



Achmea Hypotheekbank N.V. interim report 2011



Achmea Hypotheekbank's interim report

Achmea Hypotheekbank's profit before income taxes for the first half of 2011 amounted to EUR 6.1 million (first half of 2010: EUR 32.2 million), excluding changes in fair value of financial instruments. This decrease was primarily caused by higher funding costs. As money market rates increased, the interest margin declined by EUR 28.4 million, representing a 51% decline compared to the first half of 2010. Operating expenses and impairments decreased by in aggregate EUR 2.5 million (minus 12%) compared to last year. Changes in fair value of financial instruments equalled a loss of EUR 11.0 million (first half year of 2010: EUR 20.9 million gain), leading to a loss before income taxes of EUR 4.9 million compared to a profit of EUR 53.1 million for the preceding year. The net loss reported for the first half of 2011 amounts to EUR 3.6 million (first half of 2010: net profit of EUR 39.6 million).

Capitalisation remained strong with a core Tier 1 ratio of 13.1% (December 2010: 12.8%).

Interest margin declined as a result of an increase in market interest rates

In total interest margin declined by EUR 28.4 million. Of this amount EUR 22.0 million relates to increased interest rates on the money markets, which in turn lead to an increase in the net cost of refinancing the bank's funding.

Over time increased funding costs have to be compensated by an increase in mortgage pricing, enabling interest margins to recover. In 2011 this effect was to a limited extent, offset by the gradual but deliberate decrease of the mortgage portfolio. In line with the de-risking strategy of the bank, the mortgage portfolio decreased from EUR 13.3 billion at the end of June 2010 to EUR 12.5 billion at the end of June 2011.

Negative effects due to changes in the fair value of interest-rate-sensitive instruments

The pre-tax profit for the current period was adversely affected by the EUR 11.0 million loss (first six months 2010: EUR 20.9 million gain) realized due to changes in the fair value of interest-rate-sensitive instruments. The fair value result comprises hedge accounting results and gains and losses on derivatives and other financial instruments. Due to their nature these effects will be offset in future periods.

Stringent cost control

Operating expenses decreased by EUR 1.3 million (-7.1%), mainly due to a reduction in IT costs. In addition, the 2010 costs included the initial investments required to establish a dedicated Balance Sheet Management Department.



Excellent portfolio performance

The quality of the credit portfolio remains very strong as reflected in the level of impairments on this portfolio, which decreased from EUR 2.2 million in the first half of 2010 to EUR 1.0 million in the first half of 2011. The number of debtors in default has decreased by 10%, while the mortgage portfolio decreased by 6%. Write-offs amounted to 3 basis points on the mortgage portfolio, which compares favourably to the market.

Focus on Tier 1 Capital

Tier 1 ratio increased to 13.1% at the end of June 2011 (12.8% at the end of 2010). The BIS ratio as of 30 June 2011 amounted to 15.6%. This puts the bank in a good position, in view of the more stringent capital requirements as set out in Basel III.

Liquidity position further strengthened

In July EUR 0.8 billion of residential mortgage-backed securities (RMBS) funding was raised to refinance the existing mortgage portfolio. The transaction was very well received in the capital market resulting in considerable interest from institutional investors across Europe.

In addition to this transaction Achmea Retail Bank raised EUR 0.3 billion of consumer savings capital, which is mainly used to fund Achmea Hypotheekbank's mortgage portfolio.

Tilburg, 30 August 2011

The Executive Board

Achmea Hypotheekbank is part of Eureko Group. The bank sells and services its mortgage and other products via the distribution channels of Centraal Beheer Achmea, FBTO, Avéro Achmea and Woonfonds Hypotheken.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 30 June

In thousands of euros	2011 Reviewed	2010 Reviewed
Interest income	330,554	347,852
Interest expenses	303,771	292,696
Interest margin	26,783	55,156
Changes in fair value of financial instruments	-11,003	20,878
Interest margin and changes in fair value of financial instruments	15,780	76,034
Fees and commission expense	2,044	1,807
Fee and commission	2,044	1,807
Operating income	13,736	74,227
Impairment on financial instruments and other assets	1,020	2,193
Operating expenses	17,580	18,919
Profit before income taxes	-4,864	53,115
Income tax expense	-1,216	13,544
Net profit	-3,648	39,571
Other comprehensive income, net of income tax		
Fair value reserve (available-for-sale financial assets):		
Net change in fair value	-1,366	-766
Other comprehensive income for the period, net of income tax	-1,366	-766
Total comprehensive income for the period	-5,014	38,805
Net profit attributable to:		
Shareholders' equity	-3,648	39,571
Net profit for the period	-3,648	39,571
Total comprehensive income attributable to:		
Shareholders' equity	-5,014	38,805
Total comprehensive income for the period	-5,014	38,805

