Achmea Bank N.V.
Pillar III report
2016

KvK 27154399

Contents

SUMMARY ANALYSIS

Common Equity Tier 1 ratio (CET1-ratio) (2015: 16.7%)	Tier 1 Capital ratio (2015: 16.7%)	Total Capital ratio (2015: 16.9%)
19.1%	**19.1%**	**19.2%**

Leverage ratio (2015: 4.8%)	Total Risk Weighted Exposure Amounts (2015: € 4,571 mln)	Loan impairment charges (2015: 8.5bps)
5.6%	**€ 4,237 mln**	**7.4bps**

Liquidity Coverage ratio (LCR) (2015: 1,027%)	Net Stable Funding ratio (NSFR) (2015: 117%)
572%	**122%**

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.

The Total Capital ratio at 31 December 2016 amounted to 19.2% 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.

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 2016 are solid 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.

INTRODUCTION

This document presents the consolidated Capital Adequacy and Risk Management report (hereafter referred to as Pillar III) of Achmea Bank N.V. as at 31 December 2016.

Achmea Bank operates under the CRDIV capital framework which came into force at the start of 2014. CRDIV constitutes the Basel framework which seeks to align regulatory requirements with the economic principles of risk management. The CRDIV was implemented into Dutch law as amendments to the 'Wet op het financieel toezicht' and further accompanying regulations. Pillar 3 requirements under CRDIV are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes. Achmea Bank's 2016 year end disclosures are prepared in accordance with the CRDIV requirements and associated guidelines of the European Banking Authority (EBA) technical standards that are in force at 31 December 2015.

The implementation of CRDIV is subject to transitional arrangements. By 1 January 2018 all CET1 capital deductions should be phased in. Consequently, Achmea Bank's capital position is presented by applying the transitional arrangements.

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

This report describes the Banks:

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

ACHMEA BANK

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

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, Interpolis and Zilveren Kruis.

At year end the main shareholders of Achmea B.V. were Vereniging Achmea (65%) and Coöperatieve Rabobank U.A. (29%). The percentages reflect the capital rights of the shareholders of Achmea.

PRODUCTS

Achmea Bank provides owner-occupied residential property mortgage loans to private customers under the labels Centraal Beheer, Woonfonds and Acier. Centraal Beheer and Woonfonds Hypotheken employs the distributive power of intermediaries . The label Acier relates to the Staalbankiers portfolio that was acquired partially in 2015 and in 2016. Achmea Bank also provides savings products to private customers under the label Centraal Beheer.

Achmea Bank is the competence- and service centre for retail mortgage and savings products within Achmea group. Our mortgage and savings products complement the wider range of insurance products provided by Achmea Group. The products and business of Achmea Bank play a central 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.

STRATEGY

MISSION: PROVIDE LONG-TERM SECURITY TO OUR CUSTOMERS

Achmea Bank is part of Achmea, one of the largest insurers in the Netherlands. With a history stretching back more than 200 years, we are building on the trust that our customers have shown in the Achmea brands. We provide savings and mortgage products which are part of the propositions of Achmea.

Our goal is to provide long-term security for our customers and our people put our customers first. That means manage the savings of our customers in a careful and responsible manner and maintain a responsible lending policy. It also means that Achmea Bank is committed to safeguard the continuity and reliability of its services. We have a healthy balance sheet, a low risk mortgage portfolio and a sound risk management structure.

Our main focus is on the sustainability, reliability and performance of the services we offer. The management of our business is geared towards the long-term interests of customers and other stakeholders. We aspire to gain the full trust of our customers, distribution partners, employees, regulators and investors as well as of our shareholder Achmea. No decision is taken without careful consideration of the interests of all our stakeholders.

We report in a clear and transparent way about our activities, services and products, as well as about the financial stability of our business. Our staff is trustworthy, knowledgeable and professional and treats our customers and other stakeholders with due care and respect. The obligation of care is deeply embedded in our corporate culture.

STRATEGY: AN INTEGRAL PART Of ACHMEA’s RETIREMENT BENEFIT STRATEGY

Achmea aims to be a leading player in retirement services. Achmea strongly positions itselves in this market, because Achmea believes that our customers will continue to need to build up future income. Achmea Bank’s strategy is aligned with the Achmea strategy. Our products form a critical component of the retirement services and of the solutions offered by Centraal Beheer. We provide expertise in the fields of product management, balance sheet management, product pricing, operating processes, risk management and compliance. The retirement services strategy will lead to future growth in the Bank's mortgage and savings portfolio.

As an independent legal entity with a banking licence, Achmea Bank N.V. has access to the capital market. We originate mortgages for our own balance sheet as well as the balance sheet of Achmea Pensioen & Leven. We ensure adequate liquidity and capital to meet our obligations to our investors and our customers.

Achmea Bank is a service organisation for mortgages and savings products. We aim to have processes that contribute to a high level of customer satisfaction and to be competitive in terms of costs. Our business model is to a large extent based on the profit on mortgage products. It is vital to have a sustainable and profitable business model. For that reason Achmea Bank aims to:

- be cost efficient: improving the cost-to-income ratio through outsourcing of our mortgage servicing activities (to Quion) and renewing our IT platform for savings and payments;
- increase our mortgage book: Achmea Bank aims for growth in the mortgage portfolio in the years ahead;
- realize economics of scale and effective balance sheet management: by originating mortgages for Achmea Bank as well as for Achmea Pensioen & Leven (AP&L) and by optimizing funding, capital and liquidity.

Through the partnership with Quion, Achmea Bank aims to improve customer service standards and satisfaction and to realize costs savings. During 2016 the Bank started with outsourcing the handling and servicing of new mortgage production to Quion. The Bank also worked on the preparation of the outsourcing of the existing portfolio, which is expected to be finalized by the middle of 2017. The outsourcing of the total mortgage handling and servicing process to Quion will result in a significant reduction of employees within Achmea Bank and will also lead to a structural cost reduction from 2017 onwards.

Core objectives

To fulfil the ambition in the next three years, the Bank has defined critical success factors which are set out in the Banks strategy map. These success factors are linked to the following perspectives:

1. Customer perspective;
2. Social perspective;
3. Employee perspective;
4. Partner perspective;
5. Process perspective;
6. Financial perspective.

Each year, the Executive Board of Achmea Bank defines a top five of goals to fulfil her ambition. For 2017 the following five goals are defined:

1. Growth of the mortgage and savings businesses;
2. Migration of the mortgage processes;
3. Optimizing the savings business process;
4. Set up customer-focused and profitable bank which coordinates and manages all activities regarding the mortgage and savings processes for Achmea;
5. Optimize balance sheet.

Rating agencies

Achmea Bank's ratings are driven by support from Achmea. Achmea Bank has a derived Fitch credit rating of A with a stable outlook and a derived S&P credit rating of A- with a negative outlook. Both rating 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.

ACCOUNTING AND RISK PRINCIPLES

The IFRS consolidation scope of Achmea Bank is determined in accordance with IFRS 10 'Consolidated Financial Statements'. Subsidiaries are all entities over which the Bank has control. 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 consolidation scope for the purpose of calculating Regulatory Capital is generally the same as the consolidation scope under IFRS.

BASIS OF CONSOLIDATION

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

* Called in 2015

** Called in 2016

***Liquidated 31 December 2016

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 Bank has a Trust agreement with Stichting Trustee Achmea Hypotheekbank, under this Trust agreement the Bank periodically pledges mortgage receivables to Stichting Trustee Achmea Hypotheekbank as collateral for liabilities of and funds entrusted to the Bank.

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 mentioned above.

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. If one of the following circumstances is applicable, 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 power 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 Special Purpose Vehicles ('SPV') to meet their liquidity needs;
- The entity has the majority of residual interest in the SPV.

