PART 2

# Year Report 2017

achmea

# Contents




PART 1


**PART 2**

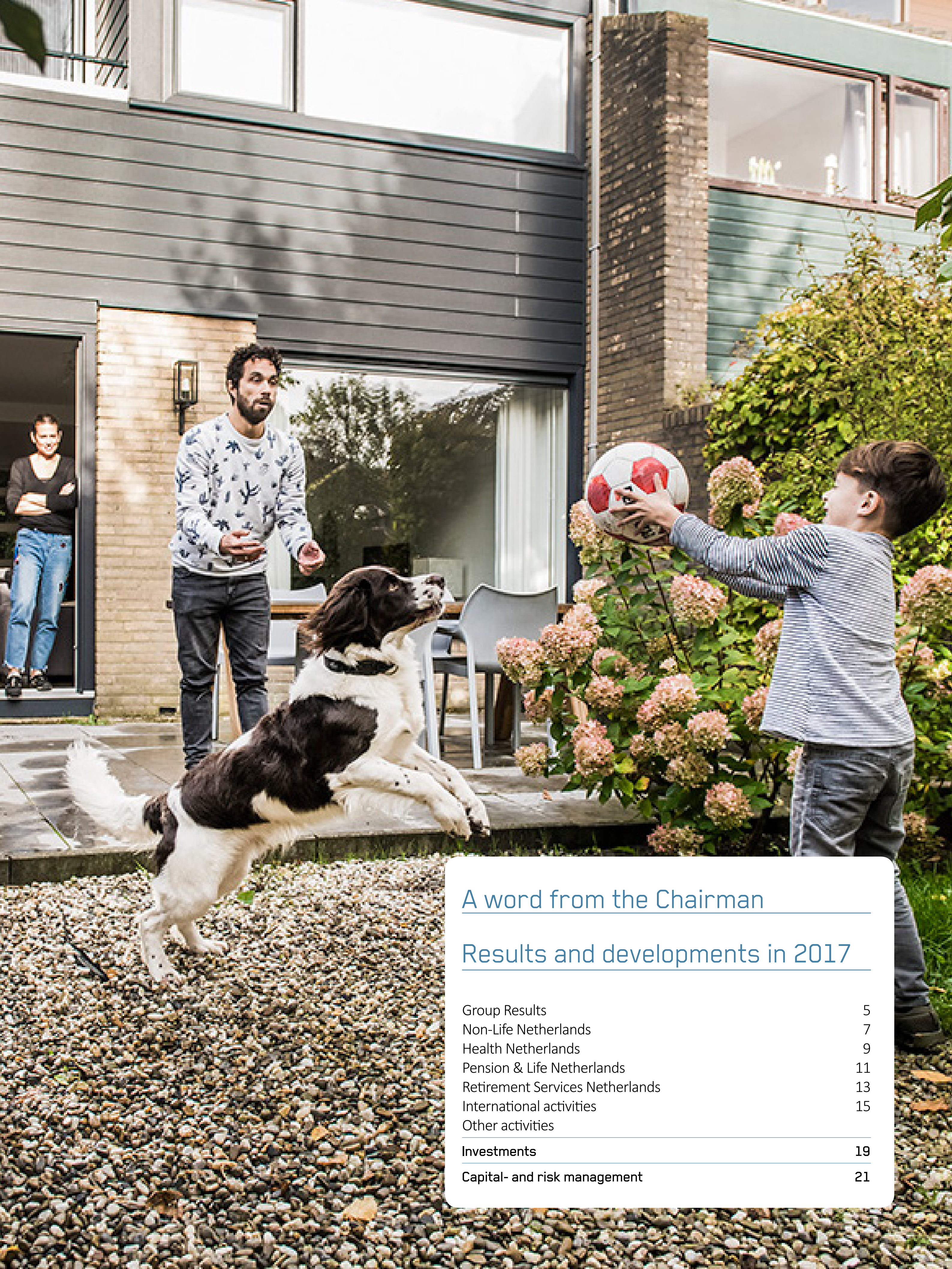

PART 3

As of 2017, our annual reporting will comprise three parts. Each of these parts aligns with the specific interests of stakeholders. Splitting our reporting into three parts ensures greater clarity and accessibility.

Part 1 is the 'Annual Review'. This is aimed at a broad target audience and contains a description of the progress made by Achmea in 2017 and our vision of the future.

Part 2 is the 'Year Report'. This describes the main financial developments. Among other things it contains the financial statements, the report of the Executive Board and a report on our Governance.

Part 3 with 'Supplements' contains sustainability reporting information and appendices to the other parts.



# A word from the Chairman

# Results and developments in 2017

# A word from the Chairman

## Strong improvement in results

- **Operational result increases to €349 million**
- **Non-Life and Pension & Life are main contributors to the improved results**
- **Basic Health still loss-making in spite of lower allocation of capital for premiums below cost price of €108 million**
- **Structural reduction in operating expenses of €117 million (5%)**
- **Solvency ratio increased with 3%-pt to 184%**

**Willem van Duin, Chairman of Achmea's Executive Board:**

"As insurer we assist our clients and we are expanding our insurance activities with solutions and services. In the past year therefore, our customers received additional services as a result. In 2017 we completed the first year of our new planning period with the motto 'Delivering Together'. We have accomplished major achievements, both in our services to customers and our business operations. By adjusting our products and services, we remain relevant to our customers. The fact that our customers believe we are succeeding in this can be seen from the persistently high scores they continue to award our brands. Our planned cost reduction is ahead of schedule and we are investing heavily in renewing our company.

Achmea's results improved strongly in 2017. The improvement measures at Non-Life, lower loss provision for premiums at Health and the overall reduction in expenses contributed to the improved result. Non-Life and Pension & Life have made a substantial contribution to the result. Our strategic planning period runs until 2020 and foresees an annual structural gross operational result of about €450 million, excluding the contribution from our healthcare activities. The results over 2017 give us the confidence that we will achieve our goals.

Gross earned premiums have increased in our Non-Life and Health insurance businesses. The increase at Non-Life is mainly a result of growth in the retail portfolio. The number of Zilveren Kruis customers remained relatively stable during this renewal period, and it therefore retains its position as the largest health insurer in the Netherlands.

Our solvency remained strong at 189%. After payments of dividends and share buy-back the Solvency II ratio is 184%, an increase of 3%-pt compared to 2016.

We have made significant investments in the past few years to improve the service to our customers. We are serving customers better online, we have improved the partnership with Rabobank and we provide innovative services such as the Zilveren Kruis Actify health platform. In the pension market we provide an innovative pension solution for employers and pension funds with the Centraal Beheer General Pension Fund (APF). These and other innovations enable us to continue to build a trendsetting organisation and to be a service provider with daily relevance for our customers.

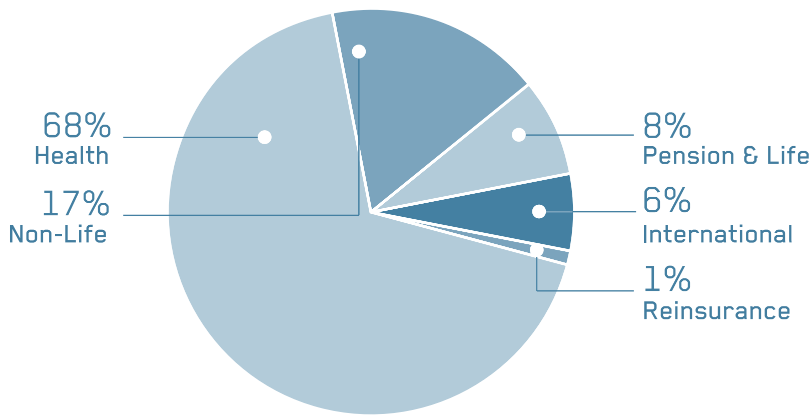
In order to achieve this, we are at the heart of society thanks to our cooperative identity and we actively tackle the latest problems facing society. Based on the conviction that in our capacity as a cooperative insurer which operates in many areas we can provide value in a broad sense. This applies to both our customers and society in general. This is how we work together to ensure that the Netherlands is a healthier, safer and more future-proof country."

# Results and developments in 2017

## Group results

| GROSS EARNED PREMIUMS | NET RESULT | EQUITY | SOLVENCY SII |
|---|---|---|---|
| €19.350 million | €216 million | €9.949 million | 184% |

Gross earned premiums




RESULTS (€ MILLION)

| | 2017 | 2016 | Δ |
|---|---|---|---|
| Gross earned premiums | 19,350 | 19,507 | -1% |
| Net earned premiums | 19,348 | 19,428 | -0% |
| Investment income including associates and joint ventures | 2,243 | 4,033 | -44% |
| Other income | 474 | 507 | -7% |
| **Total income** | **22,065** | **23,968** | **-8%** |
| | | | |
| Net claims, benefits and movements in insurance liabilities | 19.002 | 21.084 | -10% |
| Operating expenses | 2.248 | 2.649 | -15% |
| Interest, similar and other expenses | 494 | 649 | -24% |
| **Total expenses** | **21,744** | **24,382** | **-11%** |
| | | | |
| **Result before tax** | **321** | **−414** | **n.m.** |
| Income tax expenses | 105 | −35 | n.m. |
| **Net result** | **216** | **−379** | **n.m.** |

*n.m.: not meaningful*

### OVERALL RESULTS

2017 was a year for Achmea during which the improved fundamentals for almost all segments resulted in an improved operational result. The operational result over 2017 is €349 million (2016: €319 million negative).

The higher result is particularly visible in Non-Life, where premiums, claim management and expense measures, along with the absence of claims arising from major calamities in 2017, have led to a significant increase in the result. Our health activities realised a higher result than in 2016, with positive trends in healthcare expenses in the current year and lower expected equalisation contributions from previous years. We also needed to use less of our capital reserves for the 2018 health insurance premiums.

The result improved stongly at our service organisation Pension & Life due to higher investment results and lower operational expenses as a result of the transition to a service organisation for Pensions in 2016. We achieved further growth in the number of term life insurance policies. In 2017 we were wholly active in implementing our new Retirement Services strategy. We expanded the range of financial products at Centraal Beheer and positioned Centraal Beheer as a financial service provider. The first clients have now also joined the Centraal Beheer General Pension Fund (APF). The result improved due to lower start-up and investment expenses.

In 2017 we continued to invest further in the operationalisation of our international strategy. Our international growth is on schedule through the use of the core competencies: non-life and health insurance via digital and banking distribution channels.

The Other activities segment is positively contributing to the improvement in our results via a further reduction in our expenses. This reduction is partly incidental, for instance due to the additional provision for restructuring made in 2016.

### OPERATIONAL RESULT (€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Non-Life Netherlands | 166 | –185 |
| Pension & Life Netherlands | 342 | 285 |
| Retirement Services Netherlands | 12 | –18 |
| International activities | 16 | 25 |
| Other activities | –59 | –230 |
| **Operational result (excl. Health)** | **477** | **-123** |
| Health Netherlands | –128 | –196 |
| **Operational result[1]** | **349** | **–319** |

### BREAKDOWN OF NET RESULT (€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| **Operational result** | **349** | **–319** |
| Impairments on intangible assets | | -93 |
| Transaction results from sales | –28 | –2 |
| **Result before tax** | **321** | **–414** |
| Income tax expenses | 105 | –35 |
| **Net result** | **216** | **–379** |

The net result increased to €216 million (2016: €379 million negative), mainly due to the improvement in the operational result. The result over 2016 was also affected by a one-off goodwill impairment on our Turkish insurance entity, caused by economic developments. The transaction result in 2017 chiefly relates to the book result on the planned sale of Friends First.

**Gross earned premiums**
Gross earned premiums amounted to €19,350 million in 2017 (2016: €19,507 million). We realised a higher income from premiums in Non-Life due to growth in the retail property & casualty insurance portfolio. A higher number of customers and higher premiums in 2017 also led to higher gross earned premiums for our health activities. Gross earned premiums for pension & life insurance activities decreased, in line with our expectations, as a result of halting new sales and the non-renewal of existing contracts for group pension schemes.

**Operating expenses**
Gross operating expenses[2] amounted to €2,136 million in 2017 (2016: €2,446 million). The lower gross operating expenses are mainly due to a decrease in the number of employees by over 800 and the resulting lower personnel expenses. We also realised savings via the more effective use of marketing and further rationalisation within IT. The cost savings are partly due to one-off effects, such as winding down of Staalbankiers activities, the provision for restructuring made in 2016 and the amendment to the pension scheme in a health entity in 2017. When adjusted for these effects, the decrease in expenses amounts to 5%.

At the same time we continue to invest in innovation and digitisation in our company, with the development of innovative concepts and our strategic programmes, including the roll-out of the Retirement Services strategy, the commercial alliance with the Rabobank and international growth. At the end of 2016, we announced that we expected the  number of employees in the Netherlands to drop by approximately 2,000 until 2020. The total number of employees in the Netherlands was reduced with over 800 to 14,484 in 2017 (2016: 15,293) as a result of continuing efficiency improvements at our company and a different approach to working. Adaptability and flexibility are essential to us in being able to adapt to the increasingly rapid changes and needs of our customers. Our agile concept and working in 'market-oriented supply chains' support this. We are of course also adjusting our offices accordingly, whereby our work will be concentrated in five key locations: Apeldoorn, Leeuwarden, Leiden, Tilburg and Zeist.

Abroad, the number of internal employees remained relatively stable at 2,946 in 2017 (2016: 2,983).

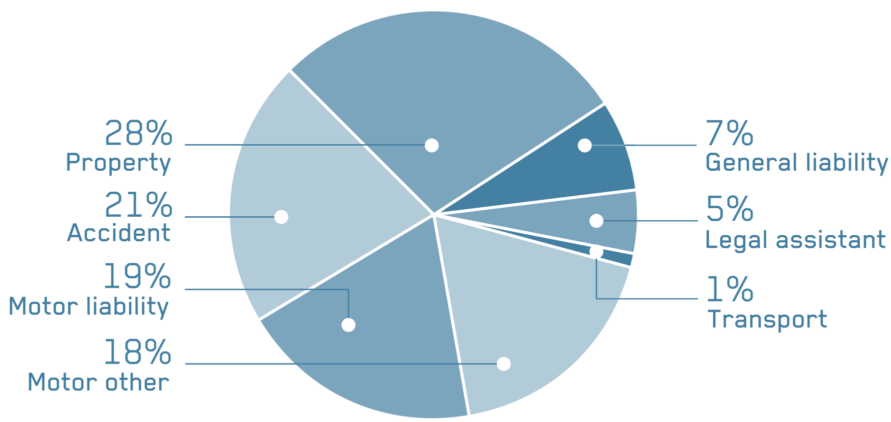
*1) The operational result is calculated by adjusting the profit before tax for certain items. These are items within income and expenses which are significant and which arise from events or transactions which are clearly distinct from the normal business operations, and are therefore not expected to occur regularly. Examples of such items include exceptional depreciation losses from goodwill and pre-tax results from divestments of business operations.*

*2) Gross operating expenses comprise personnel expenses, depreciation costs for property for own use and equipment and general expenses, including IT expenses and marketing expenses. These are operating expenses excluding paid and due fees, profit sharing on reinsurance and fees and for the allocation of claims handling expenses and allocated investment costs.*

## Non-Life Netherlands

| GROSS EARNED PREMIUMS | OPERATIONAL RESULT | COMBINED RATIO PROPERTY & CASUALTY | COMBINED RATIO INCOME PROTECTION |
|---|---|---|---|
| €3,290 million | €166 million | 96.0% | 93.3% |

### Gross earned premiums




RESULTS (€ MILLION)

| | 2017 | 2016 | Δ |
|---|---|---|---|
| Gross earned premiums | 3,290 | 3,191 | 3% |
| Net earned premiums | 3,160 | 3,088 | 2% |
| Investment income including associates and joint ventures | 111 | 160 | −31% |
| Other income | 16 | 15 | 7% |
| **Total operational income** | **3,287** | **3,263** | **1%** |
| | | | |
| Net claims, benefits and movements in insurance liabilities | 2,286 | 2,531 | −10% |
| Operating expenses | 818 | 892 | −8% |
| Other expenses | 17 | 25 | −32% |
| **Total operational expenses** | **3,121** | **3,448** | **−9%** |
| | | | |
| **Operational result** | **166** | **−185** | **n.m.** |

*n.m.: not meaningful*

### GENERAL

Achmea is the market leader in property & casualty and occupies the third place in Income Protection. We provide our retail and commercial customers with car insurance, property insurance, household effects insurance, liability insurance, commercial insurance and travel insurance. In addition, we offer various types of sickness insurance and individual and group disability insurances. Our products are sold by brands such as Centraal Beheer, Interpolis, FBTO and InShared, whereby our focus is on a high level of customer satisfaction, innovative services and digitised processes.