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of euros	30 June 2011 Reviewed	31 December 2010 Audited
Assets		
Cash and cash equivalents	5,187	8,706
Derivative assets held for risk management	398,281	710,469
Loans and advances to banks	1,082,744	898,545
Loans and advances to public sector	422,869	806,326
Loans and advances to customers	12,941,998	13,477,437
Interest-bearing securities	129,196	129,781
Current tax assets	18,580	20,538
Deferred tax assets	-	508
Prepayments and other receivables	26,023	22,514
Total assets	15,024,878	16,074,824
Liabilities		
Derivative liabilities held for risk management	602,085	796,198
Deposits from banks	1,959,242	1,813,970
Funds entrusted	1,215,783	1,271,571
Debt securities issued	10,429,762	11,361,098
Deferred tax liabilities	19,519	23,657
Accruals and other liabilities	97,049	103,862
Subordinated liabilities	176,996	175,012
Total liabilities	14,500,436	15,545,368
Share capital	18,152	18,152
Share premium	269,206	269,206
Reserves	237,084	242,098
Shareholders' equity	524,442	529,456
Total equity and liabilities	15,024,878	16,074,824

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of euros	Share capital	Share premium	Fair value reserve	Retained earnings	Reserves	Total equity
Reviewed						
Balance at 1 January 2011	18,152	269,206	1,504	46,327	194,267	529,456
Total comprehensive income for the period						
Net profit or loss	-	-	-	-3,648	-	-3,648
Other comprehensive income, net of income tax						
Fair value reserve (available-for-sale financial assets):						
Net change in fair value	-	-	-1,366	-	-	-1,366
Total comprehensive income for the period	-	-	-1,366	-3,648	-	-5,014
Transaction with owners, recognised directly in equity						
Contributions by and distributions to owners						
Distribution of profit 2010	-	-	-	-39,571	39,571	-
Total contributions by and distributions to owners	-	-	-	-39,571	39,571	-
Balance at 30 June 2011	18,152	269,206	138	3,108	233,838	524,442
Reviewed						
Balance at 1 January 2010	18,152	269,206	2,748	50,111	144,156	484,373
Total comprehensive income for the period						
Net profit or loss	-	-	-	39,571	-	39,571
Other comprehensive income, net of income tax						
Fair value reserve (available-for-sale financial assets):						
Net change in fair value	-	-	-766	-	-	-766
Total comprehensive income for the period	-	-	-766	39,571	-	38,805
Transaction with owners, recognised directly in equity						
Contributions by and distributions to owners						
Distribution of profit 2009	-	-	-	-50,111	50,111	-
Total contributions by and distributions to owners	-	-	-	-50,111	50,111	-
Balance at 30 June 2010	18,152	269,206	1,982	39,571	194,267	523,178

The fair value reserve comprises the cumulative net changes in the fair value of available-for-sale assets.

CONSOLIDATED STATEMENT OF CASH FLOW

For the period ended 30 June

In thousands of euros	2011 Reviewed	2010 Reviewed
Cash flow from operating activities		
Net profit	-3,648	39,571
Adjustments for:		
Depreciation	-	2
Impairment on financial instruments and other assets	1,020	2,193
Net interest income	-26,783	-55,156
Changes in derivatives	118,075	-234,162
Changes in tax assets and liabilities	456	-261
Changes in fair value of financial instruments	11,003	-20,878
Changes in other non-cash items	-127,908	179,572
Income tax expense	-1,216	13,544
	-29,001	-75,575
Changes in:		
Loans and advances to banks	-183,632	-359,994
Loans and advances to public sector	383,500	-310,051
Loans and advances to customers	372,386	296,405
Prepayments and other receivables	-3,509	-41,841
Deposits from banks	139,756	464,085
Funds entrusted	-53,121	98,668
Accruals and other liabilities	-6,813	-8,166
Interest received	327,781	540,680
Interest paid	-232,803	-427,839
Income tax paid	-	-33,258
Net cash flow from operating activities (1)	714,544	143,114
Cash flow from investing activities		
Interest-bearing securities	-	34,715
Net cash flow from investing activities (2)	-	34,715
Cash flow from financing activities		
Debt securities issued	-718,063	-196,881
Subordinated liabilities	-	2,607
Net cash flow from financing activities (3)	-718,063	-194,274
Net cash flow (1) + (2) + (3)	-3,519	-16,445
Cash and cash equivalents as at 1 January	8,706	29,750
Cash and cash equivalents as at 30 June	5,187	13,305
Movements in cash and cash equivalents	-3,519	-16,445

NOTES

Introduction

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The figures do not contain all the information required for the complete annual financial statements and should therefore be read in conjunction with Achmea Hypotheekbank's 2010 annual report, which can be found at www.achmeahypotheekbank.nl. The Condensed Consolidated Interim Financial Statements were approved by the Supervisory Board on 30 August 2011.