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

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

Exposures

DIFFERENCES BETWEEN ACCOUNTING AND REGULATORY SCOPES OF CONSOLIDATION

CARRYING VALUES IN MILLIONS OF EUROS			OF WHICH:				
	FINANCIAL STATEMENT	REGULATORY REPORTS	CREDIT RISK	COUNTERPARTY CREDIT RISK	SECURITISATION FRAMEWORK	MARKET RISK	NOT SUBJECT TO CAPITAL REQUIREMENTS
Cash and balances with Central Banks	658	658	658	–	–	–	–
Derivative assets held for risk management	256	256	–	256	–	–	–
Loans and advances to banks	1,117	1,117	1,117	–	–	–	–
Loans and advances to public sector	16	16	16	–	–	–	–
Loans and advances to customers	12,503	12,503	10,376	–	2,127	–	–
Interest-bearing securities	401	401	–	–	401	–	–
Current tax assets	2	2	2	–	–	–	–
Deferred tax assets	–	–	–	–	–	–	–
Prepayments and other receivables	32	32	32	–	–	–	–
Assets held for sale and discontinued operations	–	–	–	–	–	–	–
Total assets	**14,985**	**14,985**	**12,202**	**256**	**2,528**	–	–

MAIN SOURCES OF DIFFERENCES FOR 2016

IN MILLIONS OF EUROS

	TOTAL	CREDIT RISK	SECURITISATION	COUNTERPARTY CREDIT RISK	MARKET RISK
Asset carrying value amount under scope of regulatory consolidation	14,985	12,202	2,528	256	–
Off-balance sheet amounts	−130	–	–	−130	–
Differences due to different netting rules for derivatives	43	–	–	43	–
Differences due to valuation of derivatives (add on for potential future exposure)	−1,899	–	−1,899	–	–
Differences due to the application of Significant Risk Transfer	–	–	–	–	–
Exposure amounts considered for regulatory purposes	12,999	12,202	629	169	–

PRUDENT VALUATION ADJUSTMENTS FOR 2016

IN THOUSANDS OF EUROS

	EQUITY	INTEREST RATES	FX	CREDIT	COMMODITIES	TOTAL	OF WHICH: IN THE BANKING BOOK
Close-out uncertainty, of which:	–	1,498	–	–	–	1,498	1,498
Mid-market value	–	1,498	–	–	–	1,498	1,498
Close-out cost	–	–	–	–	–	–	–
Concentration	–	–	–	–	–	–	–
Early termination	–	–	–	–	–	–	–
Model risk	–	–	–	–	–	–	–
Operational risk	–	–	–	–	–	–	–
Future administrative costs	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–
Total adjustment	–	**1,498**	–	–	–	**1,498**	**1,498**

RISK MANAGEMENT

INTRODUCTION

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

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

The MREL-requirement will be set on a case-by-case basis (bank specific). MREL requirements have not been defined by the Resolution Authority yet (expected in Q2 2017).

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

KEY METRICS

IN MILLIONS OF EUROS	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015
Available capital (amounts)					
Common Equity Tier 1 (CET1)	807	774	771	772	769
Tier 1	807	774	771	772	769
Total capital	813	780	777	779	776
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	4,237	4,239	4,296	4,457	4,571
Risk-based capital ratios					
Common Equity Tier 1 ratio	19.1%	18.3%	17.9%	17.3%	16.8%
Tier 1 ratio	19.1%	18.3%	17.9%	17.3%	16.8%
Total capital ratio	19.2%	18.4%	18.1%	17.5%	17.0%
Additional CET1 buffers					
Capital conservation buffer	2.5%	2.5%	2.5%	2.5%	0.0%
Countercyclical buffer	0.0%	0.0%	0.0%	0.0%	0.0%
Bank GSIB and/or DSIB	0.0%	0.0%	0.0%	0.0%	0.0%
Total of bank CET1 specific buffer	0.0%	0.0%	0.0%	0.0%	0.0%
TLAC requirements	0.0%	0.0%	0.0%	0.0%	0.0%
Leverage ratio					
leverage ratio exposure	14,326	13,982	14,854	15,296	15,975
Leverage ratio	5.6%	5.5%	5.2%	5.0%	4.8%
Liquidity Coverage Ratio					
Total HQLA	1,617	1,303	1,208	1,376	1,881
Total Net Cash Outflow	389	415	328	304	183
LCR ratio	426%	314%	368%	453%	1027%
Net Stable Funding Ratio					
Total Available Stable funding	12,480	12,252	12,424	12,768	12,952
Total Required Stable funding	10,215	10,170	10,404	10,892	11,027
NSFR ratio	122%	121%	119%	117%	118%

RISK APPROACH

Risk strategy

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

- a healthy risk-return ratio;
- balance sheet management to mitigate financial risks; and

- protection of Achmea Bank's identity and reputation: Achmea Bank wants stakeholders and customers to continue to have confidence in the bank.

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

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 in 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.

The RAS is monitored by comparing the actual and forecasted risk profiles against the risk appetite and are discussed on a monthly basis in the ALCo and the Executive Board. This ensures that day-to-day operations are executed within the boundaries that are set by the business and risk strategy. Breaches of the risk appetite will result in immediate action at the appropriate management level.

Significant risks and developments

Achmea Bank identifies the following types of material 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 fulfil 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 in the 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.

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

RISK MANAGEMENT ORGANIZATION

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

Risk decision

The Chief Executive Officer is responsible for the execution of non-financial risk activities of Achmea Bank, the Director of Finance & Risk is responsible for the execution of financial risk activities. The financial risk management organisation is led by the senior manager of the Balance Sheet & Financial Risk Management department. The non-financial risk management organisation, i.e. operational risk, is led by the senior manager of the department Compliance, Operational Risk management and Fiscal & Legal Affairs.

Risk governance and risk management committee structure

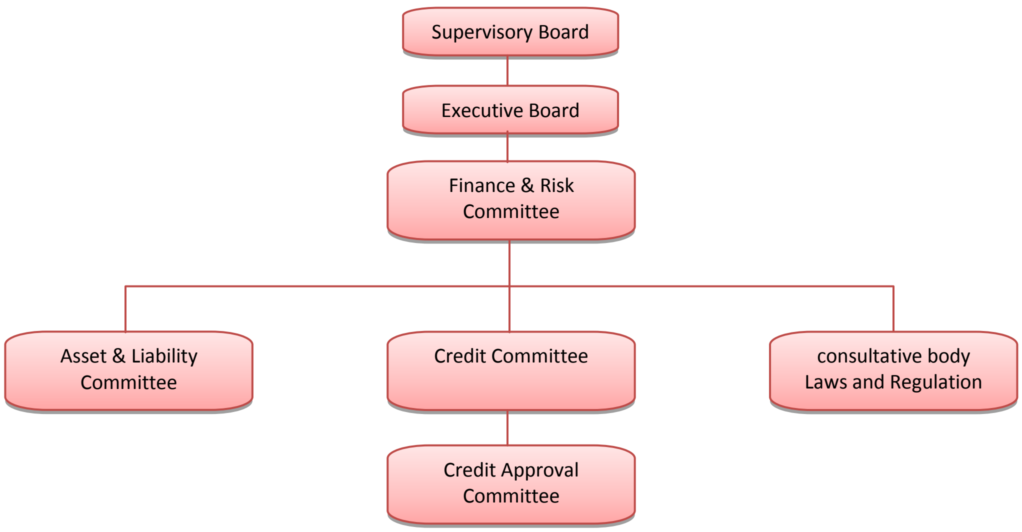
The Bank aims to achieve an optimal balance between risk and return. Adequate risk management is key in order to support and monitor the Bank's core activities. The Executive Board is responsible for defining and executing the Bank's strategy. The Executive Board is also responsible for setting up effective 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).

The Executive Board is part of the Finance & Risk Committee (F&RC), which is the ultimate decision making body for new and amendments to policies regarding financial and non-financial risks. The F&RC provides integrated management of risk related issues within the Bank. The ALCo, the Credit Risk Committee are sub-committees of the F&RC. In addition, the F&RC is supported by the consultative body Laws and Regulation.

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

The Credit Committee focuses on the management of credit risk of the mortgage portfolio. The Credit Committee is chaired by the Director of Finance and Risk of Achmea Bank. Other members of the Credit Committee are representatives of Balance Sheet & Financial Risk Management, Control, Operations Mortgages, Product Management and the Special Servicing department.

The consultative body Laws and Regulation monitors and oversees new and/ or changed laws and regulations. This consultative body has an early warning function and is responsible for the internal allocation, the high level monitoring of the implementation and embedding of the changes. Members of the consultative body Laws and Regulations are representatives of the Compliance and Legal Affairs department.



RISK MANAGEMENT FRAMEWORK

The objective of the bank's risk framework is to identify, analyse and mitigate 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 defence are the following:

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

RISK MEASUREMENT

Achmea Bank uses the Standardised approach to determine credit risk and the Basic Indicator approach to determine operational risk. The Bank uses an internal model to determine interest rate risk in the banking book.