**Gross earned premiums**
Gross earned premiums increased with €99 million to €3,290 million in 2017 (2016: €3,191 million). Gross earned premiums from our property & casualty insurance business increased to €2,690 million (2016: €2,601 million) due to the growth of the retail portfolio and improvement measures within both the retail and commercial property & casualty insurance portfolios. Gross earned premiums from income protection insurance increased slightly to €600 million (2016: €590 million) because we responded to the larger market for group disability insurance (WIA) caused by new legislation (BeZaVa1[1]).

*1) BeZaVa: Restriction of Absenteeism and Disability Safety Net Act*

**Operating expenses**

Operating expenses decreased to €818 million in 2017 (2016: €892 million). We achieved a reduction in expenses of €74 million while also growing the portfolio, resulting in a further improvement in the expense ratio of the complete portfolio of 2.9%-pt to 25.0% (2016: 27.9%). The improvement in the operating expense base is mainly a result of continuing digitisation and optimisation of our processes.

**Results**

In 2017 the operational result was €166 million (2016: €185 million negative). When adjusted for the cost of claims arising from the severe hail calamity in June 2016 (impact: €132 million), the operational result was €219 million higher in 2017. This higher result is partly due to measures applied to premiums, claims management and cost savings.

In implementing these measures, we have structurally improved the fundamentals of our property & casualty and income protection activities. The improved fundamentals can also be seen from the combined ratio and claims ratio of total Non-Life which are at 95.5% (2016: 106.9%) and 70.5% respectively (2016: 79.0%).

## PROPERTY & CASUALTY

The operational result from our property & casualty business increased to €119 million in 2017 (2016: €239 million negative).

When adjusted for the severe hail calamity in June 2016 (impact: €132 million), the operational result from our property & casualty business increased by €226 million in 2017. The improvement in the operational result is mainly due to implemented improvement measures in both the retail customer and commercial property & casualty portfolios. For instance, we have adjusted premiums in order to compensate for the effects of extreme weather conditions and growing personal injury claims. We have also invested in measures that contribute to reducing claims.

The trend in the increasing frequency of new personal injury claims continued in 2017. The number of traffic fatalities and injuries increased further over the past year. We actively aim to reduce the risk of accidents via, for instance, the introduction of the innovative 'AutoModus' app to minimalise the use of smartphones in traffic.
Partly as a result of the implemented improvement and expense measures, the combined ratio for property & casualty improved by 14.4%-pt to 96.0% in 2017 (2016: 110.4%) due to a sharp improvement in both the claims ratio and the expense ratio. The claims ratio stood at 70.0% (2016: 81.3%). The expense ratio improved by 3.1%-pt to 26.0% in 2017 (2016: 29.1%).

## INCOME PROTECTION

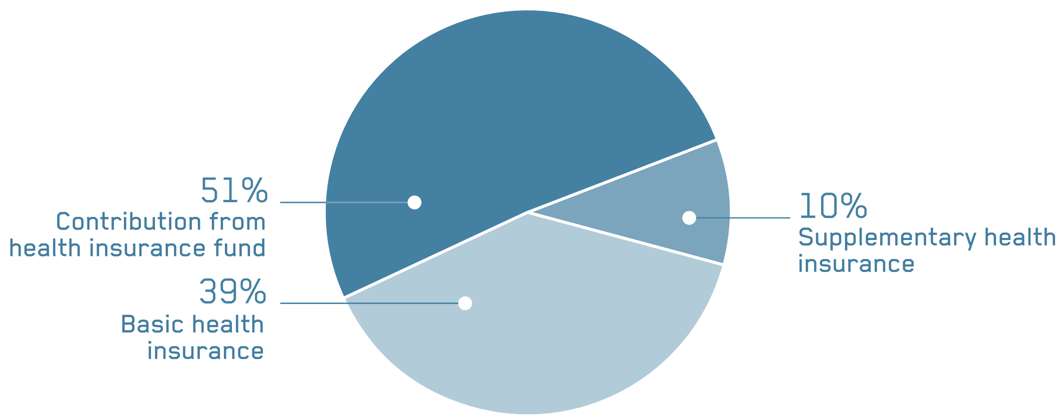
The result for our Income Protection insurance products totalled €47 million (2016: €53 million). In more recent years, in line with the national trend, we have seen an increase in inflow into the WIA disability act. We take this into account in setting our premiums. At the same time, the continuing focus on claims management means that we see lower inflow into the WIA disability act on previous claim years, allowing us to release a portion of the provisions for this. The reduction in expenses also has a positive impact. The combined ratio for our income protection business was 93.3% in 2017 (2016: 91.3%) due to an increase in the claims ratio[2]. The decrease in the expense ratio to 20.5% (2016: 22.7%) is in line with the lower operating expenses. The claims ratio was 72.8% (2016: 68.6%).

*2) Adjusted for technical interest and the market value interest rate effects of a sub-portfolio*

## Health Netherlands

| GROSS EARNED PREMIUMS | OPERATIONAL RESULT | COMBINED RATIO BASIC HEALTH INSURANCE | COMBINED RATIO SUPPLEMENTARY HEALTH INSURANCE |
|---|---|---|---|
| €13,184 million | €-128 million | 101.7% | 95.9% |

### Gross earned premiums




RESULTS (€ MILLION)

| | 2017 | 2016 | Δ |
|---|---|---|---|
| Gross earned premiums | 13,184 | 13,092 | 1% |
| *of which Basic health insurance* | 11,869 | 11,779 | 1% |
| Net earned premiums | 13,518 | 13,367 | 1% |
| Investment income including associates and joint ventures | 47 | 37 | 27% |
| Other income | 107 | 118 | −9% |
| **Total operational income** | **13,672** | **13,522** | **1%** |
| | | | |
| Net claims, benefits and movements in insurance liabilities | 13,278 | 13,160 | 1% |
| Operating expenses | 482 | 535 | −10% |
| Other expenses | 40 | 23 | 74% |
| **Total operational expenses** | **13,800** | **13,718** | **1%** |
| | | | |
| **Operational result** | **−128** | **−196** | **n.m.** |

*n.m.: not meaningful*

### GENERAL

Zilveren Kruis, De Friesland, FBTO, Avéro Achmea, Interpolis, OZF, ProLife and Ziezo offer basic and supplemental health insurance. Achmea also provides services worldwide through the Eurocross Assistance Company.

In 2017, Achmea has again worked on limiting the rising health care expenses in the Netherlands via effective health procurement, but also by helping policyholders to exercise more and eat more healthily. Zilveren Kruis focuses on keeping its policyholders healthy via its Actify programme and - through employers - Gezond Ondernemen (Healthy Enterprise).

**Gross earned premiums**

Gross earned premiums from basic and supplemental health insurance increased to €13,184 million (2016: €13,092 million). Gross earned premiums from basic health insurance amounted to €11,869 million (2016: €11,779 million). The increase in gross earned premiums is due to a higher number of policyholders and higher premiums in 2017. Gross earned premiums from supplemental health insurance amounted to €1,315 million (2016: €1,313 million). The number of customers taking out supplementary health insurance[1] remains stable at about 80%.

**Operating expenses**

Operating expenses for our healthcare business decreased by 10% to €482 million in 2017 (2016: €536 million). The lower operating expenses are due to lower expenses for IT and personnel following the rationalisation of processes and systems. There was a one-off benefit in 2017 as a result of amending the pension scheme at De Friesland to make it uniform. When adjusted for this, the reduction in our operating expense base is 5%.

**Operational result**

Over 2017, the operational result for basic health insurance was €175 million negative (2016: €215 million negative). The result comprises the result from the current book year, the result from previous years and a provision for premiums below cost price for the next year. The last two components form the incidental result.

The result for basic health insurance in the current book year amounted to €16 million (2016: €41 million negative), whereby we had expected a break-even result due to the loss provision made in 2016. The higher result is due to lower healthcare expenses.

The incidental result from previous years is €83 million negative (2016: €252 million), mainly as a result of a lower expected contribution for the 2016 underwriting year for various specific healthcare expenses from the Health Insurance Equalisation Fund.

This lower result from previous years is partly compensated for by a lower provision for premiums below cost price for 2018. This provision amounts to €108 million in 2017 (2016: €426 million). The allocation of reserves for basic health insurance premiums below cost price was therefore €318 million lower than in 2016.

The combined ratio on basic health insurance is 101.7% (2016: 102.2%) and has mainly improved due to lower operating expenses.

Supplementary health insurance policies account for €47 million of the operational result (2016: €19 million). The improved result is due to positive developments in medical specialist care and dental care. In addition, in 2017 we made no provision for supplementary health insurance for premiums below cost price in the coming year (2016: €7 million).

The combined ratio on supplemental health insurance improved to 95.9% (2016: 98.0%), mainly due to lower healthcare expenses.

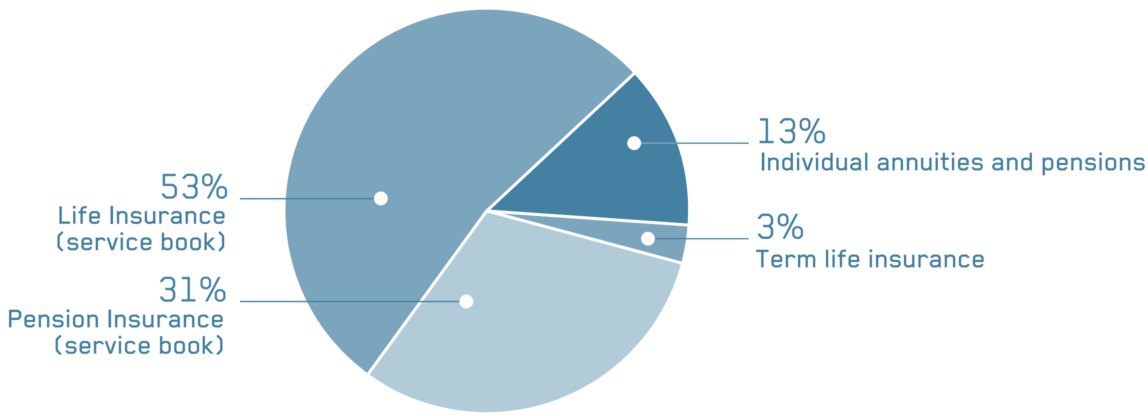
*1) Ratio of policyholders with basic insurance who also have supplemental insurance*

## Pension & Life Netherlands

GROSS EARNED PREMIUMS
€1,569 million

OPERATIONAL RESULT
€342 million

Gross earned premiums




RESULTS (€ MILLION)

| | 2017 | 2016 | Δ |
|---|---|---|---|
| Gross earned premiums | 1,569 | 1,794 | –13% |
| Net earned premiums | 1,537 | 1,751 | –12% |
| Investment income including associates and joint ventures | 1,468 | 3,249 | –55% |
| Other income | 18 | 17 | 6% |
| **Total operational income** | **3,023** | **5,017** | **–40%** |
| | | | |
| Net claims, benefits and movements in insurance liabilities | 2,481 | 4,499 | –45% |
| Operating expenses | 172 | 212 | –19% |
| Other expenses | 28 | 21 | 33% |
| **Total operational expenses** | **2,681** | **4,732** | **–43%** |
| | | | |
| **Result before tax** | **342** | **285** | **20%** |

### GENERAL

Since the establishment of the Centraal Beheer General Pension Fund (APF) in 2016, the Pension & Life service organisation has mainly managed a service book portfolio containing group pension contracts and traditional savings and life insurance products. The service organisation also manages a growing open-book portfolio. For the service book portfolio we focus on maintaining a stable and high result with positive capital generation. In the meanwhile we retain our high level of customer satisfaction.

Within the open-book portfolio, we offer term life insurance policies and individual annuities and pensions. These insurance solutions are part of our proposition for Retirement services.

**Gross earned premiums**
Gross earned premiums decreased by 13% to €1,569 million in 2017 (2016: €1,794 million). Gross earned premiums from the closed-book pension portfolio decreased with about 21% to €490 million in 2017 (2016: €617 million). This is a direct consequence of the transition to a closed-book strategy for this portfolio, whereby no new pension insurance contracts are being sold or existing contracts

extended. In line with our strategy, gross earned premiums from Pensions will therefore continue to decrease. However, the size of the portfolio will only decline slowly due to the long-term nature of the liabilities. Gross earned premiums from the closed-book life insurance portfolio amounted to €831 million in 2017 (2016: €898 million). At 8.0%, premium lapse is at a comparable level as the same period last year. The decline in the size of our portfolio, as a result of expiration and natural attrition, is evolving in line with our expectations.

The open-book portfolio shows an increase in term life insurance premiums to €49 million (2016: €43 million) as a result of higher net inflow. The number of policies in the portfolio has increased to 323,256 (2016: 287,673). In contrast, the single premiums on individual annuities and pensions show a decrease to €199 million (2016: €236 million) due to improvement measures and lower average amounts on individual pension annuities. The number of individual annuities and pensions is growing.

**Operating expenses**

Operating expenses[1] decreased sharply by 20% to €189 million in 2017 (2016: €237 million). This drop follows the transition to a closed-book strategy for the pensions portfolio and the resulting lower sales and product expenses. Furthermore, we have simplified the organisation and systems that enables us to reduce the number of employees. These measures are leading to an accelerated reduction in our structural operating expenses.

**Operational result**

The operational result increased substantially to €342 million in 2017 (2016: €285 million) as a result of the abovementioned cost savings and higher investment results.

Investment results increased due to higher revaluations for real estate, realised gains on equities and positive foreign exchange results caused by the lower US dollar exchange rate. These results largely compensate for the negative results on the commodities portfolio in the first half of 2017. This portfolio was divested in full in the second half of 2017.

The technical result was affected by an addition to the provision for premium waivers in the case of disability. Further analysis has shown that not all the disabled policyholders are known to us, prompting us to make an additional provision for premium waivers. This additional charge will partly be compensated for by a higher mortality rate.