This condensed consolidated interim financial information has been reviewed, not audited.

Consolidation

The Condensed Consolidated Interim Financial Statements include Achmea Hypotheekbank N.V., the foundation Incasso Achmea Hypotheken, the private limited liability companies Dutch Mortgage Portfolio Loans and Securitised Guaranteed Mortgage Loans, established as vehicles for the securitisation programmes and Achmea Covered Bond Company B.V.

Segmentation

In the internal reports used by the Chief Operating Decision Maker (Executive Board) to allocate resources and monitor performance targets to the operating segments, Achmea Hypotheekbank is identified as a single operating segment.

Estimates

In preparing the Condensed Consolidated Interim Financial Statements use has been made of estimates and assumptions (this includes a number of the reported amounts in the Condensed Consolidated Interim Financial Statements for the period under review). The principal sources of estimates and the judgements made are the same as those used in preparing the consolidated financial statements for 2010.

Contingent liabilities and commitments

There are no significant changes in the contingent liabilities and commitments compared with the last annual report of Achmea Hypotheekbank N.V.

ACCOUNTING POLICIES

Basis of presentation

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with the International Financial Reporting Standards, including International Accounting Standards (IAS) and Interpretations as at 30 June 2011 and as adopted by the European Union and specifically IAS 34 'Interim Financial Reporting'. All amounts in the Condensed Consolidated Interim Financial Statements are in thousands of euros unless stated otherwise.

Changes in reporting

The accounting policies applied by Achmea Hypotheekbank N.V. in these Condensed Consolidated Interim Financial Statements are the same as those applied in the Achmea Hypotheekbank Annual Report 2010, except for the amendments stated below.

The following standards, interpretations, and amendments to standards and interpretations became effective from 1 January 2011.

- Improvements to International Financial Reporting Standards;
- IAS 32 Financial Instruments: Presentation - Amendments relating to classification of rights issues;
- IAS 24 Related Party Disclosures - Revised definition of related parties;
- IAS 19 and IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

These new or revised standards, interpretations and amendments to standards and interpretations did not have a material effect on the Condensed Consolidated Interim Financial Statements for the period ended 30 June 2011.

Consolidation and accounting framework

The Condensed Consolidated Interim Financial Statements comprise Achmea Hypotheekbank N.V. and its subsidiaries. For the preparation of the Condensed Consolidated Interim Financial Statements estimates and assumptions are used (e.g. for some of the reported assets and liabilities and the reported amounts of revenues and expenses for the accounting period). The actual outcome may deviate from these assumptions.

Related parties

Achmea Hypotheekbank N.V. is a wholly-owned subsidiary of Achmea Bank Holding N.V. in a group headed by Eureko B.V. Achmea Bank has relations with related parties. 'Related parties' refers to other companies in the Group and members of the Supervisory Board and Executive Board of Achmea Bank. Banking transactions involve related parties as part of ordinary operations. Disclosures concerning the related parties are included in the Consolidated Financial Statements for the year ended 31 December 2010. There have been no changes in the nature or the size of the transactions involving related parties other than those arising from ordinary operations.

FINANCIAL RISK MANAGEMENT

Capital management

Under the Financial Supervision Act (WFT), De Nederlandsche Bank N.V. has laid down minimum capital requirements. The amount of own funds to be maintained by Achmea Hypotheekbank is related to risk-weighted assets and off-balance-sheet items. The BIS ratio standard required by the regulator is 8%.

The Executive Board has set the Tier 1 target ratio at 10.0% for 2011. Achmea Hypotheekbank satisfied the target ratio throughout the period. As at 30 June 2011, the Tier 1 ratio was 13.1% (December 2010: 12.8%). The improvement of the Tier 1 ratio is mainly attributable to the decline of the mortgage portfolio in the first half of 2011.

Of the subordinated loans amounting to EUR 177 million, EUR 75 million is financed by Eureka Group.