Achmea Bank uses internal models as basis for internal measures of risk and as key input for forecast calculation of the minimum capital and liquidity requirements according to the Basel framework.

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 tool 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 improve 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.

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 Common Equity Tier 1 (CET1) ratio, the ratio does not drop below the CET1 ratio limit under stress, 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 in the banking book and concentration risk.

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 yield curve, credit ratings of counterparties and a limited access to the unsecured wholesale markets. Idiosyncratic stress is the result of a (sudden) loss of trust in the creditworthiness of Achmea Bank. 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.

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 a crisis as well as an important toll to early intervention.

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 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, and the recovery options that could be used in that specific situation, including their positive impact.

For the defined liquidity and solvency metrics, the trigger framework contains trigger levels which present the depth of a crisis.

Achmea Bank defines four crisis levels:

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

The 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 Statement (RAS) 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. In order to detect a crisis and effectuate the Recovery Plan, an Early Warning System is used (EWS). The Early Warning System is a dashboard which contains the metrics and information on which the ALCo can decide to undertake action and/or introduce one of the recovery options.

(REGULATORY) DEVELOPMENTS

IRFS 9

IFRS 9 introduces an approach for the classification of financial assets, which is driven by cash flow characteristics and the business model for which an asset is held. For most financial liabilities the existing amortised cost measurement will be maintained under IFRS 9. IFRS 9 states that an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income. The new model also results in a single impairment model being applied to all financial instruments. As part of IFRS 9, the International Accounting Standard Board (IASB) has introduced an expected-loss impairment model that will require entities to account for expected credit losses from the moment when financial instruments are first recognised and to recognise full lifetime expected losses in case of a significant credit deterioration. IFRS 9 introduces a model for hedge accounting that aligns the accounting treatment with risk management activities. The standard is effective for reporting periods beginning on or after 1 January 2018, with early application permitted. This standard has been endorsed by the EU on November 22nd 2016.

Achmea Bank started a project to assess and implement the full impact of this standard with respect to classification, measurement and derecognition, hedge-accounting, impairments and disclosures. The impairment model will have to change from incurred credit losses towards expected credit losses. While Achmea Bank has not yet undertaken a detailed assessment of how the provisions will be affected by the new model, this may result in an earlier recognition of credit losses.

MREL

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

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

Eligible liabilities consist mainly of regulatory capital and unsecured wholesale debt with a maturity greater than one year, although the exact treatment of senior unsecured debt is yet to be determent by the regulator. Retail deposits and client money are excluded from MREL (not eligible).

The MREL requirement is institution specific and set by the Resolution Authority. SREP capital and the preferred resolution strategy will determine total MREL. The preferred resolution strategy will be determined by the national resolution authority during 2017.

TLAC

The TLAC (Total Loss Absorbing Capacity) is a measure similar to MREL, however, TLAC is only applicable to banks identified by the Bank for International Settlements (BIS) as Globally and systematically important banks (G-SIBs).

Basel IV

After the Basel III reforms, there are now proposals for Basel IV (also labelled Basel 3.5). Where the Basel III reforms focussed on the capital side of solvability, Basel IV is focussing on de risk weighing side of the assets. Although there has been a second consultation paper from BIS (Bank for International Settlements), negotiations on Basel IV have stalled for now.

Achmea Bank has made an impact assessment based the second BIS consultation paper and is prepared for the possible impact thereof. However, as long as negotiations are ongoing, the eventual impact remains unclear.

CAPITAL MANAGEMENT

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'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 complies with external and internal minimum capital requirements throughout the year with a Common Equity tier 1 Capital ratio of 19.1% and a Total Capital Ratio of 19.2% at 31 December 2016, which is above the internally applied target for the minimum capital ratio level. For 2016 the Executive Board set the internally applied target for the minimum capital ratio level at 14.8%. The minimum capital level takes into account the pillar II risks.

COMPOSITION OF REGULATORY CAPITAL

IN THOUSANDS OF EUROS

	AMOUNTS	SOURCES BASED TO REGULATORY SCOPE
Directly issued qualifying common share capital plus related stock surplus	523,761	(b) + (c)
Retained earnings	285,005	(d) minus result of 2016
Accumulated other comprehensive income	1,400	(d)
Common Equity Tier 1 capital before regulatory adjustments	**810,166**	
Prudential valuation	1,498	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	507	
Other transitional adjustments to CET1 Capital	560	(Revaluation) (d)
Total regulatory adjustment to CET1	**2,565**	
Common Equity Tier 1 Capital (CET1)	**807,601**	
Paid up capital instruments and subordinated loans	5,371	(a) including amortisation
Tier 2 Capital	**5,371**	
Total regulatory capital	**812,972**	
Total risk weighted assets	**4,237,241**	
Common Equity Tier 1 ratio	19.1%	
Tier 1 ratio	19.1%	
Total Capital Ratio	19.2%	
Institution specific buffer requirement	2.5%	
of which: capital conservation buffer requirement	2.5%	
of which: bank specific countercyclical buffer requirement	0.0%	
Common Equity Tier 1 available to meet buffers after meeting the banks' minimum capital requirements	4.9%	

The total qualifying capital of EUR 813 million consist mainly out core equity tier 1 and is more than sufficient for the pillar 1 capital requirements of EUR 339 million.

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 (31-12-2016), the internal capital adequacy requirement consists of (required) pillar I capital, pillar II capital and surcharges imposed by the central bank.

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. 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.

REGULATORY CAPITAL

Achmea Bank is using the standard calculation methods for calculating the Regulatory Capital requirements under Basel II and CRR (CRD IV) for credit and operational risk. Since Achmea Bank does not perform any trading activities, there is no regulatory capital required for market risk. The Bank uses the standardized approach for Credit Risk and the basic indicator approach for Operational Risk to calculate the risk weightings of its assets.

OVERVIEW OF RWA

IN MILLIONS OF EUROS	RWA 2016	RWA 2015	MINIMUM CAPITAL REQUIREMENTS 2016
Credit risk (excl. counterparty credit risk)	3,383	3,543	271
Of which Standardised approach	3,383	3,543	271
Of which internal rating-based approach	–	–	–
Counterparty credit risk	82	92	7
Of which SA-CEM	82	92	7
Of which internal model method	–	–	–
Equity position in banking book under market-based approach	–	–	–
Equity investments in funds - look through approach	–	–	–
Equity investments in funds - mandate-based approach	–	–	–
Equity investments in funds - fall-back approach	–	–	–
Settlement risk	–	–	–
Securitisation exposure in banking book	590	769	47
Of which securitisation internal rating-based approach	–	–	–
Of which securitisation external rating-based approach	–	–	–
Of which securitisation standardised approach	590	769	47
Market risk	–	–	–
Of which Standardised approach	–	–	–
Of which internal model approach	–	–	–
Operational risk	173	150	14
Credit valuation adjustment	9	17	1
Amounts below the threshold for deduction	–	–	–
Floor adjustment	–	–	–
Total	**4,237**	**4,571**	**339**

At year-end 2016, the Risk Weighted Assets of Achmea Bank decreased by EUR 334 million from EUR 4.571 million to EUR 4.237 million, mainly due to the application of credit risk mitigation for the mortgage deposits and the overall reduction of the mortgage portfolio.

QUALIFYING CAPITAL

Achmea Bank's capital consists of tier 1 and tier 2 capital. Tier 1 capital consists of three components, the paid-up capital, 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 and prudent valuation.

The available qualifying capital of EUR 813 million, that the Bank retains to compensate for potential losses, is amply above the level of the total external and internal capital requirements. This underlines the financial solidity of Achmea Bank.

Common equity tier 1 capital

In 2016, tier 1 capital increased by EUR 39 million from EUR 769 million to EUR 808 million, mainly as a result of the capital contribution of EUR 33.5 million as part of the acquisition of the remaining part of the Acier loan portfolio. Since the Bank does not hold any hybrid tier 1 instruments, tier 1 capital equals its core tier 1 capital. The deductions mainly relate to the revaluation reserve and prudent valuation.

Tier 2 capital

As at 31 December 2016 an amount of EUR 5 million (2015: EUR 7 million) is qualified as Lower Tier 2 and consist of subordinated loans.