*1) Excluding premium-related fees for reinsurance premiums*

## Retirement Services Netherlands

| NET INTEREST MARGIN | OPERATIONAL RESULT | ASSETS UNDER MANAGEMENT | COMMON EQUITY TIER 1 RATIO ACHMEA BANK |
|---|---|---|---|
| €106 million | €12 million | €120 billion | 20.4% |

RESULTS (€ MILLION)

| | 2017 | 2016 | Δ |
|---|---|---|---|
| Fees and commissions | 158 | 167 | -5% |
| Net interest margin | 106 | 112 | -5% |
| Realised and unrealised results | 1 | 0 | n.b. |
| Other income | 7 | -4 | n.b. |
| **Total operational income** | **272** | **275** | **-1%** |
| | | | |
| Operating expenses | 266 | 286 | -7% |
| Other expenses | 2 | 5 | -60% |
| Additions to loan provisions | -8 | 2 | -500% |
| **Total operational expenses** | **260** | **293** | **-11%** |
| | | | |
| **Operational result** | **12** | **-18** | **n.m.** |

*n.m.: not meaningful*

### GENERAL

Changes to the pension system lead to new ways to build-up retirement assets for the future. Via the Centraal Beheer General Pension Fund (APF) Achmea provides an alternative to pension insurance in the second pillar of the Dutch pension system. The products and services provided by Achmea Investment Management and Achmea Bank for the third and fourth pillars of the pension system mean that Achmea provides a comprehensive solution for asset gathering and retirement. These products and services are sold under the Centraal Beheer brand.

The introduction of the new strategy for retirement services and positioning of Centraal Beheer as a financial service provider involved start-up and investment expenses in 2016. These initial expenses were lower in 2017. At the same time the costs of our processes have been structurally lowered. In the past year, the administrative processing and management of Achmea Bank's mortgage portfolio has been successfully outsourced. In addition, we recently migrated to a new system for administering savings products and payments. In line with our decision in 2016, we further reduced non-profitable administrative services to mandatory sectoral pension funds.

**Operational result**

The operational result for retirement services amounted to €12 million (2016: €18 million negative). This increase was driven by an improvement in results in all the entities.

### SEGMENTS

### ACHMEA BANK

The contribution to the operational result from banking activities amounted to €24 million over 2017 (2016: €18 million). This increase is partly due to the higher income from commissions for managing the mortgage portfolio on behalf of Achmea Pension & Life. A portion of the loan provision was also released for the regular and run-off portfolio as result of higher house prices and settlement of loans. This compensated for the lower net interest margin caused by lower payments on mortgages in case of prepayments.

In 2017 the Common Equity Tier 1 ratio increased to 20.4% (2016: 19.1%) due to the addition of 2016 result and a decrease in the size of the mortgage and loan portfolios.

## ACHMEA INVESTMENT MANAGEMENT

In 2017, Assets under Management (AuM) increased to €120 billion (2016: €116 billion). The growth in AuM is the result of the net inflow into the Centraal Beheer APF and positive market developments. Furthermore, agreement was reached with the Stichting Pensioenfonds Huisartsen (GP pension fund) in 2017. This will lead to further growth in the AuM when administration is transferred to Achmea in mid-2018.
Achmea Investment Management's contribution to the segment result is higher at €4 million in 2017 (2016: €2 million). This improvement can mainly be attributed to lower personnel expenses and consultancy fees.

## ACHMEA PENSION SERVICES

In 2016, Achmea took the strategic decision to reduce administrative services to mandatory sector pension funds over the next few years. In 2017, the accelerated reduction of these services was achieved via the migration of five pension funds to Centric. At the same time, it creates capacity for us to fully focus on the growth strategy via services to the Centraal Beheer APF and the company, occupational and exempt sectoral pension funds.

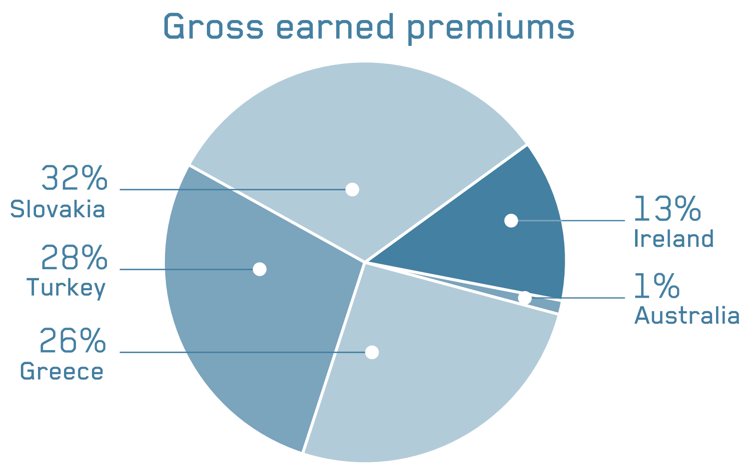
The operational result improved partly due to the accelerated reduction of these pension administration activities. In addition, operating expenses decreased due to lower start-up expenses for the services provided to the Centraal Beheer APF.

## International activities

GROSS EARNED PREMIUMS
€1,206 million

OPERATIONAL RESULT
€16 million

ACTIVE FOREIGN OPERATIONS
5




RESULTS (€ MILLION)

| | 2017 | 2016 | Δ |
|---|---|---|---|
| Gross earned premiums | 1,206 | 1,192 | 1% |
| Net earned premiums | 1,004 | 959 | 5% |
| Investment income including associates and joint ventures | 209 | 232 | −10% |
| Other income | 50 | 47 | 6% |
| **Total operational income** | **1,263** | **1,238** | **2%** |
| | | | |
| Net claims, benefits and movements in insurance liabilities | 905 | 900 | 1% |
| Operating expenses | 307 | 284 | 8% |
| Other expenses | 35 | 29 | 21% |
| **Total operational expenses** | **1,247** | **1,213** | **3%** |
| | | | |
| **Operational result** | **16** | **25** | **−36%** |

### GENERAL

Achmea's international strategy is focussed on achieving a competitive advantage and profitable growth in market share in those countries in which we can use our core competencies in Non-Life and Health insurance. The countries included in this strategy are Turkey, Slovakia, Greece and Australia. In these countries we invest in growth via the banking and online (direct) distribution channels, as well as focusing on further digitisation. This strategy enables us to accelerate our business in existing markets. We are also examining opportunities for greenfields in larger markets, including Canada. Here, we are currently working on establishing an alliance with a local partner.

In November, we reached an agreement on the sale of Irish life insurance company Friends First to Aviva. Friends First is a solid company but its activities are no longer aligned with our core activities.

**Gross earned premiums**
Gross earned premiums increased by 1% to €1,206 million in 2017 (2016: €1,192 million), mainly driven by growth within non-life and Health. When adjusted for foreign exchange effects, growth amounts to 8%.

In Turkey, gross earned premiums totalled €335 million in 2017 (2016: €368 million). Expressed in local currency, gross earned premiums increased by 12% to TL1,379 million (2016: TL1,235 million) as a result of growth in all market segments. We gained market share in the key Health segment. Premiums from the online channel, set up in partnership with Garanti Bank, display the highest growth.

In a stagnating property & casualty market and a life insurance market showing slight growth, total gross earned premiums at our Greek insurer InterAmerican stood at €318 million (2016: €310 million). This is partly due to the growth of our direct online insurance brand Anytime, where the number of customers has increased by 23% to 317,306 (2016: 258,000). Following the successful growth of Anytime in Greece, we introduced this brand in Cyprus in mid-2017. Since the start, 4000 insurance policies have already been sold.

Our Slovakian insurer Union displayed strong written premium growth to €385 million in 2017 (2016: €348 million). This increase is mainly due to an premium in revenue in the key markets of Non-Life and Health.

The sharp growth in APE (Annual Premium Equivalent) continued in Ireland in 2017. In a stable market new production APE in our Irish life insurance business increased with 19% to €85 million (2016: €72 million) due to growth in investment contracts.

Finally, our partnership with Rabobank in Australia is evolving successfully. Written premiums grew further to €17 million in 2017 (2016: €12 million).

**Operating expenses**

Operating expenses amounted to €307 million (2016: €284 million) and are growing partly as a result of investments in the digital growth strategy and orientation of new markets. The higher expenses in 2017 are a combination of higher distribution expenses and a higher number of internal employees required for achieving growth targets.

**Operational result**

Over 2017, we earned an operational result from our international business of €16 million (2016: €25 million). The operational result is affected mainly by developments in Turkey and higher claims arising from calamities in Australia. In Turkey, the local currency (Turkish Lira) devalued by 21% against the Euro in 2017 and severe rainfall and hailstorms in July had a negative impact on the result. Furthermore, the recent introduction of a legal maximum premium for motor liability insurance in Turkey squeezed margins in this market segment.

Operational result has improved in Slovakia and Greece as a result of an improved result in Health and in non-life respectively.

## Other activities

| OPERATIONAL RESULT OTHER ACTIVITIES | OPERATIONAL RESULT ACHMEA REINSURANCE | GROSS EARNED PREMIUMS ACHMEA REINSURANCE | ASSETS UNDER MANAGEMENT ACHMEA REAL ESTATE & FINANCE |
|---|---|---|---|
| €-59 million | €5 million | €255 million | €19,7 billion |

RESULTS (€ MILLION)

| | 2017 | 2016 | Δ |
|---|---|---|---|
| Total income | 261 | 334 | –22% |
| *Of which gross earned premiums* | 255 | 360 | –29% |
| | | | |
| Operating expenses | 203 | 440 | –54% |
| *Of which premium-related reinsurance fees* | 50 | 141 | –65% |
| Interest & other expenses | 117 | 124 | –6% |
| *Of which Interest expenses* | 61 | 63 | –3% |
| **Total operational expenses** | **320** | **564** | **–43%** |
| | | | |
| **Operational result** | **–59** | **–230** | **n.m.** |

*n.m.: not meaningful*

### GENERAL

The Other Activities segment includes the results of our Shared Service Centers, activities at holding company level and the other operating companies Achmea Reinsurance, Syntrus Achmea Real Estate & Finance and Independer. The winding down of Staalbankiers' activities is also presented in this segment.

As part of Achmea Group, Achmea Reinsurance provides reinsurance solutions for Non-Life, Pensions and Life internally. Additionally, Achmea Reinsurance accepts external reinsurance risks on a limited basis. The real estate asset management company Syntrus Achmea Real Estate & Finance manages Syntrus Achmea Real Estate & Finance manages both the real estate portfolios of the insurance entities and those of external customers. Customers can compare, take out and change insurance products via Independer.

**Operational result**

The result of the Other Activities segment is determined to a large extent by the holding company expenses, interest expenses, and the results of the other operating companies. In 2017, the operational result was €59 million negative (2016: €230 million negative). The 2016 result was affected by an addition to the provision for restructuring of €82 million. The improved result can also be attributed to the lower expenses for e.g. personnel, IT, housing expenses and the winding down of Staalbankiers' activities. Achmea Reinsurance, Syntrus Achmea Real Estate & Finance and Independer all positively contribute to the result.

### SEGMENTS

### ACHMEA REINSURANCE COMPANY

As Achmea's reinsurance expert, Achmea Reinsurance has three roles: advisor, purchaser and risk carrier. In its role as group reinsurer and risk carrier, Achmea Reinsurance provides reinsurance cover to both the Dutch and foreign legal entities within Achmea. The external reinsurance portfolio that has been built for Non-Life and Life is for the purpose of diversification of insurance risks and profit contribution to Achmea.

The operational result over 2017 was €5 million (2016: €12 million) and remained positive in spite of the impact of €37 million caused by global catastrophes. The additional claims were partly compensated for by proceeds from new property & casualty and life contracts and higher investment results. Gross earned premiums stood at €255 million in 2017 (2016: €360 million). This decrease is due to a number of contracts in the incoming Life reinsurance programme not being renewed.

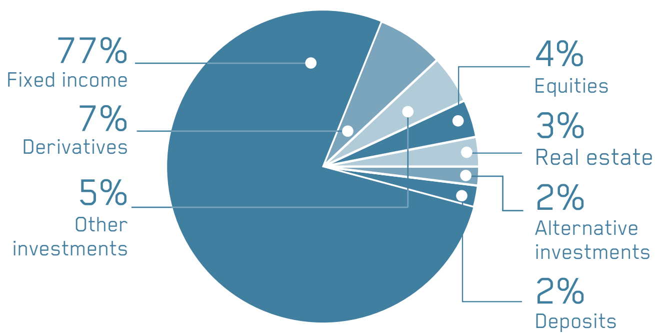
### SYNTRUS ACHMEA REAL ESTATE & FINANCE

Assets under management in real estate and mortgages increased to €19.7 billion (2016: €18.1 billion). The increase is mainly due to net inflow into the mortgage portfolios. Management fees increased to €72 million (2016: €70 million). This increase is the result of average higher assets under management for mortgages and real estate.

# Investments

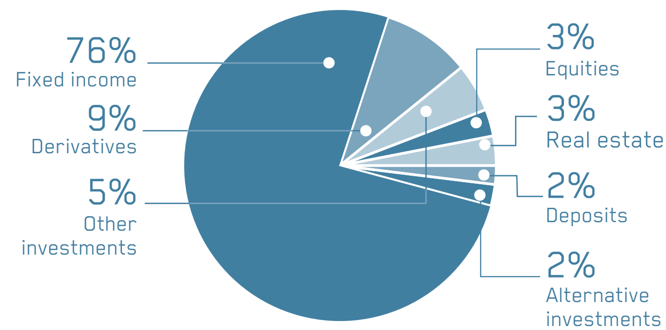
### Total investment portfolio[1,2]

(31-12-2017: €44.6 billion)



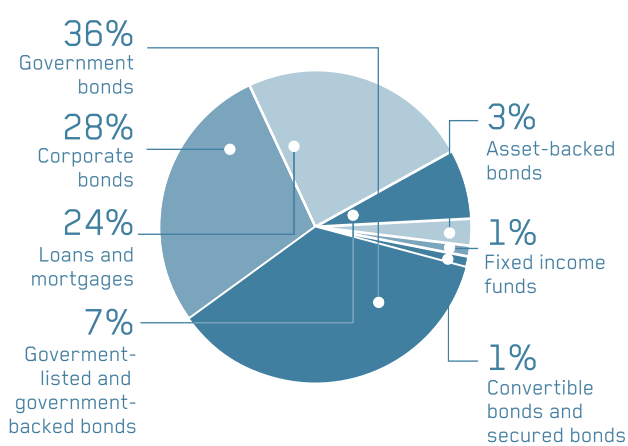

### Total investment portfolio[1]

(31-12-2016: €47.4 billion)



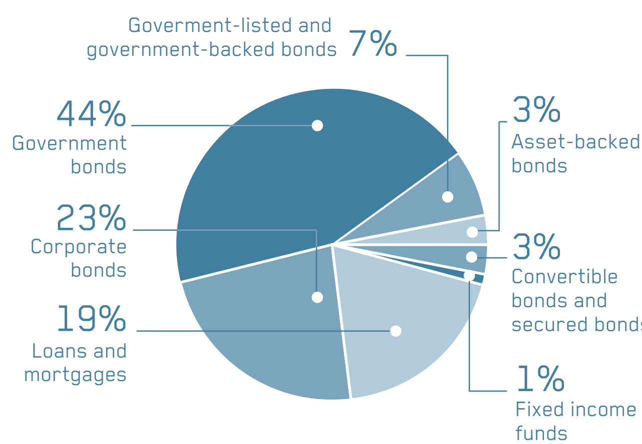

### Relative allocation fixed-income portfolio[2]

(31-12-2017: €34,4 billion)




### Relative allocation fixed-income portfolio

(31-12-2016: €35,8 billion)




*1) The Year Report shows fixed-income funds as part of the fixed-interest portfolio and real estate funds as part of real estate. In the financial statements, these investment categories are shown as part of equities and similar investments.*

*2) Excluding "held for sale" investments of our Irish life insurance company Friends First, the sale of which was announced in November 2017. Friends First had an investment portfolio of €1.5 billion in 2017 (2016: €1.7 billion), which included a fixed-income portfolio of €1.4 billion (2016: €1.5 billion).*

## INVESTMENT RETURNS

Income from our own risk investment portfolio[3] amounted to €1,248 million in 2017 (2016: €1,238 million). This higher income was chiefly driven by higher realised gains in the equity portfolio, as well as positive revaluations in the real estate portfolio. The residential and office segments in particular noted higher increases in value in 2017.