Qualifying capital and BIS

In millions of euros	30 June 2011	31 December 2010
Paid-up and called-up capital	18	18
Share premium reserve	269	269
Other reserves	237	241
Deductions	-19	-21
Tier 1 capital	505	507
Subordinated liabilities (the portion counting towards qualifying capital)	115	118
Deductions	-19	-21
Tier 2 capital (maximum 50% of Tier 1)	96	97
Total qualifying capital	601	604
Risk-weighted assets	3,841	3,958
Tier 1 ratio	13.1%	12.8%
Tier 2 ratio	2.5%	2.5%
BIS ratio	15.6%	15.3%

Credit risk

Credit quality by class of financial assets

The credit quality of financial assets is managed by Achmea Hypotheekbank using internal credit ratings. The table below shows the credit quality by class for all financial assets exposed to credit risk. Loans and advances to customers are broken down to low risk (government guaranteed and securitized mortgages), high risk (the part of mortgage receivables above loan to foreclosure value > 0.75) and average risk (all other mortgage receivables).

Credit quality by class of financial assets

As at 30 June 2011

In thousands of euros	Neither past due nor impaired					Total
	Low risk	Average risk	High risk	Past due but not impaired	Individually impaired	
Cash and cash equivalents	5,187	-	-	-	-	5,187
Derivative assets held for risk management	-	398,281	-	-	-	398,281
Loans and advances to banks	1,082,744	-	-	-	-	1,082,744
Loans and advances to public sector	422,869	-	-	-	-	422,869
Loans and advances to customers	5,704,114	6,036,217	1,045,315	74,440	81,912	12,941,998
Interest-bearing securities	129,196	-	-	-	-	129,196
	7,344,110	6,434,498	1,045,315	74,440	81,912	14,980,275

Aging analyses of past due but not impaired loans

As at 30 June 2011	Less than 1 month	1 < 2 month	2 < 3 month	> 3 month	Total
Loans and advances to customers	50,122	14,411	9,907	-	74,440

As at 31 December 2010

In thousands of euros	Neither past due nor impaired					Total
	Low risk	Average risk	High risk	Past due but not impaired	Individually impaired	
Cash and cash equivalents	8,706	-	-	-	-	8,706
Derivative assets held for risk management	-	710,469	-	-	-	710,469
Loans and advances to banks	898,545	-	-	-	-	898,545
Loans and advances to public sector	806,326	-	-	-	-	806,326
Loans and advances to customers	6,491,476	5,545,553	1,263,977	89,595	86,836	13,477,437
Interest-bearing securities	129,781	-	-	-	-	129,781
	8,334,834	6,256,022	1,263,977	89,595	86,836	16,031,264

Aging analyses of past due but not impaired loans

As at 31 December 2010	Less than 1 month	1 < 2 month	2 < 3 month	> 3 month	Total
Loans and advances to customers	51,168	25,669	12,758	-	89,595

Liquidity risk

The following table presents an analysis of assets and liabilities of Achmea Hypotheekbank according to their contractual remaining life.

Net liquidity gap

As at 30 June 2011

In thousands of euros	< 3 months	Between 3 months and 1 year	Between 1 and 5 years	> 5 years	Total	Total carrying amount
Assets						
Loans and advances to banks, public sector and customers	912,305	720,714	3,079,030	9,300,298	14,012,348	14,447,611
Interest-bearing securities			129,196		129,196	129,196
Total assets	912,305	720,714	3,208,226	9,300,298	14,141,544	14,576,807
Liabilities						
Deposits from banks	178,300	638,913	961,238	158,000	1,936,451	1,959,242
Funds entrusted	262,963	214,120	378,922	340,314	1,196,319	1,215,783
Debt securities issued	-	496,900	9,514,646	226,900	10,238,446	10,429,762
Subordinated liabilities	-	14,250	68,941	90,000	173,191	176,996
Total liabilities	441,263	1,364,183	10,923,747	815,214	13,544,407	13,781,783
Net liquidity gap	471,042	-643,469	-7,715,521	8,485,084	597,136	