CAPITAL RATIOS

The Total Capital ratio increased from 16.7% at 31 December 2015 to 19.2% at 31 December 2016. The increase was mainly due to the application of credit risk mitigation for the mortgage saving deposits and an overall reduction of the loan portfolio, which led to a lower risk exposure amount. In addition to this, the tier 1 capital increased by EUR 39 million as a result of the capital contribution of EUR 33.5 million from Achmea B.V..

SREP ratios

The SREP ratio is the minimum capital level that the bank has to maintain, which is determined in the Supervisory Review and Evaluation Process (SREP). The SREP is carried out by De Nederlandsche Bank (DNB) on an annual basis. The SREP ratio is the ratio between the minimum required capital and the risk exposure amount. The minimum required capital consists of pillar I capital, pillar II capital and any add-ons imposed by DNB.

The current (transitional based) capital ratios and targets are higher than the minimum capital requirements. It is Achmea Banks ambition to maintain a strong capital position. The Bank has the following capital ambition as per the end of 2016:

- Minimum CET1 ratio of 13.8%;
- Minimum Total Tier 1 ratio of 13.8%;
- Minimum Total capital ratio of 14.8%.

Leverage ratio

The leverage ratio is the tier 1 capital divided by balance sheet positions and off-balance-sheet liabilities and is calculated based on the definition in CRR/CRDIV. According to the current Basel III guidelines, this ratio should be at least 3%. By setting a minimum, the Basel Committee wants to avoid the build-up of excessive debt positions by banks. The migration of the leverage ratio to pillar 1 is scheduled for 2018; However, banks are expected to publish the leverage ratio as of 2015. Achmea Bank has reported the leverage ratio in accordance with CRD IV guidelines since March 2014.

The leverage ratio increased from 4.8% at 31 December 2015 to 5.6% at 31 December 2016 and still falls within the current standards and limits of Achmea Bank. The increase was mainly due to an overall reduction of the loan portfolio and the capital contribution of EUR 33.5 million.

RECONCILIATION OF REGULATORY CAPITAL TO BALANCE SHEET

IN THOUSANDS OF EUROS

	BALANCE SHEET AS IN PUBLISHED STATEMENTS	REFERENCE
Cash and balances with Central Banks	658,325	
Derivative assets held for risk management	255,510	
Loans and advances to banks	1,117,344	
Loans and advances to public sector	15,820	
Loans and advances to customers	12,503,018	
Interest-bearing securities	401,182	
Current tax assets	2,182	
Deferred tax assets	–	
Prepayments and other receivables	31,850	
Assets held for sale and discontinued operations	–	
Total Assets	**14,985,230**	
Liabilities		
Deposits from banks	97,411	
Funds entrusted	6,388,454	
Debt securities issued	6,825,449	
Provisions	1,065	
Current tax liabilities	4,678	
Deferred tax liabilities	25,401	
Accruals and other liabilities	46,762	
Subordinated liabilities	8,336	(a)
Liabilities held for sale and discontinued operations	–	
Total Liabilities	**14,162,090**	
Share Capital	18,152	(b)
Share premium	505,609	(c)
Reserves	299,380	(d)
Total shareholders' equity	**823,141**	
Total Equity and Liabilities	**14,985,230**	

The accounting consolidation and the scope of regulatory consolidation are exactly the same for Achmea Bank.

SUMMARY RECONCILIATION OF ACCOUNTING ASSETS AND LEVERAGE RATIO EXPOSURES

IN MILLIONS OF EUROS	2016	2015
Total assets	**14,985**	**16,072**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	–	–
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure)	–	–
Adjustments for derivative financial instruments	43	59
Adjustments for securities financing transactions "SFTs"	–	–
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	29	12
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure)	–	–
(Adjustment for exposures excluded from the leverage ratio exposure measure)	–	–
Other adjustments	−601	−168
Total leverage ratio exposure	**14,456**	**15,975**

LEVERAGE RATIO COMMON DISCLOSURE

IN MILLIONS OF EUROS	2016	2015
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	14,730	15,772
(Asset amounts deducted in determining Tier 1 capital)	–	–
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**14,730**	**15,772**
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	126	132
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	43	59
Exposure determined under Original Exposure Method	–	–
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–17	–
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	–585	–
(Exempted CCP leg of client-cleared trade exposures)	–	–
Adjusted effective notional amount of written credit derivatives	–	–
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	–	–
Total derivative exposures	**–433**	**191**
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	–	–
(Netted amounts of cash payables and cash receivables of gross SFT assets)	–	–
Counterparty credit risk exposure for SFT assets	–	–
Derogation for SFTs: Counterparty credit risk exposure	–	–
Agent transaction exposures	–	–
(Exempted CCP leg of client-cleared SFT exposure)	–	–
Total securities financing transaction exposures	–	–
Off-balance sheet exposures at gross notional amount	148	60
(Adjustments for conversion to credit equivalent amounts)	–119	–48
Other off-balance sheet exposures	**29**	**12**
Tier 1 capital	807	769
Total exposure	14,326	15,975
Leverage ratio	**5.6%**	**4.8%**

LIQUIDITY MANAGEMENT

LIQUIDITY MANAGEMENT

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'.

Internal liquidity adequacy process and requirements

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 & Financial Risk Management department (2nd line of defense). Furthermore, the ALCo monitors Achmea Bank's liquidity risks on a monthly basis.

The bank has implemented internal processes to monitor and manage the liquidity risk of the bank. The objective is to manage liquidity risk within the bank to prevent that 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.

Liquidity and funding contingency

Contingency funding plans

Achmea Bank has a Liquidity Contingency Plan (LCP) available in case of a liquidity stress event. The LCP is part of Achmea Bank's Recovery plan . 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.

RISK MEASUREMENT

Liquidity position

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 2016 EUR 1.063 million of mortgages were exchanged for EUR 951 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 2016 the Bank has a portfolio of liquid assets amounting to EUR 749 million (interest bearing securities and SGML II) that can easily be sold or posted as collateral and approximately EUR 615 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 mature in 2019 but 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 10.4 months (2015: 9.4 months).

The Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) are liquidity and funding ratios which are monitored against the minimum internal and external limits. The aim of the LCR is to ensure that a bank holds sufficient liquid assets to absorb the total net cash outflow during a 30-day period of stress. The aim of the NSFR is to ensure that long-term assets are financed with stable, longer term funding. Achmea Bank has set its internal minimum targets for both the LCR and NSFR at 105% for 2016. The Bank fully complies with all external and internal minimum requirements during 2016. At year-end 2016 the LCR was 572% (2015: 1027%) and the NSFR was 122% (2015: 117%).

LIQUIDITY COVERAGE RATIO

AVERAGE IN THOUSANDS OF EUROS

	TOTAL UNWEIGHTED VALUE	TOTAL WEIGHTED VALUE
Total high quality liquid assets		**1,647,316**
Retail deposits and deposits from small business customers	2,622,306	271,220
of which stable deposits	218,214	10,911
of which less stable deposits	2,404,092	260,309
Unsecured wholesale funding	49,953	49,953
of which operational deposits and bank deposits	–	–
of which non-operational deposits	43,755	43,755
of which unsecured debt	6,198	6,198
Secured wholesale funding	83,805	456
Additional requirements	205,786	175,948
of which outflows related to derivatives and collateral	145,102	145,102
of which outflows related to loss of funding	29,276	29,276
of which credit and liquidity facilities	31,408	1,570
Other contractual funding obligations	219,916	142,817
Other contingent funding obligations	16	1
TOTAL CASH OUTFLOWS		**640,395**
Secured lending (eg reverse repos)	–	–
Inflows from fully performing exposures	198,996	196,371
Other cash inflows	55,398	55,398
TOTAL CASH INFLOWS		**251,770**
Total HQLA		1,616,985
Total net cash outflows		388,625
Liquidity Coverage ratio		**426%**