*3) The investment results (including realised and unrealised changes in value) from our own risk investment portfolio are adjusted for fair value results and other investment returns that are directly related to insurance commitments.*

These positive trends were partially offset by the decrease in indirect revenue from fixed income via lower realised gains.

## FIXED-INCOME PORTFOLIO

The value of our fixed-income portfolio decreased by 4% in 2017, to €34.4 billion (year-end 2016: €35.8 billion). This decrease was mainly caused by the announced sale of our Irish life insurer, as a result of which all investments have been reclassified as "held for sale". Disregarding this factor, the fixed-income portfolio remained virtually stable.

Within the fixed-income portfolio, more than €14.7 billion (year-end 2016: €18.3 billion), equivalent to 42% (year-end 2016: 51%) was invested in government bonds, government-related bonds and government-backed loans. The bulk of this amount was invested in Dutch government bonds. Furthermore, there were relatively large allocations to German and French government bonds, while we also invested in Austrian, Finnish and Belgian government bonds, amongst others. We invest in Greek government bonds partly due to our activities in Greece (€8 million at year-end 2017).

In 2017 the residential mortgages portfolio was further expanded by scaling down our government bonds portfolio. The residential mortgages portfolio has increased to €7.2 billion (2016: €5.9 billion). In so doing, we increase the returns on our portfolio and improve the composition of the investment portfolio. We increased the share of direct mortgages in our portfolio in 2017 through the Woonfonds, Centraal Beheer Achmea and Hypotrust Woonbewust channels.

Our fixed-income portfolio is prudently invested. The bulk of the portfolio (more than 75%) has an investment-grade rating (BBB or higher). The increase in the percentage of fixed-income securities without a rating to 22% (year-end 2016: 17%) is the result of the increase in the share of direct mortgages.

## EQUITY AND ALTERNATIVE INVESTMENT PORTFOLIO

Our equity portfolio had a total value of €1.6 billion at year-end 2017 (year-end 2016: €1.5 billion), i.e. a 3.6% share in our total investment portfolio. This increase is the result of a value increase in the portfolio of approximately 18.4% in 2017, offset by a small reduction and reclassification of the investments of our Irish insurer as "held for sale". In addition to our equity portfolio, we also manage a portfolio of alternative investments such as private equity, hedge funds, infrastructure and commodities. The value of this portfolio at year-end 2017 was €0.8 billion (year-end 2016: €1.2 billion). Due to reductions in our positions in commodities and infrastructure, the share of alternative investments in the portfolio has decreased.

## REAL ESTATE PORTFOLIO

Despite value increases, our real estate portfolio decreased on balance to €1.3 billion in 2017 (year-end 2016: €1.4 billion) mainly driven by sales and by year-end 2017 it represented a 3.0% share of our total investment portfolio. At year-end 2017, the real estate portfolio comprised €1.1 billion in direct real estate investments, including 43% residential real estate, 28% retail, 26% offices and 3% other real estate holdings. Additionally, our real estate portfolio comprised €232 million in indirect real estate investments (2016: €286 million). In accordance with our expectations, 2017 showed a recovery in the values of residential real estate and we also saw a positive value increase in office real estate.

### TOP 5 INVESTMENTS IN GOVERNMENT BONDS

(€ MILLION)

| | 31-12-2017[1] | 31-12-2016 | RATING |
|---|---|---|---|
| The Netherlands | 6,881 | 8,921 | AAA |
| Germany | 2,986 | 4,141 | AAA |
| France | 1,351 | 1,343 | AA |
| Austria | 415 | 503 | AA+ |
| Finland | 364 | 448 | AA+ |

### DISTRIBUTION OF FIXED-INCOME PORTFOLIO BY RATING

| | 31-12-2017[1] | 31-12-2016 |
|---|---|---|
| AAA | 36% | 43% |
| AA | 14% | 15% |
| A | 13% | 12% |
| BBB | 13% | 11% |
| <BBB | 1% | 1% |
| No rating[2] | 23% | 18% |
| **Total** | **100%** | **100%** |

*1) Excluding 'held for sale' investments of our Irish life insurance company Friends First.*
*2) Contains primarily the allocation for direct mortgages which in 2017 represented 22% of the fixed-income portfolio (2016: 17%).*

# Capital and risk management

As a financial services provider, Achmea is exposed to various types of risk, including insurance risks, market risks, counterparty default risks, liquidity risks, operational risks, compliance risks and strategic risks. The capital and risk management framework that has been established ensures that Achmea identifies risks in time, manages them carefully and has sufficient capital. If necessary, adjustments are made to the framework or action is taken to maintain the risk position.

At year-end 2017 Achmea had a solvency ratio of 184% and a solid Solvency II capital position. The composition of the risk profile and the key risks identified remained largely unchanged in 2017. Additional attention was given to capital and market risk policy, which included implementing an adjusted hedging strategy for Achmea Pensioen en Levensverzekeringen N.V. to reduce the interest-rate sensitivity of the solvency ratio under Solvency II.

This chapter summarises the company's capital and risk position and gives details of the main changes in its capital and risk management. The explanatory note (p. 73-98) Capital and risk management in the financial statements contains a more detailed description of Achmea's risk profile and its capital and risk management policy.

## CAPITAL AND LIQUIDITY POSITION

Achmea aims to be adequately capitalised at all times. This is necessary in order to be able to protect the interests of all stakeholders in the short and long term. In this respect it is necessary to at least comply with the capital requirements under Solvency II and to attain our rating ambitions.

**Developments in 2017**

Key developments for capital management in 2017:

- Achmea's capital policy was reassessed in 2017 and adjustments were made, for instance in relation to capital and liquidity standards for the Group and the supervised entities. Within the Group, at least €1 billion in liquidity, part of it comprising a buffer at group level, is available to support the supervised entities if this becomes necessary.
- Besides tracking the capital position under Solvency II, developments in economic solvency were also examined in 2017. The Dutch Central Bank (DNB) and the Dutch Association of Insurers have reached agreement regarding the principles for determining and monitoring economic solvency. These are based on Exit Value and require Achmea to demonstrate that it can meet its obligations to policyholders over a prolonged period. Achmea's capital policy contains further provisions in relation to economic solvency.
- The development of Achmea's internal market risk model under Solvency II has been completed and an application for approval has been submitted to the DNB. An internal model more accurately reflects the risks that Achmea considers appropriate to its profile. The aim is to obtain DNB approval to allow the internal market risk model to be used in 2018 for prudential reporting as well.

**Solvency II**

For the calculation of the required capital ('Solvency Capital Requirement (SCR)') under Solvency II, Achmea uses a partial internal model approved by the College of Supervisors. This involves a calculation of the capital adequacy requirements for several insurance risks in the property & casualty and income protection insurance segments (premium- and reserve risk, natural catastrophe risk; income protection and incidence, recovery & revision risk) using an internal model. This internal model is used by the Dutch non-life insurers, Achmea Reinsurance Company and the Greek subsidiary InterAmerican Property & Casualty Insurance Company SA. The other risks are calculated using the Solvency II standard formula. The solvency ratio under Solvency II is 184% (31 December 2016: 181%). The Solvency II equity amounts to €8,386 million (31 January 2016: €8,345 million).

SOLVENCY RATIO (€ MILLION)

| | 31- 12-2017 | 31- 12-2016 |
|---|---|---|
| Eligible own funds Solvency II | 8,386 | 8,345 |
| Solvency Capital Requirement | 4,555 | 4,623 |
| **Surplus** | **3,831** | **3,722** |
| Ratio (%) | 184% | 181% |

ELIGIBLE OWN FUNDS SOLVENCY II (€ MILLION)

| | 31- 12-2017 | 31- 12-2016 |
|---|---|---|
| Tier 1 | 6,363 | 6,296 |
| Tier 2 | 1,340 | 1,356 |
| Tier 3 | 683 | 693 |
| **Total eligible own funds Solvency II** | **8,386** | **8,345** |

The Solvency II ratio has increased by 3 percentage points to 184% (31 December 2016: 181%). The improved capital position is the result of a combination of a €41 million increase in the eligible own funds Solvency II to €8,386 million (2016: €8,345 million) and a €68 million decrease in the Solvency Capital Requirement to €4,555 million (2016: €4,623 million).
The increase in the equity is the result of positive technical results, positive effects caused by trends on the financial markets and an adjustment of the expense assumptions and mortality experience within the Dutch Life insurance business.

In addition, a lower capping of Tier 3 capital has been achieved owing to a lower deferred tax asset resulting from loss recognition. This is partially cancelled out by the allocation of capital to limit the increase in health insurance premiums, planned dividends relating to the positive annual results and the announced redemption of Achmea shares.

The capital requirement has mainly decreased due to a decline in market risk and life risk. The capital hedge was further expanded in 2017 in order to further limit the volatility of the solvency ratio of the Dutch Life business. As a result, the interest rate risk decreased. The life risk has decreased due to several effects that mainly have an impact on the longevity, expenses and lapse risks. Interest rate increases reduce the impact of interest-rate sensitive shocks in respect of longevity and expenses risks. Furthermore, cost assumptions have been refined and mortality experience and lapse assumptions have been updated. The decrease in the capital requirement is partly cancelled out by a decrease in the Loss Absorbing Capacity of Deferred Taxes (LACDT).

The explanatory note (p.73-98) Capital and risk management (p.73-98) in the financial statements contains a more detailed description of the Solvency II outcomes. The relationship between the IFRS equity and the capital required under Solvency II is also explained there.

**Solvency II sensitivities**

The sensitivity of the Solvency II solvency position to various changes in the underlying assumptions is explained below

SOLVENCY II SENSITIVITIES

| | 31- 12-2017 | 31- 12-2016 |
|---|---|---|
| Equity -20% | -5% | -10% |
| Interest -50bp | -8% | -[1] |
| Interest +50bp | -2% | -[1] |
| Property -20% | -6% | -5% |

**Rating agencies**

Rating agencies use their own methodologies to assess the creditworthiness of a company. The ratings assigned by rating agencies to the Achmea entities are set out below.

In 2017 Standard & Poor's (S&P) maintained Achmea B.V.'s rating at BBB+, adjusting the outlook to 'negative' in February 2017. The main Achmea insurance businesses have an A rating, with a 'negative' outlook. Achmea Reinsurance Company and Achmea Bank received a rating of A- with a 'negative' outlook. Achmea B.V. and Achmea Bank also have a rating from Fitch (the former with effect from 7 March 2018). The Fitch outlook is 'stable' (A, 'stable outlook').

Key indicators on which Achmea focuses include: excess capital (calculated in accordance with the S&P capital model) in relation to an AA level, the 'debt leverage ratio'[3] and the 'fixed-charge coverage ratio'[4]. Both the debt leverage ratio and the fixed-charge coverage ratio improved in 2017 as a result of developments in our result. Our debt leverage ratio improved to 25.9% (2016: 26.4%). The fixed-charge coverage ratio was 3.4x (2016:-/-0.9x).

RATINGS

| ENTITY | TYPE | S&P | FITCH | MOODY'S |
|---|---|---|---|---|
| **Holding** | | | | |
| Achmea B.V.[2] | ICR/IDR | BBB+ | A | |
| **Insurance entities** | | | | |
| Achmea Schade-verzekeringen N.V.[2] | FSR/IFS | A | A+ | |
| Achmea Zorgverzekeringen N.V.[2] | FSR/IFS | A | A+ | |
| Achmea Pensioen- en Levensverzekeringen N.V.[2] | FSR/IFS | A | A+ | |
| Achmea Reinsurance Company N.V. | FSR | A- | | |
| **Bank entities** | | | | |
| Achmea Bank N.V. | long term | A- | A | |
| | short term | A-2 | F1 | |
| | Secured debt program | A- | | |
| Achmea Bank N.V. | Covered bond program | | AAA | Aaa |

** ICR: Issuer Credit Rating (S&P)*
*IDR: Issuer Default Rating (Fitch)*
*FSR: Financial Strength Rating (S&P)*
*IFS: Insurer Financial Strength (Fitch)*

**Capital and Liquidity flows**

Access to the capital and money markets takes place via both Achmea Bank and Achmea B.V. The holding company is responsible for financing the insurance entities. This might take on the form of capital injections or granting subordinated loans.

The table below – in addition to the cash-flow statement included in the financial statements – contains a detailed statement of the capital and liquidity flows of Achmea B.V. and other holding company entities.

*1) In 2017 the steering and measurement of the interest rate risk has been changed. As a result of this, a figure based on 50bp as of December 31, 2016 shows no good comparison with the sensitivities as of December 31, 2017 and the developments of interest rate sensitivities over the course of 2017. The figure as of December 31, 2016 also does not give a good picture of the interest rate sensitivity of the Solvency II figures in futures periods. Therefore, we do not present a comparitive figure of interest rate sensitivity over 2016.*

*2) Public Fitch rating for Achmea B.V. with effect from 7 March 2018.*

*3) Debt leverage ratio: non-bank debts minus preferential shares as a percentage of the sum of total equity equity attributable to holders of equity instruments of the company and non-bank debts minus Other equity instruments, preferential shares and goodwill.*

*4) Fixed-charge coverage ratio: the ratio between interest and similar expenses related to non-banking activities and the operational result corrected for interest and similar expenses related to non-banking activities, coupon payments Other equity instruments and dividends on preferential shares and amortisation costs. Based on the example of Standard & Poor's, the calculation has been adjusted based on the amortisation of intangible assets.*

## CAPITAL AND LIQUIDITY FLOWS AT THE HOLDING COMPANY LEVEL[5]

| | (€ MILLION) |
|---|---|
| **Holding company liquidity at start of 2017** | **119** |
| **Cash received from operating activities** | |
| Non-Life Netherlands | 48 |
| Health Netherlands | - |
| Pension & Life Netherlands | 187 |
| Reinsurance Nederland | 9 |
| International Activities | 34 |
| Banking activities | - |
| Other | 4 |
| Income from desinvestments | 57 |
| **Financing/group activities** | |
| Net interest paid | -57 |
| Dividend and coupon payments | -85 |
| Net changes in loans | 236 |
| Offset through taxes | 46 |
| Holding company activities | -69 |
| **Investments in operating companies and investee companies** | |
| International | -8 |
| Banking activities | - |
| Other | -17 |
| **Net changes in cash** | **385** |
| | |
| **Holding company liquidity at year-end 2017** | **504** |

Holding company liquidity is defined by Achmea as the sum of all bank balances allocated to the holding company and short-term other receivables of the holding companies, which are: Achmea B.V. and the associated and group supporting subsidiaries.

