates have been used:

| **Exchange rates** | | | | |
|---|---|---|---|---|
| | At 31 December 2015 | | At 31 December 2014 | |
| | Closing rate | Average rate | Closing rate | Average rate |
| Swiss Franc | 1.0835 | 1.1430 | 1.2024 | 1.2145 |

# OPERATIONAL RISK

Achmea bank defines operational risk as 'the risk of loss from inadequate or failed internal processes, personnel or systems or from external events'. This also covers legal and IT risks. Risks arising from strategic decisions and business risks are in principle not subject to the definition of operational risk, but Achmea Bank chooses these risks, where possible, to be integrated into the activities, methods and techniques of the Operational Risk Management function.

## 1 Operational risk framework

Achmea Bank has a framework for identifying, evaluating, monitoring and managing operational risks and risks surrounding information security and business continuity. This contains a number of operational risk management techniques. These aim to efficiently manage the operational risk in our business and are used to identify, assess and mitigate operational risks:

- Risk Self Assessments: Based on planned processes or ad hoc we identify our operational risks, by means of qualitative risk assessments. This concerns strategic, tactical, operational risk self-assessments and risk assessments of projects / programs.
- Loss Data Collection: The continuous collection of operational risk loss events, as a prerequisite for operational risk management, includes detailed analyses, the identification of mitigating actions, and provision of timely information to senior management. All losses above € 5,000 are collected in our loss event system. The collection of internal loss data takes place including 'near misses' and management encourages that lessons should be learned from events.
- Issue management: Issues from various sources which include Audit, Risk, Compliance and Supervisors are registered in a register. Progress on improvement actions is systematically monitored;
- Control Framework: We systematically monitor the effectiveness of key controls.

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 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 as part of the 4th quarter risk report.

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.

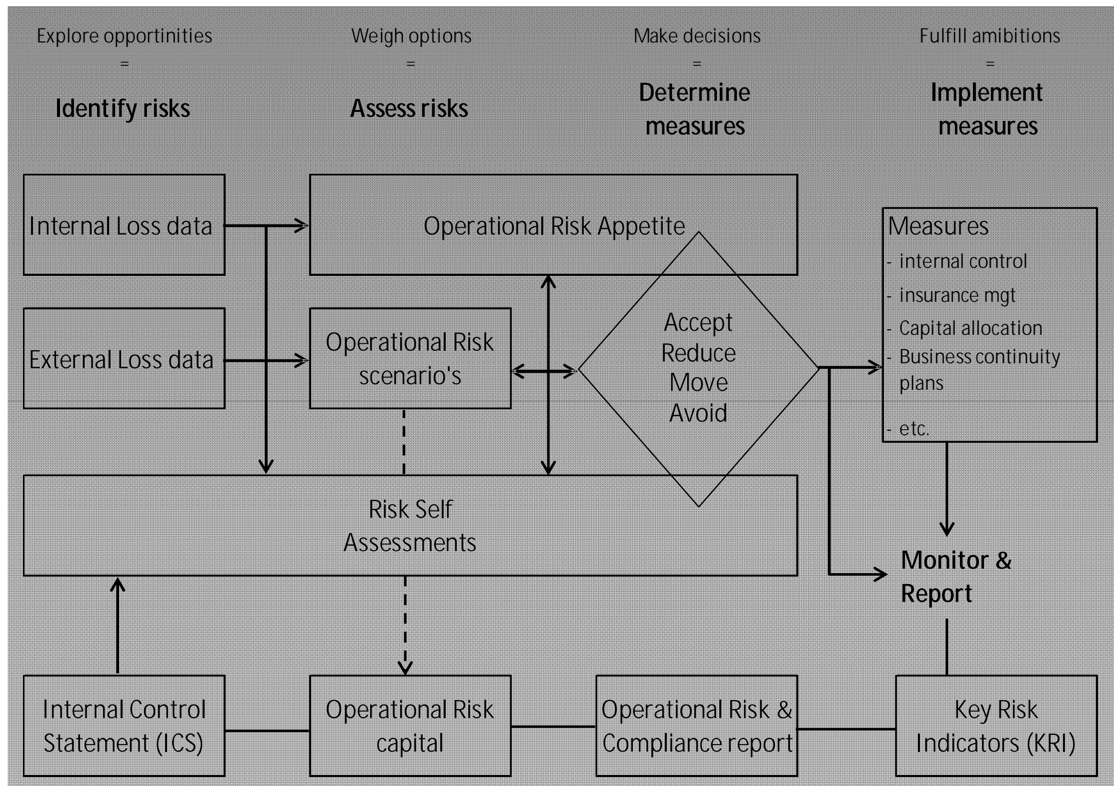
## 2 Operational risk management process

The operational risk management process follows the following process steps:

§ Risk identification;

- Risk assessment;
- Risk response;
- Implementation; and
- Monitoring & reporting.

The process steps and available tools are shown in the figure below.




## 3 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.