NET STABLE FUNDING RATIO

IN THOUSANDS OF EUROS	UNWEIGHTED VALUE BY RESIDUAL MATURITY				WEIGHTED VALUE
	NO MATURITY	← 6 MONTHS	6 MONTHS TO ← 1YR	→ 1 YR	
Regulatory capital	812,972	–	–	–	812,972
Other capital instruments	–	–	–	2,908	2,908
Capital	812,972	–	–	2,908	815,880
Stable deposits	226,580	11,250	18,909	184,656	543,982
Less stable deposits	2,227,036	398,891	217,214	1,879,593	4,322,996
Retail deposits and deposits from small business customers	2,453,615	410,142	236,123	2,064,249	4,866,979
Operational deposits	–	–	–	–	–
Other wholesale funding	–	1,037,168	542,569	6,500,032	6,771,316
Wholesale funding	–	1,037,168	542,569	6,500,032	6,771,316
Liabilities with matching interdependent assets	–	–	–	–	–
NSFR derivative liabilities	–	23,376	23,246	92,977	–
All other liabilities and equity	53,240	49,916	–	25,401	25,401
Other liabilities	53,240	73,292	23,246	118,378	25,401
TOTAL AVAILABLE STABLE FUNDING	**3,319,828**	**1,520,601**	**801,939**	**8,685,567**	**12,479,576**
	–	–	–	–	–
Total NSFR high quality liquid assets (HQLA)	658,325	17,766	47,343	285,546	175,328
Deposits held at other financial institutions for operational purpose	–	–	–	–	–
Performing loans and securities; of which	21,241	283,692	61,945	12,501,670	9,576,824
Performing loans to financial institutions secured by Level 1 HQLA	–	–	–	–	–
Performing loans to financial institutions secured by non-level 1 HQLA	21,241	206,500	409	264,058	299,655
Performing loans to non-financial corporate clients, retail, sovereigns and central banks; of which	–	17,430	2,027	732,621	600,564
with a risk weight of less than or equal to 35% (SA credit risk)	–	15,923	730	259,739	177,157
Performing residential mortgages; of which	–	59,761	59,510	11,454,465	8,633,658
with a risk weight of less than or equal to 35% (SA credit risk)	–	58,319	57,681	10,721,744	8,007,944
Securities that are not in default and do not qualify as HQLA	–	–	–	50,526	42,947
Assets with matching interdependent liabilities	–	–	–	–	–
Assets posted as initial margin for derivative contracts and contributions to default funds of CCP's	–	–	–	–	–
NSFR derivative assets	–	12,979	77,859	107,775	59,013
NSFR derivative liabilities before deduction of variation margin posted	–	23,376	23,246	677,914	144,592
All other assets	94,541	25,169	412	131,672	251,795
Other assets	94,541	38,148	78,271	239,447	455,400
Off balance sheet items	–	148,136	–	16	7,423
TOTAL REQUIRED STABLE FUNDING	**774,107**	**487,741**	**187,559**	**13,026,679**	**10,214,975**
Net Stable Funding Ratio					**122%**

Funding strategy

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 a pendent calendar of maturity profiles of its funding instruments to mitigate potential concentration of liquidity risk in the future.

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 2016, the total amount of savings was EUR 5.9 billion (2015: EUR 5.9 billion).

Unsecured wholesale funds

Unsecured MTN Programme

In October 2012 the Bank set up a EUR 10 billion Unsecured Medium Term Note programme. The total outstanding amount under the Unsecured EMTN programme equals EUR 3.2 billion per year end (2015: EUR 3.7 billion), of which EUR 0.8 billion in Private Placements (2015: EUR 0.8 billion).

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 2016, this programme is continued, resulting in a total outstanding amount of EUR 208 million at 31 December 2016 (2015: EUR 262 million).

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.

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 X B.V., DMPL XI B.V., DMPL XII B.V. , DRMP I B.V. and DRMP II 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.

Trustee guarantee

The Bank has entered into a Trust Agreement under which it periodically 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 2016, a total of EUR 61 million was outstanding (2015: EUR 61 million). Two of the issued notes (EUR 20 million) are listed on Société de la Bourse de Luxembourg.

Covered bond programme

Under the covered bond programme the Bank has issued eight covered bonds. Seven of these transactions were redeemed before 31 December 2016. 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.

Securitisations of retail mortgages

The Bank uses securitisation as one of its funding sources. In 2016 the Bank redeemed the notes of DMPL IX (EUR 0.5 billion) at its first optional redemption date. In November 2016 the Bank successfully issued DRMPII, for an amount of EUR 0.6 billion. As of 31 December 2016 the Bank has 5 outstanding securitisation transactions, with a total outstanding amount of EUR 3.1 billion (2015: EUR 3.3 billion) (excluding the notes which are held by the Bank on own book for an amount of EUR 0.8 billion (2015: EUR 0.8 billion). EUR 1.3 billion of the Residential Mortgage-Backed Securities (RMBS) notes has been placed within Achmea Group (2015: EUR 1.5 billion).

In all these securitisation transactions, the Bank assigns a portfolio of mortgage receivables to a special-purpose vehicle (SPV) which issues Notes. 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. The director of these companies is Intertrust Management B.V.

Other Funding

Achmea Bank has a CHF 200 million loan, which was provided by Achmea B.V. which relates to the Acier loan portfolio.

Asset encumbrance

The EBA states that an asset should be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes). Assets pledged that are subject to any restrictions in withdrawal, such as assets that require prior approval before withdrawal or replacement by other assets, should be considered encumbered. At year-end 2016, EUR 4.8 billion of total assets were encumbered. The total asset encumbrance per year-end 2016 was 32.3% (2015: 30.3%).

ENCUMBRANCE OVERVIEW - ASSETS

IN THOUSANDS OF EUROS

	CARRYING AMOUNT OF ENCUMBERED ASSETS	FAIR VALUE OF ENCUMBERED ASSETS	CARRYING AMOUNT OF UNENCUMBERED ASSETS	FAIR VALUE OF UNENCUMBERED ASSETS
Loans on demand			683,084	
Equity instruments				
Debt securities			401,182	401,182
Loans and advances other than loans on demand	4,844,397		8,153,380	
Other assets			903,188	
Assets of the reporting institution	**4,844,397**	**–**	**10,140,834**	**401,182**

SOURCES OF ENCUMBRANCE

IN THOUSANDS OF EUROS

	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
Carrying amount of selected financial liabilities	4,268,790	4,506,098
Derivatives	749,861	676,579
Deposits	138,561	167,025
Debt securities issued	3,380,368	3,662,493
Other sources of encumbrance		338,299

CREDIT RISK

CREDIT RISK MANAGEMENT

The scope of this chapter includes all instruments subject to the credit risk framework in the strict sense, excluding all positions subject to the securitisation framework (Securitisation chapter).

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

CREDIT PORTFOLIO

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

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 loans. 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.

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

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

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

Private sector

Achmea Bank's policy on 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.

Achmea Bank mortgage portfolio

Bank Portfolio risks are risks related to the mortgage portfolio and risks on the consumer credit portfolio. Achmea Bank's mortgages and consumer credits activities are concentrated in the Netherlands, except for a small number of mortgages in the Acier loan 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.

Acier loan portfolio

In December the Acier loan portfolio increased with EUR 221 million to EUR 1.1 billion, due to the acquisition of the remaining loan portfolio. The portfolio is a heterogeneous loan portfolio. The Acier loan portfolio will be handled as a run off portfolio. The portfolio is managed by the former Staalbankiers credit department that was transferred to Achmea Bank simultaneously with the first transaction on 1 July 2015 and is now completely integrated in Achmea Bank. The run-off of the portfolio is proceeding according to plan.

The acquisition of the loan portfolio of Staalbankiers also included an allowance for losses on loans and advances for an amount of EUR 1.3 million. As at December 2016 the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 61.9 million (2015: EUR 70.7 million). Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is.

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 loans with an exposure above EUR 1 million as corporate credit.

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 & Financial Risk Management 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 2016. As per 31 December 2016 there are no concentrations of credit risk within the internally applied target for the concentration credit risks.

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.

As at year-end of 2016 the net exposure amounted to EUR 58 million (2015: EUR 75 million) and consisted of the total fair value of the derivatives versus the collateral position. This net exposure is mainly related to exposures to counterparties for which the bank has no CSA in place. The net counterparty-risk-related value adjustment was EUR 0.3 million at year-end (2015: EUR 46 thousand). This value adjustment includes both a Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA).

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

The lowest rating of a counterparty at year-end 2016 was BB (EUR 129 million) (year-end 2015: rating BBB, EUR 20.2 million). Most of the collateral positions are included in the category loans and advances to banks. At year-end 2016 the collateral positions (credit rating is A, BBB and BB) account for EUR 67 million (2015: EUR 118 million) reported as a liability, which is recognised under deposits from banks.

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.

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

Legal proceedings

In the course of 2016 several instances of legal proceedings were started against the bank. However, based on legal advice, the executive board does not expect the outcome of the various proceedings to have a material effect on the company's financial position at 31 December 2016.