Holding company liquidity increased by €385 million in 2017, from €119 million to €504 million. In 2017 €317 million of capital was upstreamed, including the €187 million dividend from Pension & Life Netherlands and the €48 million dividend from Non-Life Netherlands. Besides capital upstreaming of €20 million from Friends First, a short-term loan of €47 million was received, as prepayment of the proceeds from the sale of Friends First in 2018. Achmea Bank repaid a CHF 200 million loan, as a result of which €190 million was received. Investments in subsidiaries caused a €25 million decrease in liquidity. Payments of interest and dividends on preference shares also caused a €142 million drop in liquidity. Finally, liquidity fell by €69 million as a result of not allocated holding company expenses.

The liquidity of our bank businesses comfortably exceeds the statutory requirements. For Achmea Bank, a total of CHF 300 million in unsecured senior bonds were issued in 2017 and a further CHF 200 million in private unsecured senior bonds with Achmea Group were redeemed. Furthermore, the last covered bond of CHF 200 million under the soft bullet covered programme was redeemed in August 2017, which brought the programme to an end. A new conditional pass-through programme for covered bonds has been established and the first issue of €500 million took place in November 2017. Achmea Bank also redeemed more than €500 million in RMBS notes in June 2017.

### RISK MANAGEMENT

The Integrated Risk Management Framework (IRMF) describes the risk management system Achmea uses to manage risks when endeavouring to realise its business objectives. The IRMF also supports Achmea in managing its risks effectively by applying the risk management process at different levels and within specific contexts in the Achmea organisation. In the explanatory note (p. 73-98) Capital and risk management (p. 73-98) in the financial statements contains a detailed description of Achmea's risk profile and its Integrated Risk Management Framework (IRMF).

*5) This concerns Achmea B.V. and any changes in liquidity relating primarily to responsibilities of the holding company; figures are exclusive of the changes in the liquidity position which relate to (specific) operational activities.*

The following overview summarises the risk profile and the capital and risk management policy.

| | KEY RISK INDICATORS FOR THE RISK APPETITE | MEASURES | KEY RISKS | SOLVENCY CAPITAL REQUIREMENT (€ MILLION) |
|---|---|---|---|---|
| INSURANCE RISK | • Amount of Solvency Capital Requirement for the relevant risk<br>• Deviation from expected annual result due to catastrophic events | • Product development and product review<br>• Reinsurance<br>• Reserve | • Longevity risk<br>• Catastrophes | Life risk: 1,760<br>Non-life risk: 816<br>Health risk: 1,889 |
| MARKET RISK | • Amount of Solvency Capital Requirement for the relevant risk | • Asset & Liability Manage-ment<br>• Investment plans<br>• Market risk limits | • Consistently low interest rates<br>• Interest and spread movements<br>• Volatility in the financial markets | 2.075 |
| COUNTERPARTY DEFAULT RISK | • Amount of Solvency Capital Requirement for the relevant risk<br>• Limit breaches | • Counterparty default risk limits<br>• Additional requirements for new and specific counterparties | • Savings accounts tied to mortgages administered by Rabobank Group | 643 |
| LIQUIDITY RISK | • Liquidity available in a going concern situation and after a stress situation | • Liquidity planning<br>• Emergency liquidity plan<br>• Credit facilities | • Holding company liquidity | Not applicable |
| OPERATIONAL RISK | • Internal Control Framework<br>• Financial losses due to operational risks<br>• Very urgent issues<br>• Disruption of busi-ness-critical chains<br>• Reputational score | • Internal Control Framework<br>• Issue and incidentmanagement | • Information security<br>• Cybercrime<br>• Liability claims | 586 |
| COMPLIANCE RISK | • Infringements and implementation of legislation<br>• Integrity breaches | • Internal Control Framework<br>• Issue and incident management | • Implementation of laws and regulations<br>• Reputation risk | Not applicable |
| CAPITAL | • Solvency ratio Solvency II<br>• S&P surplus capital<br>• Economic solvency | • Buffer above minimum level<br>• Capital planning<br>• Emergency measures | • Volatility of solvency ratio<br>• Impact of legislation on solvency | 4.555[1] |
| RESULT / STRATEGIC RISKS | • Free Capital Generation<br>• Fixed Charge Coverage Ratio | • Specific measures | • Strategic risks: Innovation, digitisation, competitive expenses, distribution partners, politics/legislation, com-petences and talents | Not applicable |

- *Risk appetite consists of a number of qualitative statements setting out guidance for the Key Risk Indicators (KRIs) used to monitor whether the risk profile remains within the limits of the risk appetite.*
- *The capital and risk policy lays down the key measures for managing the capital position and risks.*
- *Specific important risk events are identified through qualitative risk analyses (Risk Self Assessments).*
- *The required capital for risks are quantified by a by the DNB (Dutch Central Bank) approved partial internal Solvency II model.*

*1) The outcomes of the capital requirement for the key risks are not equal to the total capital requirement as a result of a number of set-offs, including diversification and loss-absorbing capacity.*

The risk management system is evaluated annually. The evaluation involves assessing the methods and techniques used and the risk policy in the light of internal and external developments and making any adjustments necessary. Continuous monitoring and, where necessary, adjustment of the risk positions also takes place. With the frequency being dependent on the type of risk.

## DEVELOPMENTS IN 2017

**General developments:**

- The risk appetite was amended on several points. Yet the risk appetite was not changed in material terms. The main amendments were the tightening of limits as a result of changes to the capital policy and the addition of a qualitative statement on the procurement of reinsurance, including the Key Risk Indicator of deviation from the expected annual result due to one or more catastrophic events.
- In 2017 model risk governance was redefined and its scope was widened from covering only the Solvency II models to include all models within Achmea. Implementation began in 2017. Model risk means the risk of incorrect use of models and/or incorrect outcomes from them. Like other risks, the approach to model risk involves first obtaining a picture of all models, assessing them and then setting up controls that align with the assessed risk.

Developments and measures relating to financial risks:

- With respect to the financial risks, besides the aforementioned amendments to the capital and liquidity standards, in 2017 extra attention was also devoted to the management of interest and spread risk.
- In 2017 Achmea implemented a hedging strategy for Achmea Pensioen- en Levensverzekeringen N.V. which reduced the interest-rate sensitivity of the solvency ratio under Solvency II.
- The market risk budget associated with the investment portfolio has remained unchanged. Achmea has continued to expand its mortgage portfolio. The country allocation of the government bond portfolios was also adjusted to improve the spread and reduce the spread sensitivity under Solvency II resulting from the use of the Volatility Adjustment. A number of smaller changes were made to the investment mix in order to increase returns.
- There is public pressure on health insurers to use their own reserves when setting premiums. Ultimately, the insurance companies set their premiums in competition with other providers, and the factors considered include solvency trends and the stability of the premiums, also in years to come. These aspects were included in the process of setting premiums for 2018.
- The consideration by the senate of a submitted bill on ring-fencing health insurer’s capital has been deferred on the request of those who proposed the bill. Feasibility studies by DNB and NZa were critical and prior to this the Council of State had also expressed serious objections to the proposed bill. The initiators have therefore proposed to adjust the bill by drafting an amending act. In the meantime a new government has been formed which has included in the coalition agreement that it “wishes to prevent that money that is intended for healthcare is used for other purposes.” The government indicates that it is currently researching how this can be realized in a sustainable way in the current system and that it engages in talks about this with the initiators of the bill. We follow the developments around the proposed bill with attention. Maintaining the intended functioning of the healthcare system as it has been implemented in 2006 is the guiding factor in this.

Developments and measures relating to non-financial risks:

- With respect to the non-financial risks, in 2017 extra attention was also devoted to the management of information security, privacy and outsourcing.
- The focus on information security remains consistently high on account of cybercrime and growing digitisation. The maturity of information security is regularly assessed, and measures are implemented where necessary. Extra attention is devoted to keeping up to date with rapid developments in this field and to raising awareness that access is often obtained through human error.
- In 2017 much attention was given to privacy. Achmea began with the implementation of the General Data Protection Regulation (GDPR), which will enter into effect on 25 May 2018. As a result, Achmea will be subject to stricter privacy requirements in relation to the processing and security of personal data. Failure to comply with these rules may pose a heightened reputational risk and lead to sizeable fines being imposed by the supervisory authorities.
- The external outsourcing of critical or important operational functions and activities has been reassessed in light of Achmea’s outsourcing policy, focusing in particular on outsourcing and procurement contracts involving a cloud component and personal data. A central contract administration has been established to register all outsourcing.
- Within the organisation, an Internal Control Framework based on the COSO model is used, along with Key Risks and Key Controls (KR/KCs). In recent years Achmea’s control framework has evolved into a mature framework with demonstrable ownership and effectively functioning KC's that oversees risk management activities. Each year, the KR/KCs in the Achmea Control Framework (CFW) are refined and where necessary tightened up.

# Corporate social themes



# Employees and diversity

# Corporate social themes

## Social Responsible Investment

We invest the premiums entrusted to us in a responsible manner. By this, we set ourselves the task of always being able to fulfil our financial obligations to our customers and invest in a socially-responsible manner, with respect for the world around us and for future generations.

**SRI policy**

Social Responsible Investment (SRI) involves taking into account as much as possible the impact on people and the environment in investment decisions. The choices Achmea makes are based on our identity and the values for which we stand: contributing to a healthier, safer and more future-proof society.

In our SRI policy we select those themes we deem to be most important. We focus on themes that are close to our identity and the core of our services:

- human rights
- labour standards
- nature & the environment
- health
- climate change

We apply the SRI policy to Achmea's own risk investments and in line with client mandates for fiduciary investments by Achmea Investment Management.
Fiduciary investments conducted by Syntrus Achmea Real Estate & Finance are subject to a policy adapted to the characteristics of real estate investments.

**ESG**

We also base our policy on international treaties, guidelines and initiatives that we have signed up to, such as the UN PRI, UN Global Compact, OECD guidelines and ICGN Global Governance Principles. These include initiatives aimed at combating climate change and promoting the energy transition. The application of ESG-criteria to the topics of environment (Environment), social policy (Social) and good governance (Governance) is an international standard method to screen investments from a societal perspective.

We expect all our asset managers to incorporate ESG criteria into their investment processes wherever possible. Achmea uses a range of instruments to implement its investment policy. From our background, we believe in engagement and dialogue: the emphasis in implementing our SRI policy therefore is on positively influencing behaviour and practices at the companies in which we invest.

**Voting and dialogue**

Making active use of voting rights at shareholder meetings enables us to wield our influence as a shareholder to the full on a company's policy (for an up-to-date overview, please see www. Achmea.nl). We have an extensive engagement programme that prioritises dialogue. Engagement with a company starts with stimulating sustainable development and/or flagging any malpractices. We conduct dialogue with companies, both independently and together with other major investors. In 2017, engagement was conducted on a variety of topics relating to all of Achmea's key themes. Dialogue was also conducted on corporate governance topics, such as 'Good Governance', 'Global Compact Violations', 'Quality of Management and Supervision', and 'Responsible Taxation Policy'. Achmea holds intensive dialogue with ten to fifteen companies based on specific objectives; this is known as 'enhanced engagement'. If insufficient progress is made, this may lead to the investment being excluded by Achmea.

**Exclusions: no tobacco and nuclear weapons**

Achmea prefers to enter into dialogue with companies and is therefore cautious about excluding them. Without engagement no further discussion is possible. In some cases, however, there is no basis for dialogue and we resort to exclusion. Achmea does not invest in tobacco producers, as this would be inappropriate for a major health insurer. We also exclude manufacturers of controversial weapons. In doing so, we adhere to the definition of controversial weapons laid down by the Dutch legislator, but with one exception: we also exclude investment in companies that contribute to the manufacture of nuclear weapons. We hold these to be controversial as well and in violation of the Universal Declaration of Human Rights. This principled position means that we exclude over fifty companies because they are involved in the production of tobacco and over sixty companies due to their involvement in the manufacture of nuclear weapons. Those companies that structurally violate the UN Global Compact are also excluded.

**Impact investment**

Impact investment seeks to stimulate socially desirable trends through targeted investment. In 2017, Achmea invested nearly €500 million through impact investments. These investments comprise several targeted theme funds and green bonds.

### ENGAGEMENT: FAIR WAGES

In 2017, talks were concluded with three global companies in the food and agricultural chain: Nestlé, Tesco and Mondelez. Nestlé has promised to pay fair wages to the employees in its factories. Tesco now ensures fair wages at the suppliers from which it purchases tea. Mondelez does not wish to apply a guaranteed minimum price for cocoa, as it believes this would disrupt the market. However, farmers are being united in cooperatives, for example, and alternative models for contract farming are used.

ENGAGEMENT: SUSTAINABLE MEAT AND FISHING INDUSTRIES

This year we initiated engagement with ten companies that operate in the primary production sector for meat and fish or that provide services to this sector. In some cases, large-scale industrial production is at the expense of product quality, the environment and animal welfare. Our talks focus mainly on improving animal welfare, tackling health risks and implementing environmental measures.

ENGAGEMENT: CLIMATE POLICY IN THE OIL AND GAS SECTOR

Talks are being held with twelve Dutch and (inter)national oil and gas companies. The energy transition from fossil fuels to sustainable sources is just one topic of the discussions. Together these companies account for about 25% of the oil supply and over 20% of the gas supply. One aspect of the engagement relates to these companies ceasing to lobby against stricter legislation governing climate policy.

Green bonds are bonds for projects with a significant environmental goal. The market for green bonds is growing but is still relatively small. In 2017, we invested in green bonds issued by KfW Development Bank, the European Investment Bank and 'green' French government bonds. Achmea invested in eleven individual impact funds in 2017, mainly aimed at clean or renewable energy, microfinancing, organic products and healthcare.

**Trends in social responsible investment**
With a view to better understanding, quantifying and controlling climate risks, we began measuring the carbon footprint of a portion of our own risk equity investments. We have reached supplementary agreements with the asset managers in question to reduce as best as possible the $CO_2$ intensity per million euros of invested capital against a benchmark selected by Achmea.
Our aim is to measure the carbon footprint of a larger portion of the investment portfolio and review how this can be reduced. Reporting on socially responsible investment will also be expanded to include a separate report and more detailed information.

## EXTERNAL AUDITING OF THE ACHMEA POLICY

Achmea shares fifth place in the 2017 Dutch Association of Investors for Sustainable Development (VBDO) benchmark. Aspects such as governance, policy, implementation and accountability of socially responsible investment are assessed for the benchmark.
On average, Achmea scores well in the Eerlijke Verzekeringswijzer (Ethical Insurance Guide). Two practical studies were conducted over 2017 that relate to the key themes of social responsible investment policy: deforestation and land grabs in the palm oil sector and Human rights in the extractive industry. The first study was published at the end of May 2017. Achmea received a score of 6 and second place in the ranking. The second study was initiated at the end of 2017; the results are not yet known. The external audit is conducted on the own risk portfolio and the investments on behalf of third parties. The VBDO benchmark and the Ethical Insurance Guide are also criteria that form part of Achmea's risk control framework. Please read the report on this in part 2, p.32 and p.78.

A detailed summary of the SRI policy in numbers is contained in appendix D, p.16, in part 3 of this annual report.