As at 31 December 2010

In thousands of euros	< 3 months	Between 3 months and 1 year	Between 1 and 5 years	> 5 years	Total	Total carrying amount
Assets						
Loans and advances to banks, public sector and customers	1,373,202	799,772	3,156,123	9,245,416	14,574,513	15,182,308
Interest-bearing securities	-	-	119,300	-	119,300	129,781
Total assets	1,373,202	799,772	3,275,423	9,245,416	14,693,813	15,312,089
Liabilities						
Deposits from banks	419,945	150,213	643,038	583,500	1,796,696	1,813,970
Funds entrusted	323,284	214,476	395,885	324,635	1,258,280	1,271,571
Debt securities issued	-	522,033	10,372,687	220,944	11,115,665	11,361,098
Subordinated liabilities	-	6,250	76,941	90,000	173,191	175,012
Total liabilities	743,229	892,972	11,488,551	1,219,079	14,343,832	14,621,651
Net liquidity gap	629,973	-93,200	-8,213,128	8,026,337	349,982	

Because of its sufficient liquidity position during the reporting period, Achmea Hypotheekbank raised no new funding in the first six months of 2011. In July Achmea Hypotheekbank issued a new securitisation transaction: DMPL IX. The issue size amounted to EUR 766 million. This transaction further enlarged the liquidity buffer of Achmea Hypotheekbank. In addition Achmea Hypotheekbank currently has a committed credit line of EUR 0.4 billion at its disposal as well as a commitment to transfer EUR 1.5 billion of mortgage loans to the balance sheet of Achmea Pensioen en Levensverzekeringen N.V.

In the first half of 2011 Achmea Hypotheekbank used the call option to redeem a securitisation transaction (DMPL IV) in May. Furthermore, Achmea Hypotheekbank decided to end a retained securitisation transaction (DMPL VII) in July.

Financial assets and liabilities at fair value

The following table provides an analysis of financial instruments that are measured at fair value, grouped into three levels (fair value hierarchy) based on the significance of the inputs used in making the fair value measurements.

As at 30 June 2011

In thousands of euros	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets held for risk management				
- Interest rate swaps	-	231,568	-	231,568
- Currency swaps	-	266,280	-	266,280
- Back to back swaps	-	-	-99,567	-99,567
	-	497,848	-99,567	398,281
Financial assets designated at fair value through profit or loss				
- Private sector loans and advances	-	-	388,013	388,013
	-	-	388,013	388,013
Financial assets held for sale				
- Interest-bearing securities	129,196	-	-	129,196
	129,196	497,848	288,446	915,490
Financial liabilities				
Derivative liabilities held for risk management				
- Interest rate swaps	-	701,652	-	701,652
- Back to back swaps	-	-	-99,567	-99,567
	-	701,652	-99,567	602,085

As at 31 December 2010

In thousands of euros	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative assets held for risk management				
- Interest rate swaps	-	318,537	-	318,537
- Currency swaps	-	424,515	-	424,515
- Back to back swaps	-	-	-32,584	-32,584
	-	743,052	-32,584	710,469
Financial assets designated at fair value through profit or loss				
- Private sector loans and advances	-	-	413,849	413,849
	-	-	413,849	413,849
Financial assets held for sale				
- Interest-bearing securities	129,781	-	-	129,781
	129,781	743,052	381,265	1,254,099
Financial liabilities				
Derivative liabilities held for risk management				
- Interest rate swaps	-	828,782	-	828,782
- Back to back swaps	-	-	-32,584	-32,584
	-	828,782	-32,584	796,198

- **Level 1:**

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- **Level 2:**

Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or valuation techniques where all significant inputs are directly or indirectly observable from market data.

- **Level 3:**

Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation.

During the first half of 2011 no financial instruments have been transferred between the different levels. The total amount of gains and losses accounted for in the first half of 2011 of financial instruments with a level 3 fair value amounted to a loss of EUR 3.8 million (first half year 2010: gain of EUR 7 million), which was included in the statement of comprehensive income.

As this effect is mitigated by a natural hedge the net effect in the first half of 2011 amounted to a loss of EUR 0.3 million (first half of 2010: gain of EUR 2 million).

REVIEW REPORT

To: The Executive Board and Supervisory Board of Achmea Hypotheekbank N.V.

Introduction

We have reviewed the accompanying condensed consolidated interim financial information for the six-month period ended 30 June 2011 of Achmea Hypotheekbank N.V., The Hague, which comprises the condensed statement of financial position as at 30 June 2011, the condensed statement of comprehensive income, the condensed statement of changes in equity, the condensed statement of cash flows and the selected explanatory notes for the six-month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope

We conducted our review in accordance with Dutch law including standard 2410, Review of Interim Financial Information Performed by the Independent Auditor of the company. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' as adopted by the European Union.

Amsterdam, 30 August 2011

PricewaterhouseCoopers Accountants N.V.

G.J. Heuvelink RA

This condensed consolidated interim financial information has been reviewed, not audited.

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