Contractual obligations

At year-end 2016 the Bank had contractual obligations amounting to EUR 7.1 million (2015: EUR 8.7 million), primarily in connection with ICT-related contracts with Achmea Group companies.

The Bank also has contractual obligations to Quion amounting to EUR 5 million in connection with outsourcing of the servicing of the regular mortgage portfolio, and EUR 0.4 million in contractual obligations to Stater for the servicing of the Acier loan portfolio.

Contingent liabilities

Contingent liabilities include all liabilities arising from transactions in which the Bank acts as guarantor for third parties. At year-end 2016 there were outstanding bank guarantees amounting to EUR 0.02 million (2015: EUR 0.02 million).

Irrevocable facilities

This refers to all liabilities relating to irrevocable undertakings which could lead to credit losses, including mortgage loan proposals for EUR 117 million (2015: EUR 53 million), construction accounts of EUR 22 million and an undrawn credit facility of EUR 9 million (2015: 10 EUR 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 settled in the current account with the Group.

Post foreclosure claim

Achmea Bank has a residual claim after write-off of mortgage receivables of EUR 48 million (2015: EUR 38 million). The expected net recovery of this exposure is limited.

Acier loan portfolio

In the course of 2017 the remaining part of the acquired loan portfolio of Staalbankiers will be transferred to the balance sheet of Achmea Bank. This transfer includes loans up to a maximum of EUR 35 million and saving deposits related to the total former loan portfolio of Staalbankiers of approximately EUR 57 million.

MORTGAGE PORTFOLIO

Credit committees

Achmea Bank has two credit committees, one committee dedicated to the Achmea Bank portfolio and one committee dedicated to the Acier loan 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 Special Services department. The Credit Committees monitor the risk profile (policies, procedures, control) and the credit risk of the mortgage portfolio.

Credit approval

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 loan portfolio.

Credit policy

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. 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 reviews the acceptance policy as part of their second line of risk responsibility. Credit risk is monitored by the Credit Committee.

Arrears management

Stringent procedures are in place to monitor payment arrears. Borrowers that fail to pay the scheduled payment are called by the collections department. 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.

Impairment and past due loans

In December 2016 the Bank acquired the remaining part of the loan portfolio of Staalbankiers, which also included an allowance for losses on loans and advances for an amount of EUR 1.3 million. As at December 2016 the allowance for losses on loans and advances related to the Acier loan portfolio amounts to EUR 61.9 million (2015: EUR 70.7 million). Achmea B.V. issued a capped guarantee to Achmea Bank to cover credit risk and legal claims related to this portfolio. As a consequence of this guarantee, the impact of the impairment charges on the income statement is limited (see also note 30). The allowance for losses on loans and advances for the regular Achmea Bank portfolio has decreased to EUR 11.5 million (2015: EUR 18.4 million)

Of the total amount of loans and advances to customers, an amount of EUR 117 million (2015: EUR 197 million) is past due but not impaired. The amount of past due but not impaired loans decreased in 2016, due to the efforts of Achmea Bank's Default Management Department.

Under IFRS, recognition of an impairment loss is required if it is probable more likely than not 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 Acier portfolio these assessments are conducted periodically through formal revisions for individual clients. A financial asset is impaired and is treated accordingly if, and only if, there are objective indications of impairment.

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'. 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 Acier 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.

Credit risk measurement

Credit risk measurement framework

Achmea Bank has adjusted the way that credit risk is managed in line with the portfolio's characteristics. For the Achmea Bank portfolio, credit risk is measured by looking at segments in the portfolio. Segments are for example based on LTV, region and borrower age. For the Acier portfolio, risk classes are used to manage the clients. The risk class for each client results from an individual assessment.

Risk classification and internal rating system

For the Acier portfolio, loans are rated based on LTV and LTI. Loans with payment problems and with increased risk are classified accordingly. For the Achmea Bank portfolio internal credit risk models are being developed and expected to be in use in 2018.

Credit risk reporting

Balance Sheet & Financial Risk Management compiles monthly reports for both the retail and the Acier portfolio. The reports focus on the developments in the credit portfolio, which is distributed in the Credit Committee. 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 and include an assessment of the performance against the criteria that are set in the Risk Appetite Statement.

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

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

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

Forbearance

Since mid-2015 Achmea Bank monitors its forbearance portfolio. This portfolio consists of loans that were modified or restructured in order to prevent client default.

As from mid-2015 the Bank has been applying the following modifications:

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

As at 31 December 2016 the known forborne exposure amounted to EUR 81 million (2015: EUR 13 million), which is less than 1% of the total portfolio.

Clients eligible for forbearance are identified by the collections department and either have payments past due or have other indications of expected problems to fulfil the contractual payments.

SPECIFIC COUNTERPARTY CREDIT RISK

Counterparty risk policy

Achmea Bank manages counterparty credit risk by applying a strict counterparty risk policy. The counterparty risk policy of Achmea Bank restricts or prohibits certain counterparty types or countries. When determining country limits and limits for financial institutions, Achmea Bank applies a risk mitigation policy that complies with the relevant group policy. To manage counterparty risk, Achmea Bank imposes individual counterparty limits on both exposure and maturity. 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. The individual limits are approved by the ALCo. The counterparty risk policy and all counterparty limits are reviewed at least once a year.

Positions are monitored by Balance Sheet & Financial Risk Management and the treasury department and reported to the financial management of Achmea Bank on a daily basis. The credit risk exposure to professional counterparties is coordinated by ALCo. The counterparty risk policy of Achmea Bank restricts or prohibits certain counterparty types or countries.

Credit risk measurement

The Bank uses Credit Support Annexes (CSA) to reduce counterparty risk exposure on derivatives by means of (cash) collateral. The setting of the main parameters of a collateral agreement are geared to a low threshold, daily margining and acceptable collateral to be held. No impairments on counterparty positions occurred in 2016. As at 31 December there are no concentrations of credit risk above the internally applied target for the concentration of credit risks.

As at year-end of 2016 the net exposure amounted to EUR 58 million (2015: EUR 75 million) and consisted of the total fair value of the derivatives versus the collateral position. This net exposure is mainly related to exposures to counterparties for which the bank has no CSA in place. The net counterparty-risk-related value adjustment was EUR 0.3 million at year-end (2015: EUR 46 thousand). This value adjustment includes both a Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA).

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

The lowest rating of a counterparty at year-end 2016 was BB (EUR 129 million) (year-end 2015: rating BBB, EUR 20.2 million). Most of the collateral positions are included in the category loans and advances to banks. At year-end 2016 the collateral positions (credit rating is A, BBB and BB) account for EUR 67 million (2015: EUR 118 million) reported as a liability, which is recognised under deposits from banks.

Central Counterparties (CCP)

Following regulatory requirements, Achmea Bank is clearing an increasing number of derivatives via a central counterparty. Achmea Bank made an assessment of the credit risk involved in positions held with central counterparties. Counterparty risk policies and appropriate limit setting is applied for central counterparties in line with the regular policies.

Credit risk reporting

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.

Additional contractual obligations in case of a rating downgrade

In the event of a downgrade of specific counterparties credit rating, Achmea bank could be required to provide additional collateral. These potential collateral requirements relate to the Back-to-Back swaps from the securitisations of Achmea Bank and can be triggered in case of a rating downgrade of the relevant swap counterparty. In case of a rating downgrade of 3 notches for all swap counterparties the additional collateral to be posted is calculated to be € 78 million.