## ACHMEA INVESTMENT MANAGEMENT

Achmea Investment Management (Achmea IM) advises on, implements and applies a social responsible investment policy on behalf of its Dutch institutional clients, such as pension funds and insurers.

There is a growing focus on corporate social issues among institutional investors. For this reason, we increased the number of employees who work on social responsible investment (SRI) at Achmea IM in 2017. The SRI policy for third parties was also worked out in more detail for the five key themes in 2017. Moreover, Achmea IM set up its own engagement service.

As part of the climate change spearhead, in 2017 the carbon footprint of investment portfolios was clarified further. In doing so, Achmea IM developed a product in which the incorporation of ESG criteria can reduce the carbon footprint of a client's investment portfolio.

For 2018, Achmea IM has set itself the target of reporting on the carbon footprint of its institutional investment funds. To this end, in 2017 Achmea IM contributed to the Platform Carbon Accounting Financials (PCAF). This alliance aims to design international standards for measuring asset classes.

In addition, Achmea IM contributed to the Dutch Sustainable Development Goals (SDG) agenda.
As part of the Dutch central bank's (DNB) 'Sustainable financing' platform, Achmea IM contributed to standardising impact measurement methods for achieving the United Nation's Sustainable Development Goals (SDGs).

In 2017, Achmea IM contributed to drawing up the Dutch Stewardship Code. This provides points of reference for institutional investors for monitoring long-term objectives at listed companies. The code is currently still in the consultation phase. Achmea aims to give substance to the draft code in its operations in 2018.

Achmea IM has been a signatory of the Principles for Responsible Investment (PRI) since 2007. Each year, the SRI policies of PRI signatories are compared for several modules. This yields a score per module on a scale from A+ to E. The A+ class has a score in excess of 95% of the comparison group and E a better score than 0% of the comparison group. Achmea IM was awarded an A+ for its SRI strategy and management modules. In addition, Achmea IM received an A for its indirectly managed liquid asset classes. The liquid asset classes managed directly by our internal investment teams were also rated at A. This is a result to be proud of.
The full PRI assessment report can be found on the website of Achmea IM www.achmeainvestmentmanagement.nl.

Achmea IM also invests on behalf of retail investors (Achmea IM Particulier). Achmea's SRI policy applies to these investments (see page 27 in part 2 of this Year Report).

## FIDUCIARY INVESTMENTS OF SYNTRUS ACHMEA REAL ESTATE & FINANCE

Syntrus Achmea Real Estate & Finance (SAREF) invests in real estate and mortgages on behalf of institutional investors. In view of the long-term interests of these clients sustainability is an important aspect here.

### Real estate

In the Netherlands, new criteria for energy-neutral buildings come into effect from 2021. These are known as BENG (Near Energy-Neutral Buildings). To this end, SAREF has included additional criteria in the programme of requirements for developing residential properties; these relate to (energy-efficient) north-south facing buildings, insulation values and systems.

In 2017, for the first time the Association of Institutional Property Investors in the Netherlands (IVBN) sent its Sustainability Declaration and an annual survey on sustainability to service providers and suppliers that work for the real estate portfolios managed by SAREF. In 2018, SAREF will work together with its partners on achieving a higher response rate in order to be able to draw conclusions based on the survey.

The average score in the international GRESB sustainability benchmark of the fourteen real estate funds and portfolios managed by SAREF has increased by over 2%. As a rule, our funds were awarded Green Star status. This is a positive rating of sustainability policy and implementation. Further improvement is mainly possible in the Performance Indicators (reporting on consumption data) and Building Certification (sustainability certificates). About 80% of the Dutch real estate investments managed by SAREF have a green energy label (A, B and C).

### Retail mortgages

The PVF Particuliere Hypothekenfonds invests in Dutch mortgages with owner-occupied residential properties as collateral. The energy labels have been obtained for the underlying collateral on this fund. For the first time, this yields insight into the energy performance of the financed portfolio. As of mid-2017, about 60% of the collateral possessed a green energy label (A, B and C). Achmea aims to have a mortgage portfolio containing all green labels. We are therefore informing both the brokers and our current customers of sustainability measures and options.

### Real estate financing

The sustainability policy for poperty financing has been developed further. The focus is now on improving the energy labels and making the financed properties sustainable. This new policy has led to the PVF Zakelijke Hypothekenfonds score in GRESB increasing by 72%: the fund now holds a four-star rating. We have improved insight into the energy performance of the financed portfolio. The portion of properties for which the energy label is known increased from 17% to 62% in 2017. The portion with green labels (A, B and C) was 19% as of year-end 2017.

### Fiduciary investments of Achmea IM and Syntrus Achmea Real Estate & Finance

The assets under management on behalf of Dutch institutional clients increased as a result of sound investment results and the net inflow of new assets. In 2017, the investments invested responsibly decreased slightly compared to the investments eligible for responsible investment. This was due to the inflow of new assets for which no SRI policy has been applied and the decision by clients to opt for more passively-managed asset management solutions.

Appendix D, p. 16, of part 3 of this annual report, the 'Fiduciary investments of Achmea Investment Management and Syntrus Achmea Real Estate & Finance' section, contains a summary of the investments invested responsibly by Achmea IM (Institutional) and SAREF.

Appendix D, p. 16, of part 3 of this annual report, the 'Investments held at policyholder's risk' section, contains a summary of the investments invested responsibly by Achmea IM (Retail).

## RESULTS OF ENGAGEMENT 2017

### ENGAGEMENTS

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | NUMBER OF COMPANIES | NUMBER OF TOPICS | NUMBER OF COMPANIES | NUMBER OF TOPICS |
| **On behalf of AIM/Clients of Achmea**<br>Achmea Investment Management | 92 | 112 | 96 | 107 |
| **On behalf of Achmea**<br>GIO/own risk<br>Pension & Life/GBDs | 126 | 147 | 141 Robeco | 160 Robeco |

### VOTES

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | NUMBER OF SHAREHOLDER MEETINGS | NUMBER OF VOTES | NUMBER OF SHAREHOLDER MEETINGS | NUMBER OF VOTES |
| **On behalf of AIM/clients of Achmea**<br>Achmea Investment Management | 3.162 | 38.997 | 3.345 | 40.684 |
| **On behalf of Achmea**<br>GIO/own risk<br>Pension & Life/GBDs | 854 | 11.955 | 824 AIM | 11.177 AIM |

## Corporate social themes explained

### TREATING THE LIVING ENVIRONMENT

Although as an office-based company we are a relatively small polluter via our operating processes, we aim to have environmentally friendly business operations. We are reducing our impact on the environment by reducing our energy consumption, consuming less paper and a smaller quantity of coolants and recycling our waste. We also set standards for our suppliers when it comes to environmental and energy policy.

Achmea has had climate-neutral business operations since 2011, the first Dutch insurer to achieve this. Over the past five years total $CO_2$ emissions have fallen from 58 kilotons in 2013 to 38.3 kilotons in 2017. Achmea's net $CO_2$ emissions in the Netherlands are offset by purchasing certificates.

**Energy consumption**
Achmea has participated in the Dutch Multi-year Agreement on Energy Efficiency (MJA3) with the Dutch government since 2009. This stipulates that we need to reduce our energy consumption by 2% each year. So far, we have more than doubled this target: during the period 2006-2016, average energy consumption decreased by more than 5% on an annual basis.
To help achieve this, in 2017 we fitted LED lamps to replace the lighting in our Tilburg office. Solar panels were installed at our office in Apeldoorn.

**Paper**
We are working towards a sharp reduction in paper consumption. This is largely possible due to digitisation. Our paper consumption has decreased steadily over the past few years. In 2017, we succeeded in more than halving the amount we used compared to 2016.

**Waste is a commodity**
Since 2014, our employees, caterers, cleaning companies and raw materials processing partners have worked together in order to carefully segregate all waste products, dispose of them separately and convert them into green energy and new products. This generates a structural financial saving and at the same time contributes to the circular economy.

**Responsible procurement**
In 2016 Achmea joined the FIRA Platform. This is a digital register through which companies make their performance concerning corporate social responsibility visible to customers. The platform complies with (inter)national standards relating to sustainability, including ISO 26000, ISO 20400 DIS, AA1000 and GRI. A sustainability declaration has been required of our suppliers for several years as part of the procurement process conducted by Facility Management. In 2017, a FIRA registration (or one from a comparable register) formed part of the tendering process for maintenance contracts.

**Strategic themes in Achmea's environmental policy**
Over the next few years, we will fine-tune our environmental policy and implement it via five themes: Sustainability, Circularity, Healthy Offices, Flexible Meeting Spaces and Smart Building.

### ACHMEA'S POLICY ON CORRUPTION AND BRIBERY

Achmea does not tolerate any form of corruption, kickbacks, conflicts of interest or bribery. This principle is essential to a transparent and honourable corporate culture.

The control of corruption is part of the control of integrity. This is based on specifying proper conduct deriving from Achmea's cooperative identity, as laid down in the Achmea General Code of Conduct. In addition, Achmea details how the company exercises control of this in its Integrity & Fraud Policy. The code of conduct describes Achmea's core values, core qualities and rules of conduct. These general rules of conduct apply to all Achmea employees and to external staff. Achmea does not accept any integrity violations that could pose a threat to the (financial) interests of customers, employees and to the continuity or integrity of Achmea and the financial sector. Achmea applies a zero tolerance policy on discovery of any integrity violations.

The Integrity & Fraud policy sets out governance and rules for the various integrity themes, such as corruption and conflicts of interest. Achmea conducts an annual systematic integrity risk analysis in order to chart the integrity risks. All segments conducted this type of analysis in 2017. The main corruption risks are identified in the procurement and outsourcing processes and in commerce. The outcome of the latest analyses led Achmea to tighten its internal control.

Coordination of the identified integrity violations takes place in the High Impact Incident Meeting (HIIO). The HIIO is chaired by the Chief Risk Officer and is also attended by the Director of Compliance, Director of Internal Audit and Integrity Manager. High Impact Incidents are dealt with in compliance with the Incident policy drawn up by Achmea. The number of identified High Impact Integrity incidents is an indicator of integrity violations.

In 2017, Achmea developed an e-learning integrity module for its employees. Here, employees are given tips on how to recognise integrity dilemmas in their day-to-day work and the correct way to deal with them. Achmea monitors the number of e-learning training modules that have been followed. The percentage of employees that followed the training module is an indicator for Achmea of the control of corruption risk.

## CONTROL OF RISKS IN CORPORATE SOCIAL THEMES

Achmea has charted the relevant risks involved in corporate social responsibility. These are mainly compliance risks in the event of violating laws and regulations or reputation risk caused by far-reaching social involvement in policy areas.

As part of its risk strategy and risk appetite, Achmea has drawn up a statement on corporate social responsibility containing corresponding Key Risk Indicators (KRIs) and risk limits.

Achmea's position on the Dutch Ministry of Economic Affairs' Transparency benchmark, the Dutch Association of Investors for Sustainable Development (VBDO) benchmark and the relevant practical surveys conducted by the Ethical Insurance Guide have been earmarked as KRIs.

# Employees and diversity

## HUMAN RESOURCE POLICY

We want our employees to continue to grow and improve themselves. That is why we give them greater personal control over their work. Through our campaign 'DOEN' (DO IT), we foster a culture geared towards learning, development and performance. The networks Young Achmea and Achmea in Transition play an important role in our renewal efforts. Diversity and inclusion are other key themes of our HR policy.

**Greater individual control**
Since 2017 we have given our employees more freedom to set their own goals and organise their own work. By emphasising individual responsibility, we want to further enhance the strength of the organisation and its innovative power.

**The strength of feedback: DOEN and Impraise**
Through our campaign 'DOEN' (DO IT), we foster a culture of continuous learning, development and performance. As part of the campaign, employees engage in dialogue with each other about work and development, as well as giving and receiving feedback. By November 2017 there were more than eight hundred participants.

**Network Young Achmea**
In an ageing labour market, Achmea also wants to retain its appeal to younger people. Employees aged up to 36 can join the Young Achmea network. This network has more than 1,100 members, its own governing committee and local committees in Achmea's various offices. Young Achmea provides young people a platform to help them make the most of their potential. They can participate in think tanks, Summer school, presentation workshops, sporting activities, lunches with Executive Board members, official committees and meetings on specific themes connected with the organisation's strategy.


**The Achmea in transition network**
Achmea in transition was established in 2014 to support the Acceleration & Innovation change programme and continued in the current programme Delivering Together. Members support the change and innovation being pursued by Achmea. They originate from a variety of divisions and in their (informal) leadership roles are able to translate what change means for their own segments. Together they work to achieve engagement, acceleration in relevant subject areas and new forms of cooperation across Achmea. In 2017 the network met five times and the subjects addressed included agile working, design thinking, the future of learning, performing and evaluating, and filling out the theme of being a trendsetting insurer.

## MALE/FEMALE RATIO AT ACHMEA ON 31 DECEMBER (IN %)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | MALE | FEMALE | MALE | FEMALE |
| Supervisory Board | 50% | 50% | 50% | 50% |
| Executive Board | 83% | 17% | 83% | 17% |
| Directors' Council | 79% | 21% | 78% | 22% |
| Senior Management | 73% | 27% | 73% | 27% |
| Collective Labour Agreement Management | 74% | 26% | 73% | 27% |
| Collective Labour Agreement Employees | 48% | 52% | 48% | 52% |

*Tabel 9. Male/female ratio at Achmea in 2017 and 2016, excluding staff at our international subsidiaries.*

### DIVERSITY AND INCLUSION

Achmea is at the heart of society. Therefore, we believe it is important for our employees to be a reflection of society. This means that diversity and inclusion are important topics within our HR policy. Our vision is that ambitions can only be realised if all employees have the freedom to be and dare to be themselves.

Achmea supports diversity and inclusion through policy, initiatives and internal networks. In 2017 we focused on a number of specific subjects.

**Gender**

We pay continuous attention to gender diversity. We don't want to have typically male or typically female departments. That is why we aim to achieve the target of at least 30% men and 30% women at all levels of the organisation. We do so by:

- focusing on role models and their visibility, through network meetings, boardroom coaching and cross-mentoring, and by actively nominating young women for talent awards;
- being a signatory to the 'Talent to the Top' Charter and participating in the 'Women in Financial Services' (WIFS) network.

  We support LGBT (Lesbian, Gay, Bisexual and Transgender) people by:
  - being a signatory to the Amsterdam Declaration, an initiative designed to bring about real improvements for LGBT people in the workplace;
  - supporting our internal LGBT network, for instance by organising the Photo Pride exhibition at Achmea offices.

**Cultural diversity**

We promote cultural diversity in the following ways:

- new internal network that aims to raise awareness of the importance of cultural diversity;
- organising thematic meetings, workshops and online courses on Achmeanet for management and employees;
- training recruiters to be aware of unconscious prejudices in recruitment and selection;
- working with the Refugee Talent Hub. This is a partnership with other companies aimed at promoting the development of refugees. Achmea has provided mentors for this initiative. They help answer refugees' questions on work and share their knowledge, expertise and experience with them.

**People distanced from the labour market**

Achmea implements the Occupational Disability Act, pursuant to the social agreement of 2013. By year-end 2017 Achmea counted 47 places in its workforce occupied as part of the 'participation jobs' for people distanced from the labour market; a large part of the 15 employees has a hearing impairment. This team communicates with customers via email and chat and is employed at the Zilveren Kruis call center. Achmea also makes agreements with all (potential) external suppliers to make efforts to help people distanced from the labour market (social return).

**Professionalisation of our Healthy Working approach**

Our Healthy Working team aims to give employees inspiration and support for their bodies, minds, hearts & souls. Each key location has a team comprised of company physicians, psychologists, physiotherapists, dieticians and work/life coaches. This integrated approach helps employees to access the right professional quickly, simply and anonymously. In 2017, 4,819 employees made use of these services, and 1,505 employees decided to take a Health Check. Employee attendance at the company physicians' preventive consultation hours has doubled. A quarter of all appointments with the company physicians are now of a preventive nature. In November 2017 the International Institute for Health Management and Quality awarded Achmea a gold certificate for its Healthy Working approach.

**Preventing undesirable behaviour**

We aim to prevent undesirable behaviour through clear communication on this subject on intranet and in our code of conduct. The organisation has a complaint system for dealing with complaints of undesirable behaviour and more than twenty internal and external confidential advisers for employees. In 2017 the confidential advisers oversaw 36 cases related to undesirable behaviour (2016: 31). Two complaints were submitted to the

Undesirable Behaviour Complaints Committee in 2017. The Employee Engagement Survey of September 2017 showed that 4.5% of employees have encountered undesirable behaviour. The financial market benchmark is 18.8%.

**Participation bodies and trade organisations**
Achmea finds it is important to have good relations and cooperation with participation bodies. In this cooperation we aim to resolve organisational problems through a process of co-creation, each from their own individual responsibility. In 2017 the Achmea Works Councils held regular consultations with the management of the operating companies. At central level the Central Works Council (COR) held talks with the Executive Board. In 2017 the Central Works Council handled a total of eighteen requests for advice and eight requests for consent.

Achmea has held talks with the trade unions about the current collective labour agreement and the new agreement. With respect to innovation, employer organisations and trade unions have conducted pilot studies into an individual employability budget and a mobility budget. The outcomes were submitted to the collective labour agreement negotiations for 2018.

**Career and mobility**
Career coaching and mobility are both part of our sustainability employability policy. Employees can contact ‘progress coaches’ with any questions they may have. These coaches operate within Achmea’s offices and are familiar with all the instruments that the company has available in the field of career guidance and employability. In 2017 we added an employment market scan and a Careers, Training and Vacancies module. This module links careers to the background and interests of employees.

**Engaged and enthusiastic**
This year we measured engagement and enthusiasm in the Employee Engagement Survey (MBO). Engaged employees care about the organisation. They feel that they are a good fit for the organisation and its objectives and are glad to make a contribution. Enthusiastic employees care about the work that they do. They are dedicated to improving their work and themselves. Engaged and enthusiastic employees: a golden combination which applies to 38.3% of our employees, compared to a financial market benchmark of 37.8%.

**Achmea Transfer Centre (ATC)**
The Achmea Transfer Centre (ATC) helps employees to find new work. In 2017 a total of 570 employees began using the services of the ATC. Of these employees, 7.6% found a new job within the organisation, 22.7% found a new job outside the organisation and 3.2% became self-employed in 2017. This means that 33.5% of these employees were successfully placed. This percentage exceeds the figures for 2015 and 2016. In 2017, 65.6% of redundant employees left the organisation and received a redundancy payment.

**Silver Pool**
Silver Pool is Achmea’s internal ‘secondment agency’ which helps redundant employees aged 57½ or older to find new work and improve their employability and mobility. At year-end 2017 Silver Pool counted 121 people. In 2017 an average of 72% of Silver Pool employees were employed. Silver Pool stopped accepting new members in 2017. The last members are expected to leave in 2025.

**Introduction of agile working**
Agile working is becoming increasingly important at Achmea. Various divisions are transitioning to this approach. By year-end 2017 more than eighty teams were working agile. A central programme has been set up to reinforce the ‘agile transition’ from a multidisciplinary background and group-wide topics – such as HR, governance and work station facilities – are tailored to agile working. Furthermore, partnerships have been established with agile consultancy providers, an agile coaching community has been set up, a knowledge platform has been created and an agile growth model has been developed. In 2018 a great deal of attention will be devoted to scaling up agile working within Achmea in a measurable and qualitative manner.

## RISK MANAGEMENT – EMPLOYEE PERSPECTIVE

As part of its risk management activities, Achmea has identified two types of risk. On the one hand, risks involved in the performance of work by employees, and on the other the risk of lacking the right competences to perform the activities.

With respect to the performance of work, the risks identified are mainly operational and compliance-related. These concern matters such as internal fraud, disruption to processes, workplace security, damage to physical possessions and disruptions to the business. The Achmea risk strategy sets out the risk areas. It provides guidance to help shape policy frameworks such as the framework for internal control (Control Framework), Integrity & Fraud Policy, the Competition Compliance Rules, the Whistleblower Scheme and the Insider Trading Rules. The Integrity & Fraud Policy also addresses the risks related to corruption and bribery.


# Governance

# Report of the Supervisory Board

## MAIN DEVELOPMENTS IN 2017

The Supervisory Board performs its duties on the basis of three roles: supervisor, advisor (solicited and unsolicited advice) and employer in relation to the Executive Board.

The Group’s strategy and strategic innovation in the organisation were key items on the Supervisory Board’s agenda in 2017. In this respect, the 2018-2020 Business Plan, macro-economic environmental analysis and risks and opportunities for the business were frequent topics of discussion. Furthermore, in 2017 ample attention was paid to the capital policy and dividend policy, in which the development of the Group’s capital, liquidity and solvency positions, as well as profitability and free capital generation were closely monitored. In 2017, the Supervisory Board again devoted attention to succession planning and the composition of the Executive Board. Ample attention has also been devoted to filling the open vacancy on the Supervisory Board. In addition to focusing on the abovementioned topics, the Supervisory Board committees dealt with risk management, compliance, remuneration policy, diversity policy and management development, among other topics.

The Supervisory Board rates its relationship with the Executive Board to be good. The reports and information provided to the Supervisory Board were again further improved and the quality of the information provided was good. In these, the interests of the company’s stakeholders are incorporated in a balanced fashion. The Supervisory Board convened on nine occasions in 2017, eight ordinary meetings and one extra meeting. The eight ordinary meetings took place at Achmea’s head office in Zeist and one meeting was held in Leusden. During the visit to the location in Leusden, strategic innovations were discussed and several business units explained their innovative activities and reforms.

The Supervisory Board maintains a total of three committees, which advise the Supervisory Board: the Audit & Risk Committee, the Remuneration Committee and the Selection & Appointments Committee. The Audit & Risk Committee convened on eighteen occasions in 2017, the Remuneration Committee three times and the Selection & Appointments Committee held three meetings. The table below provides an overview of the attendance rates of each individual board member. Members who were unable to attend a meeting informed the concerning chairman on this and provided the chairman with input prior to the meeting.

### Strategy and Delivering Together

One of the Supervisory Board’s three key duties is involvement in developing Achmea’s strategy and monitoring its implementation. In multiple sessions, the Executive Board and the Supervisory Board discussed the strategy. The Achmea strategy focuses on strengthening the current business models and on developing new products, services and business models. The long-term value creation that is embedded in Achmea’s strategy focuses on providing products and services that have added value to society and by investing responsibly. In this way, Achmea works together with its customers, members and partners on a healthier, safer and more future-proof society.

2017 was the first year of our three-year planning period under the motto 'Delivering Together'. Over the past year, the socially

### ATTENDANCE RATES

| NAME | SUPERVISORY BOARD | AUDIT & RISK COMMITTEE | SELECTION & APPOINTMENT COMMITTEE | REMUNERATION COMMITTEE |
|---|---|---|---|---|
| P.H.M. Hofsté | 88% | 89% | | |
| S.T. van Lonkhuijzen | 100% | | | 100% |
| M. Lückerath | 100% | | 100% | 100% |
| A.C.W. Sneller | 100% | 94% | | |
| A.W. Veenman | 100% | 94% | 100% | 100% |
| A.J.A.M. Vermeer | 45%* | | 33%* | 25%* |
| R.Th. Wijmenga | 100% | 100% | | |
| W.H. de Weijer | 100% | | | |

** Due to personal circumstances it turned out to be impossible to attend meetings in this period.*

relevant themes were discussed and selected through which Achmea wants to have impact on customers and society and create long-term value. These themes are: vital customers and accessible healthcare, clean, safe and smart mobility, safe home and working environments, and financial solutions for today, tomorrow and later. These serve to give direction to (future) activities and innovations. Leading in all the improvement initiatives and innovations is the aim to be customer relevant and trendsetting. Customers' wishes are changing rapidly. Innovations in digital customer service and improvement of services to customers are therefore recurring topics on the agenda.

In this, the Supervisory Board and the Executive Board together also discussed the Group's financial ambitions of the group, the economic uncertainties and related challenges, scenarios and sensitivities and the measures defined by the Executive Board for the short and long term. The Supervisory Board underscored the Executive Board's commitment to achieving its financial ambitions, further reducing expenses and complexity while also continuing to invest unabated in excellent (digital) customer service, innovations and strategic initiatives to increase financial return in the long term. In this, the Supervisory Board called attention to, among other topics, the structure of the organisation in connection with the substantial movement of change defined by the Executive Board.

The implementation of the international strategy in 2017 focused on 1) growth in existing markets, based in part on the core qualities of the Dutch business and 2) the development of a digital property & casualty insurance company in existing international markets with the use of online competencies from the Dutch business was discussed extensively.

The Supervisory Board noted that major progress has been made in 2017 in improving the operational result, the Solvency II ratio, free capital generation and liquidity. The positive effects of the return- and expense measures and measures to reduce volatility in the result and solvency ratio were important topics for discussion. The Supervisory Board noted a further improvement in customer satisfaction, that Customer Centricity scores are high and that the employee engagement score remains high. Also the uncertainties surrounding, for instance, the initiative proposing legislation banning profit distribution by health insurance companies, the development of healthcare premiums and the loss provision to restrict increases in health insurance premiums for customers were discussed, as was the volatility of the result in particular at Health, Non-Life and Investments (financial markets).

At the end of 2017, the 2018-2020 Business Plan and the 2018 budget were approved. Also in the new planning period, innovation of services will remain a central focus. In doing so, further substance is given to the strategy. Achmea continues to focus on insurance products and services in the property & casualty, income protection and healthcare divisions, along with retirement services and international operations through the direct and banking channels. The digital transformation forms part of the business plan. The Supervisory Board endorses the plans defined by the Executive Board, the measures implemented and the urgency of their implementation.

### Composition of the Executive Board

Mr Michel Lamie joined the Executive Board effective 1 January 2017. His appointment filled the position of Chief Financial Officer which was vacated following the retirement of Mr Huub Arendse effective 1 April 2017. Mr Lamie has held the position of Chief Financial Officer since that date. Before joining the Executive Board, Mr Lamie held a variety of positions at several insurance companies (including Achmea), most recently at De Goudse N.V. as Chief Executive Officer. The Supervisory Board reappointed Mr Roelof Konterman, who has been a member and Deputy Chairman of the Executive Board since 2013, as of 1 April 2017. Mr Timmer, member of the Executive Board and Chief Risk Officer since 2014, was also reappointed for a four-year term starting on 1 March 2018.

### Composition of the Supervisory Board

In 2017 the Supervisory Board had eight members. Members of the Supervisory Board are selected based on a profile of the required professional background, education, international experience, skills, diversity and independence. The composition of the Supervisory Board is such that the members can perform their duties properly because of the appropriate mix of experience and expertise. As of 31 December 2017, the Supervisory Board was comprised of four male and four female members.

The Supervisory Board's composition was also on the agenda on several occasions.

Mr Veenman and Mrs Sneller were put forward for reappointment due to the expiry of their four-year term of appointment, and in March 2017 were accordingly reappointed for a four-year term by the General Meeting of Shareholders. Furthermore, the procedure relating to filling the vacancy following the departure of Mr Erik van de Merwe led to Mr Jan van den Berg being put forward to the General Meeting of Shareholders for appointment.

### Finances and risk

In each quarter of 2017, the Supervisory Board discussed Achmea's financial situation in detail based on the interim and quarterly results, in addition to discussing and approving the Year Report for 2016. The discussions on the annual and interim reporting were also attended by the external auditor.

In these discussions, the focus was on good progress made on the strategic agenda, the positive effects of the implemented return measures, the financial ratios, the decrease in the structural operating expense base, higher gross earned premiums for the core activities of health and property & casualty insurance, the high ratings awarded by customers and the higher result. In this respect, the Supervisory Board endorses the importance the Executive Board attaches to innovation for Achmea's future revenue model, as well as the importance the

## COMPOSITION OF THE SUPERVISORY BOARD AS OF 31 DECEMBER 2017

| NAME | NATIONALITY | GENDER | POSITION | TERM (MAX) THREE TERMS | (RE)APPOINTMENT |
|---|---|---|---|---|---|
| P.H.M. Hofsté[c] (1961) | Dutch | Female | Member | First | 2015 |
| S.T. van Lonkhuijzen[a] (1960) | Dutch | Female | Member | Second | 2015 |
| M. Lückerath[c] (1968) | Dutch | Female | Member | Second | 2015 |
| A.C.W. Sneller[c] (1965) | Dutch | Female | Member | Second | 2017 |
| A.W. Veenman[a] (1947) | Dutch | Male | Chairman | Third | 2017 |
| A.J.A.M. Vermeer[b] (1949) | Dutch | Male | Vice-Chairman | Third | 2014 |
| R.Th. Wijmenga[b] (1957) | Dutch | Male | Member | First | 2015 |
| W.H. de Weijer[a] (1953) | Dutch | Male | Member | First | 2016 |

*a) Nominated by Vereniging Achmea*
*b) Nominated by Rabobank*
*c) Nominated by the Central Works Council*

## OVERVIEW OF EXPERTISE

| NAME | EDUCATION | MANAGEMENT | GOVERNANCE | INSURANCE | BANKING | FINANCE/ RISK/AUDIT | HR/ REMUNERATION | LEGAL/ COMPLIANCE | COMMERCE/ CUSTOMER CENTRICITY | IT | HEALTH |
|---|---|---|---|---|---|---|---|---|---|---|---|
| P.H.M. Hofsté | Economics/ Accountancy | • | • | | • | • | | • | | | |
| S.T. van Lonkhuijzen | Business Administration | • | | • | | | • | | | | • |
| M. Lückerath | Economics | | • | | • | • | • | • | | | |
| A.C.W. Sneller | Econometrics/ Controlling | • | | | | • | | • | • | • | |
| A.W. Veenman | Mechanical Engineering | • | • | | | • | | • | • | • | |
| A.J.A.M. Vermeer | Agricultural Sciences | • | • | | | | • | | • | | |
| W.H. de Weijer | Healthcare Management | • | • | • | | | • | | | | • |
| R.Th. Wijmenga | Econometrics | • | • | • | | • | | • | • | | |

Executive Board attaches to improving the predictability of the size of the provisions. The Supervisory Board noted that the measures implemented by the Executive Board to improve the structural performance have contributed positively to the improved financial return. Achmea's financial position has improved in several respects over the past year. These improvements are due to the planned return measures, positive financial markets and several one-off windfalls. These have a positive impact on the solvency, the liquidity and the result. Also risks and its impact on Achmea were an important agenda item for the Supervisory Board in 2017. This includes the Group's risk appetite and risk and compliance reports, which are discussed periodically, and any new special risks which may arise. For instance, in 2017 the Board examined in detail the Executive Board's proposal to provide the internal model for market risk to the Dutch Central Bank (DNB) before application, the ratings, the capital policy, the proposed legislation banning profit distribution by health insurance companies. The Supervisory Board agreed to further interest rate risk control measures.