ANALYSIS OF COUNTERPARTY CREDIT RISK EXPOSURE BY APPROACH

IN THOUSANDS OF EUROS

	REPLACEMENT COST	POTENTIAL FUTURE EXPOSURE	EAD POST-CRM	RWA
CEM (for derivatives)	156,050	49,228	168,790	82,308
Simple Approach for CRM (for SFT's)				
VaR for SFT's				
Total	**156,050**	**49,228**	**168,790**	**82,308**

CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

IN THOUSANDS OF EUROS	EAD POST-CRM	RWA
All portfolios subject to the Standardised CVA capital charge	32,067	8,628
Total subject on the CVA capital charge	**32,067**	**8,628**

CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

IN THOUSANDS OF EUROS	0%	10%	20%	35%	50%	75%	100%	150%	OTHER	TOTAL CREDIT EXPOSURE
Banks			6,958		161,833					168,791
Corporates										
Total			**6,958**		**161,833**					**168,791**

COMPOSITION OF COLLATERAL FOR CCR EXPOSURE

IN THOUSANDS OF EUROS	COLLATERAL USED IN DERIVATIVE TRANSACTIONS		COLLATERAL USED IN SFT'S	
	FAIR VALUE COLLATERAL RECEIVED		FAIR VALUE OF COLLATERAL RECEIVED	
	SEGREGATED	UNSEGREGATED		
Cash- domestic currency	67,412	757,728		
Cash- other currency				
Domestic sovereign debt				
Other sovereign debt				
Government agency debt				
Corporate bonds				
Equity securities				
Other collateral				
Total	**67,412**	**757,728**		

EXPOSURES TO CENTRAL COUNTERPARTIES

In thousands of Euros	AED (post-CRM)	RWA
Exposures for trades at QCCP's (ex. Initial margin and default fund); of which		
- OTC derivatives	3,398	136
- Exchange-traded derivatives		
- Securities financing transactions		
- Netting sets where cross-product netting has been approved		
Segregated initial margin		
Non-segregated initial margin	6,027	241
Pre-funded default fund contributions		
Unfunded default fund contributions		
Total Exposures to QCCP's	9,425	377

CREDIT RISK MITIGATION

CREDIT RISK MITIGATION TECHNIQUES

IN THOUSANDS OF EUROS

	UNSECURED	SECURED BY COLLATERAL	OF WHICH SECURED AMOUNT	SECURED BY FINANCIAL GUARANTEES	OF WHICH SECURED AMOUNT
Loans	1,996,960	11,572,382	11,308,735	2,194,067	24,464
Debt securities	401,182				
Total	**2,398,142**	**11,572,382**	**11,308,735**	**2,194,067**	**24,464**
Of which defaulted	116,030	154,113	130,512	8,741	653

CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION EFFECTS

IN THOUSANDS OF EUROS

	EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWA AND RWA DENSITY	
	ON-BALANCE	OFF-BALANCE	ON-BALANCE	OFF-BALANCE	RWA	RWA DENSITY
Sovereigns and their central banks	663,711		2,854,491	3,685	67	0.0%
Non-central government public sector entities	15,075		15,075		–	0.0%
Banks	1,114,474		1,114,474		123,731	11.1%
Corporates	171,489		171,489		165,696	96.6%
Regulatory retail portfolios	976,010	55,644	912,294	9,782	625,961	67.9%
Secured by residential property	9,031,239	92,508	6,912,916	16,176	2,251,072	32.5%
Secured by commercial real estate						
Past due loans	184,984		176,243		175,352	99.5%
High-risk categories	12,965		12,965		19,448	150.0%
Other assets	31,850		31,850		21,200	66.6%
Total	**12,201,797**	**148,152**	**12,201,797**	**29,643**	**3,382,527**	**27.7%**

CREDIT RISK METRICS

CREDIT QUALITY OF ASSETS

IN THOUSANDS OF EUROS

	GROSS VARRYING VALUE OF			
	DEFAULTED	NON-DEFAULTED	IMPAIRMENTS	NET VALUES
Loans	270,143	13,484,246	185,047	13,569,342
Debt securities		401,182		401,182
Off-balance sheet exposures		148,152		148,152
Total	**270,143**	**14,033,580**	**185,047**	**14,118,676**

EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

IN THOUSANDS OF EUROS

	0%	10%	20%	35%	50%	75%	100%	150%	OTHER	TOTAL (POST CFF AND POST CRM)
Sovereigns and their central banks	2,857,842		334							2,858,176
Non-central government public sector entities	15,075									15,075
Banks	584,937		470,124		59,413					1,114,474
Corporates	5,793						165,696			171,489
Regulatory retail portfolios	87,461					834,615				922,076
Secured by residential property	497,487			6,431,590			16			6,929,093
Secured by commercial real estate										
Past due loans	891						175,352			176,243
High-risk categories								12,965		12,965
Other assets			13,313				18,537			31,850
Total	**4,046,949**		**493,266**	**6,431,590**	**221,246**	**834,949**	**359,266**	**12,965**		**12,231,441**

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

CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

IN THOUSANDS OF EUROS

Defaulted loans and debt securities at end of the previous reporting period	**252,770**
Loans and debt securities that have defaulted since the last reporting period	88,184
Returned to non-defaulted status	42,968
Amounts written off	27,843
Other changes	
Defaulted loans and debt securities at end of the reporting period	**270,143**

SECURITISATIONS

OWN ASSET SECURITISATION

Achmea Bank uses securitisations as part of its funding mix via the programs SGML, DMPL and DRMP. The SGML-II transaction is fully retained by Achmea Bank to use as collateral and as part of the liquidity buffer. The total amount was € 348 million as per 31 December 2016.

An amount of liquidity risk in securitisation transactions is retained by Achmea Bank by acting as liquidity facility provider in some of its own asset securitisation transactions. Achmea Bank does not act as swap counterparty in any of its own securitisations. Contingent liquidity risk in securitisation swaps arises from the rating triggers related to the back-to-back swaps as part of the securitization structure. In case of a rating downgrade of 3 notches for all swap counterparties, the amount of additional collateral to be posted by Achmea Bank is ca. € 78 million.

REGULATORY CAPITAL APPROACHES

For the originator of a securitisation there are two options for the calculation of regulatory capital. The first option is to calculate Risk Weighted Assets (RWA) for the underlying assets as if these assets where not securitised. With this method the issuance of a securitisation does not change the required capital amount for the originator.

The second option is to calculate RWA for the retained securitisation positions held on the balance sheet of the bank. With this method the total RWA of the total retained position is capped at the level of RWA of the underlying assets. Achmea Bank uses this option in case of Significant Risk Transfer (SRT) on a securitisation transaction (For SRT, see below). In case of a securitization without SRT, the first option is used. In both cases, Achmea Bank remains the servicer of the securitized mortgages (including risk management).

Significant Risk Transfer

Achmea Bank holds capital for the mortgages underlying the securitisation notes or for the notes themselves, depending on applying Significant Risk Transfer (SRT). When SRT is applied, a significant amount of risk is transferred to the investors who invested in (part of) the notes. Therefore, Achmea Bank achieves a certain amount of capital relief. This is currently the case for the outstanding DMPL notes, of which the last has a First Optional Redemption Date (FORD) on 26 may 2020. DRMP transactions do not have SRT due to changes in regulation (in case of a call option held by the originator and issuance after June 2014, SRT is not allowed by the regulator).

According to the regulation, an institution needs to sell at least 50% of the mezzanine notes or receive permission from the supervisor in order to apply SRT. Achmea Bank has permission from the supervisor to apply SRT on the DMPL securitisations.

The table below provides an overview of the current securitisations (as per 31-dec-2016) of Achmea Bank.

SECURITIZATION	ORIGINATOR	ECAI'S	PURPOSE	SRT	FORD	ADMINISTRATOR
SGML-II	Achmea Bank N.V.	Fitch	Retained	No	25-10-2018	Intertrust
DMPL-X	Achmea Bank N.V.	Moody's/Fitch	Funding	Yes	26-6-2017	Intertrust
DMPL-XI	Achmea Bank N.V.	Moody's/Fitch	Funding	Yes	28-5-2019	Intertrust
DMPL-XII	Achmea Bank N.V.	Moody's/Fitch	Funding	Yes	26-5-2020	Intertrust
DRMP-I	Achmea Bank N.V.	Moody's/Fitch	Funding	No	28-4-2020	Intertrust
DRMP-II	Achmea Bank N.V.	Moody's/Fitch	Funding	No	27-12-2022	Intertrust

RISK MEASUREMENT

Risk management/measurement can be split into two categories: own securitisations and investments in third party securitisations .

Own securitisations

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

Investing in third party RMBS

Achmea Bank also acts as an investor in RMBS. These assets are used as part of a buffer of liquid assets held to manage liquidity risk. Investing in the RMBS market is a specialized business and therefore Achmea Bank has outsourced this activity to a specialised party that works under a mandate provided by Achmea Bank. The mandate allows for investment of €400 mln in AAA rated UK Prime and Dutch RMBS positions.

Standardised approach

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

SECURITISATION EXPOSURES IN THE BANKING BOOK

IN THOUSANDS OF EUROS

	BANK ACTS AS ORIGINATOR			BANK ACTS AS SPONSOR			BANK ACTS AS INVESTOR		
	TRADITIONAL	SYNTHETIC	SUB-TOTAL	TRADITIONAL	SYNTHETIC	SUB-TOTAL	TRADITIONAL	SYNTHETIC	SUB-TOTAL
Retail (total); of which	**227,839**	–	**227,839**	–	–	–	**401,182**	–	**401,182**
residential mortgage	227,839	–	227,839	–	–	–	401,182	–	401,182
credit card	–	–	–	–	–	–	–	–	–
other retail exposures	–	–	–	–	–	–	–	–	–
re-securitisation	–	–	–	–	–	–	–	–	–
Wholesale (total); of which	–	–	–	–	–	–	–	–	–
loans to corporates	–	–	–	–	–	–	–	–	–
commercial mortgages	–	–	–	–	–	–	–	–	–
lease and receivables	–	–	–	–	–	–	–	–	–
other wholesale	–	–	–	–	–	–	–	–	–
re-securitisation	–	–	–	–	–	–	–	–	–

SECURITISATION EXPOSURES AND CAPITAL REQUIREMENTS

IN THOUSANDS OF EUROS

	EXPOSURE VALUES					EXPOSURE VALUES (BY REGULATORY APPROACH)		RWA (BY REGULATORY APPROACH)		CAPITAL CHARGE AFTER CAP	
	← 20% RW	→ 20% TO 50% RW	→ 50% TO 100% RW	→ 100% TO 1250% RW	1250% RW	SA/SSFA	12.5	SA/SSFA	12.5	SA/SSFA	12.5
Bank acting as originator											
Traditional securitisation	–	–	203,300	–	24,539	203,300	24,539	203,300	306,738	16,264	24,539
Of which securitisation	–	–	203,300	–	24,539	203,300	24,539	203,300	306,738	16,264	24,539
Of which retail underlying	–	–	203,300	–	24,539	203,300	24,539	203,300	306,738	16,264	24,539
Of which wholesale	–	–	–	–	–	–	–	–	–	–	–
Bank acting as investor											
Traditional securitisation	401,182	–	–	–	–	401,182	–	80,236	–	6,419	–
Of which securitisation	401,182	–	–	–	–	401,182	–	80,236	–	6,419	–
Of which retail underlying	401,182	–	–	–	–	401,182	–	80,236	–	6,419	–
Of which wholesale	–	–	–	–	–	–	–	–	–	–	–

OPERATIONAL RISK MANAGEMENT

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 compliance, legal and IT risks. Compliance risk is in scope of operational risk from a classification perspective as this risk is not regarded as a separate event. As regulatory supervisors expect specific management and reporting on compliance risk, Achmea Bank ensures that identified compliance risks are earmarked as such. 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.

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.

Managing operational risk

The operational risk management process follows the following process steps:

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

DEVELOPMENTS IN 2016

Managing risk is essential to achieve Achmea Bank's goals. A sound administration and permanent monitoring of the functioning of the internal risk management and control systems is of importance to the management of Achmea Bank. Operational Risk & Compliance reports the level of control of Achmea Bank on a quarterly basis to the Finance & Risk Committee. In the fourth quarter of each year the Internal Control Statement is added to this report.

Achmea Bank applies an integrated approach to risk, captured in an overall risk appetite. In 2016 management has taken measures to improve compliance risk control. Weaknesses in the internal control environment of Achmea Treasury led to a number of incidents in 2016 which also effected Achmea Bank. Adequate measures were taken by executive board to mitigate the risks within Treasury to acceptable levels.

In 2016, Achmea Bank initiated several strategic projects, including:

- The transition from product-oriented to market-oriented chains per 1 July 2016;
- Execution of Achmea's retirement benefit strategy (ODV) to support the "Centraal Beheer" proposition;
- Outsourcing of mid and back office mortgage activities;
- The creation of a more cost effective savings chain. Simplifying the processes in combination with the replacement of the current IT systems are expected to result in material benefits for both client and Bank.

These projects are being executed (further) during 2017 and this could potentially lead to a (temporary) increase in operational risk. These developments will be closely monitored by the executive board and the risk function.

BUSINESS INDICATOR FOR OPERATIONAL RISK

IN THOUSANDS OF EUROS

	2016	2015	2014
Interest income	488,836	535,355	560,952
Interest expense	379,381	445,646	484,840
Interest	109,455	89,709	76,112
Fee income	2,516	1,485	1,534
Fee expenses	497	1,395	1,990
Other operating income	–	–	–
Other operating expense	–	–	–
Services	2,019	90	−456
Net P&L on Banking Book	–	–	–
Financial	–	–	–
Total exposure for operational risk	**111,474**	**89,799**	**75,656**

HISTORICAL LOSSES

THOUSANDS OF EUROS

	2016	2015	2014
Number of losses exceeding 1m€	–	–	1
Total amount of losses exceeding 1m€	–	–	1,216
Total of 5 largest losses	417	955	1,275

MARKET RISK

INTEREST RATE RISK BANKING ENVIRONMENT

Interest rate risk framework

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 & Financial Risk Management 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.

Governance of management interest rate risk in the banking book

Interest rate risk is the present or future risk of a decline in total equity 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:

- Effects of a change in interest rates on the economic value of total equity;
- 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 2017.

Risk measurement

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.

DURATION

IN YEARS	2016	2015
Equity Duration	3.5	4.5

Because of the low interest rate environment Achmea Bank has lowered its target duration from 5,0 years to 4,0 years. This reduces the risk of a sudden rise in interest rates. The table above shows that the duration of total equity of Achmea Bank decreased from 4.53 years as at 31 December 2015 to 3.48 years as at 31 December 2016. This decrease is mainly due to the lower target duration.

SENSITIVITY ANALYSIS

IN THOUSANDS OF EUROS	2016	2015
Change in the interest rate of 200 basis points negative	−66,873	3,129
Change in the interest rate of 200 basis points positive	−58,517	−88,498

For the ‘200 basis points positive’ scenario the loss in equity has declined from -/- EUR 88 million (year-end 2015) to -/- EUR 59 million (year-end 2016). This can mainly be explained by the lower duration. At the current low interest rate environment the ‘200 basis points negative’ scenario seems unlikely to happen. In this scenario we find a loss of EUR 66 million. This loss is mainly due the fact that customers will prepay their relatively expensive mortgages at a higher speed.

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.

INTEREST RATE RISK EXPOSURE

IN THOUSANDS OF EUROS	2016	2015
Income at Risk	86	199

The table shows that the income at risk has decreased by EUR 113 thousand from 2015 to 2016.

NON-TRADING 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 2016 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 fully converted into Euros with a cross currency swap (where micro hedge accounting is applied).

CHF mortgage portfolio

Part of the Acier loan portfolio that has been transferred to Achmea Bank is denominated in CHF (CHF mortgages EUR 487 million at year end 2016). 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.

All foreign exchange positions are fully hedged and therefore there is no remaining exposure on foreign currency that's above the threshold to hold a market risk charge.

	2016	2015	2016	2015
Swiss Franc	1.07	1.08	1.08	1.14

FOREIGN CURRENCY EXPOSURE

	2016			2015		
		Notional amounts of			Notional amounts of	
In thousands of euros	**Total exposure**	**hedging instruments**	**Net exposure**	**Total exposure**	**hedging instruments**	**Net exposure**
Assets						
Swiss Franc	487,391	−485,275	2,116	370,428	−367,640	2,788
	487,391	**−485,275**	**2,116**	**370,428**	**−367,640**	**2,788**
Liabilities						
Swiss Franc	−186,237	186,237	–	−184,587	184,587	–
	−186,237	**186,237**	**–**	**−184,587**	**184,587**	**–**
Net						
Swiss Franc	301,154	−299,038	2,116	185,841	−183,053	2,788
	301,154	**−299,038**	**2,116**	**185,841**	**−183,053**	**2,788**

RENUMERATION PRINCIPLES AND POLICY

The Remuneration Committee consists of two members of the Supervisory Board (Mrs. Petri Hofsté and Mr. Jan Molenaar). The execution of the remuneration policy was evaluated twice in 2016. The Remuneration Committee approved the remuneration of the Executive Board members and the senior staff of Achmea Bank. The Supervisory Board evaluates remunerations in the context of the remuneration policy of Achmea Group. More details regarding remuneration policies can be found in the Remuneration Report and on www.achmea.nl or www.achmea.com.

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