The internal control of privacy regulations, cyber security, integrity rules and control of outsourcing, among other topics, were discussed in detail. The Supervisory Board concluded that the integral risk reporting has improved further.

The Supervisory Board approved the carefully considered proposal of the Executive Board to the General Meeting of Shareholders to pay dividends for 2016 to holders of preferential shares, and to pay no dividends to ordinary shareholders.

The Supervisory Board was also intensively involved by the Executive Board in the decision to redeem own shares. The Supervisory Board approved this and on 2 February 2018 the General Meeting of Shareholders authorised the Executive Board to implement the decision to redeem own shares.

### Compliance with laws and regulations and audit

The Supervisory Board noted in 2017 that the compliance requirements arising from laws and regulations, external regulation and (inter)national (industry) associations continue undiminished. The Supervisory Board views the clarity and transparency of the requirements imposed by regulators positively. However, the amount of time this entails, both for the Executive Board and the organisation, remains as high as ever.

The Supervisory Board and its committees discussed a variety of issues in detail, including the impact of the General Data Protection Regulation and the impact of the future introduction of IFRS 17 and IFRS 9.

The Audit & Risk Committee and the Supervisory Board also conducted in-depth discussions with the external auditor and Internal Audit on the conclusions set out in the management letter and the audit memorandum.

### Dilemmas

The Supervisory Board also discussed a number of dilemmas in 2017, including: i) the speed of developments and innovations and its impact on the strategy and existing activities relating to the balance between cost savings and investment in innovation and new revenue models and ii) the future sustainability of the allocation of reserves in the health insurance business in order to restrict increases in basic health insurance premiums.

### Remuneration

Achmea has its own remuneration policy that is aligned with its identity and strategy, as well as laws and regulations governing remuneration. Over the past few years, Achmea has implemented various amendments and economies to the remuneration policy for board members and senior management.

In its capacity as the most senior body, the Supervisory Board monitors the remuneration policy to ensure whether the Group's remuneration policy complies with the principles for a prudent remuneration policy. Achmea's Remuneration Committee monitors the Group's remuneration policy and advises the Supervisory Board on this issue. The Remuneration Committee also advises the Supervisory Board on the remuneration of the members of the Executive Board and the Supervisory Board. Approval of the remuneration of the members of the Supervisory Board takes place by the General Meeting of Shareholders.

In 2015 the Act on Remuneration Policies of Financial Undertakings (Wbfo) came into effect. Prior to the law coming into effect, Achmea already had a moderate variable remuneration policy that complied with the Wbfo. Yet the Board of Supervisors, in consultation with the Executive Board, has decided to further change the variable remuneration policy as of 1 January 2017, also for the group of employees in The Netherlands whose variable remuneration would be allowed to exceed 20% within the stipulations of article 1:125 paragraph 2 of the Act on Remuneration Policies of Financial Undertakings (Wbfo) by restricting them to a maximum of 20% of the fixed salary.

The loss of this possibility has led to a one-off adjustment of the fixed salary for a small number of employees, including the five members of the Executive Board, which has been implemented as of 1 January 2018 (for more information see the Remuneration Committee Report below).

In 2017 the compensation paid to the members of the Supervisory Board has not changed. The compensation of the members of the Supervisory Board in 2017 is reported on in Note 35 of the financial statements.

Achmea publishes in detail about her remuneration policy, including the remuneration of the Executive Board and the Board of Supervisors in the Achmea Remuneration Report 2017 which will appear in May 2018 on www.achmea.nl.

### Permanent education

In 2017, four permanent education sessions were organised for Supervisory Board members. All the sessions were attended by virtually all the Supervisory Board members.
The first session dealt with trends and developments relating to remuneration policy. The second session looked at developments and measures relating to cybercrime. The third session discussed laws and regulations and the impact of IFRS 9 and IFRS 17 in detail. The fourth session focused on Achmea's internal model for market risk under Solvency II.

### Evaluation of the Supervisory Board

Each year, the Supervisory Board carries out a self-assessment of its performance. In 2017, the evaluation was held with the assistance of an external advisor. Talks were also held with members of the Supervisory Board, members of the Executive Board and the heads of Internal Audit, Financial Management and the company secretary. The outcomes of this evaluation were discussed in detail by the Supervisory Board. The Chairman of the Supervisory Board also discussed the outcomes with the Executive Board.

The evaluation of the Supervisory Board focused on the following issues in 2017: the composition and role of the Supervisory Board, governance and the structure of the organisation, the effectiveness of supervision and transparency, and how the Supervisory Board fulfils its roles as employer and advisor. The general picture created by this evaluation is positive and encourages the Supervisory Board to continue on the same path. The Supervisory Board performs well and cooperation within it and with the committees runs smoothly. There is an open and constructive atmosphere, with room for debate, different opinions and the discussion of sensitive subjects. The Board acts independently, its members come from diverse backgrounds and complement each other, it has a great deal of expertise and is well-equipped for its duties. The careful preparatory duties conducted by the committees increase the efficiency of the Supervisory Board's meetings. The preparations conducted by the Executive Board are also assessed positively. Furthermore, the information provision and transparency by the Executive Board and the quality of the reports were judged positively.

Suggestions for improvement that were discussed included: further strengthening the employer role via an additional focus on fleet review and succession planning, and further expanding the Supervisory Board's advisory role, partly via an additional focus on dialogue with the Executive Board on dilemmas, long-term strategy and new revenue models.

### Culture

The Supervisory Board and the Executive Board discussed, among other things, the open culture and transparency in communication between the Supervisory Board and the Executive Board. As a part of managing the employee perspective, the company's culture was also discussed. It is important for Achmea to create an environment in which employees can develop themselves and excel. In addition, the 'tone at the top' came up following from the leadership model. The leadership model conveys Achmea's vision on leadership. Transparency, ambition and authenticity are at the heart of the leadership model. The focus on integrity, as a part of transparency and a sincere company culture, has also been discussed. This is based on indicating desirable conduct from the perspective of Achmea's cooperative identity, as determined in Achmea's General Code of Conduct. The code of conduct describes the core values, core qualities and the behavioural rules of Achmea.

### Shareholder relations

With the exception of the General Meeting of Shareholders, the Supervisory Board as a corporate body has restricted contact with shareholders. The Chairman of the Executive Board is the primary point of contact for shareholders. However, the Chairman of the Supervisory Board does hold regular meetings with shareholders on topics such as proposals for the appointment of Supervisory Board members and talks to them in the context of the General Meeting of Shareholders. In doing so, the chairman is always invited to attend meetings of Vereniging Achmea, the majority shareholder of Achmea B.V., as an observer. With a view to engagement with customers and members of Vereniging Achmea, Supervisory Board members are invited to attend Members Council meetings organised by Vereniging Achmea.

### Relations with the external auditor

PricewaterhouseCoopers Accountants N.V. (PwC) is the Group's external auditor. The Chairman of the Supervisory Board and the Chairman of the Audit & Risk Committee meet annually with the external auditor's lead partner. In addition, in 2017 the Audit & Risk Committee held two private meetings with the external auditor, at which topics of discussion included specific measures to improve financial performance, the focus on achieving goals, changes in the Group's Finance column, and the process relating to year-end closing. The Supervisory Board discusses the external auditor's performance annually. The external auditor is not present on this occasion.

The Supervisory Board and the Audit & Risk Committee agree that the working relationship with PwC is good. The cooperation is good and transparent.  PwC adds value to improving the financial reporting process and challenges the company in a constructive and positive manner. In its reporting, PwC focused in 2017 on the comparison with other insurance companies (benchmarking).

The Supervisory Board concluded, based among other things on the external auditor's report that the level of control of the financial reporting risks and internal control within Achmea is sufficient.

### Relations with Internal Audit

The Supervisory Board maintains an independent relationship with the Internal Audit department. The Supervisory Board lays down the Annual Audit Plan each year. The Audit Memorandum together with the external auditor's management letter provide the Supervisory Board with an excellent overview of the Group's position and of the main areas for attention. The Supervisory Board is satisfied with the strong relationship between the Audit & Risk Committee and the Director of Internal Audit. The Chairman of the Supervisory Board and the Chairman of the Audit & Risk Committee meet regularly with the Director of Internal Audit. The Director of Internal Audit is also present at the meetings of the Remuneration Committee as a part of the discussion of the audit of Achmea's Remuneration policy. The Audit & Risk Committee discusses Internal Audit's performance annually. The director of Internal Audit is not present on this occasion.

### Relations with Risk & Compliance

The Supervisory Board has noted that the risk & complicance function is well-anchored in the organisation and effectively structured. The risk report provides an insight in the integral risk profile of Achmea. The Audit & Risk Committee and the Supervisory Board are provided with an overview of the developments and points of attention of Achmea's primary risks as well as an elaboration on the developments in the divisions and particularities surrounding the financial, operational and compliance risks. The actuarial report of the Group is also periodically discussed.

### Relationship with the Central Works Council (COR)

The Supervisory Board again assessed the relationship with the Central Works Council to be good in 2017. Partly using the general guide published by the Social and Economic Council of the Netherlands (SER) on consolidating the relationship between the Supervisory Board and the Works Council, it has been established that the relationship with the COR is correctly structured. The Supervisory Board noted that there are sound working relations and a constructive and open dialogue between the Executive Board and the COR. The Supervisory Board members took turns attending meetings of the COR in 2017. In line with the legally reinforced right of recommendation, the COR (1/3) may propose candidates for three of the nine Supervisory Board seats.

### Conflicts of interest

In line with the Dutch Corporate Governance Code, transactions involving Supervisory Board members in which there are conflicts of interest must be listed in the annual report. No such transactions occurred in 2017. The Supervisory Board has established a Risk Self Assessment Committee which provides advice to the Chairman of the Supervisory Board relating to new additional positions held by Board members in connection with potential conflicts of interest.

## AUDIT & RISK COMMITTEE REPORT

The Audit & Risk Committee is comprised of the following members of the Supervisory Board: Mr Roel Wijmenga (Chairman), Mr Aad Veenman, Mrs Lineke Sneller and Mrs Petri Hofsté. The Audit & Risk Committee also acts as the Audit & Risk Committee for the Supervisory Boards of the Health (excluding DFZ), Non-Life, Pensions and Life insurance companies. Meetings of the Audit & Risk Committee are attended by the Chairman of the Executive Board, the Chief Financial Officer, the Chief Risk Officer and the external auditor. At the Chairman's request, the directors of Internal Audit, Financial Management and Compliance & Operational Risk Management were invited to discuss the agenda items relevant to them. Specialists may be invited to attend part of the meeting for discussions on specific topics.

In 2017, the Audit & Risk Committee's ordinary meetings were dominated by the analysis and discussion of the results during the reporting period, the evaluation and discussion of the annual and interim results for external publication, and the quarterly results for distribution among the shareholders for consolidation purposes, along with a discussion of the related audit reports issued by the external auditor. Throughout the year, the Risk & Compliance reports and Audit Memoranda were also discussed in detail.

During the meeting to discuss the 2016 financial statements, much attention was devoted to Achmea's solvency and liquidity position and the (disappointing) financial results over 2016. Furthermore, the proposal for, and careful consideration of, the Executive Board regarding the payment of dividends to the holders of preferential shares was discussed, along with the proposal to pay no dividends to ordinary shareholders. Another item on the agenda was the closing process and adoption of the Solvency II ratio.

In 2017, the Audit & Risk Committee regularly discussed the progress of the change agenda and the 'Delivering Together' programme. During review of the rolling forecast, in-depth discussions were held on the progress on the financial strategy, expectations relating to the results, the FTE and cost reduction targets, Achmea's capital, liquidity and solvency positions and measures to improve these. Other topics discussed by the committee included the results of personal injury claims, the 2017 Recovery Plan, the Own Risk & Solvency Assessment, the Regular Supervisory Report (preparatory Solvency II report), the 2016 Achmea Valuation, the review of the capital policy and the payment of dividends by the operating companies (Otso's). The Committee also discussed, on several occasions, the company's risk appetite and capital hedging (for the purpose of making solvency less sensitive to interest-rate fluctuations under Solvency II). The Audit & Risk Committee was fully briefed on capital hedging and discussed this topic in detail. The Audit & Risk Committee endorses the measures taken by the Executive Board in this context.

In discussing the Risk & Compliance reports, the main themes were the Solvency II and IFRS-LAT positions at Achmea Pension & Life and the measures to strengthen the financial position. The Audit & Risk Committee examined the IFRS liability adequacy tests. In addition, in 2017 there were extensive discussions on financing and ratings (and their evolution), as well as the Executive Board's plans in this respect. The Audit & Risk Committee was also informed of the potential impact of the proposed legislation to ban profit distribution by health insurance companies and of a positive recommendation relating to the legal merger of the health entities.

The Audit & Risk Committee talked about the internal dividend policy and its implementation as well as the evaluation conducted by the Executive Board of the external dividend policy. The Committee issued the Supervisory Board with a positive recommendation on the Executive Board's intended proposal to the General Meeting of Shareholders that the dividend be based on a net result excluding the Health result.

The Audit & Risk Committee again discussed the implementation and reassessment of the Audit Plan in 2017. Moreover, via so-called deep dives, the Audit & Risk Committee was informed of the market risk model, the setting of the 2018 health insurance premiums and Achmea Reinsurance operations.

The Financial Performance Management Dashboard was introduced by the Executive Board in 2017. This reports on the progress on top priorities that deliver a crucial contribution to the strategic development and the improvement in the operational result, solvency, free capital generation and liquidity. The Audit & Risk Committee periodically discussed this report and in doing so established that good progress has been made on developing the financial parameters. The committee endorses the measures taken by the Executive Board to achieve a structural improvement in the result.

In 2017, the Audit & Risk Committee was intensively involved in the Executive Board's intention to redeem own shares. Agreement on the sale of Friends First Life Assurance Company DAC is expected to lead to an improvement in the solvency and liquidity position at final closing, part of which Achmea intends to use for the benefit of shareholders. At the shareholder meeting on 2 February 2018, shareholders agreed to the redemption of own shares.

At the end of 2017, the 2018-2020 Business Plan and the 2018 Budget were discussed in detail. The committee issued a positive recommendation on this to the Supervisory Board. In its deliberations, the committee examined in detail the health insurance premiums settings and the expectations surrounding the evolution of the healthcare market.

The Audit & Risk Committee questioned both PwC and the Executive Board on the findings contained in the management letter. To the satisfaction of the committee, it was concluded that all the topics addressed have the intensive attention of the Executive Board.

The company's risk management and risk appetite are important topics for the Supervisory Board, particularly in the current financial climate. The committee advised the Supervisory Board on discussions on the risk appetite, including comprehensive risk reporting and Own Risk & Solvency Assessment. Other topics discussed extensively with the Executive Board include the annual Internal Audit/PwC 2018 Audit Plan, the 2018 Investment Plan and the corresponding controls and monitoring.

Finally, the committee spoke on several occasions about the Group's tax position, the exceptional tax files and legal procedures and the corresponding risks.

## REMUNERATION COMMITTEE REPORT

The Remuneration Committee is comprised of four members of the Supervisory Board namely Mrs Mijntje Lückerath (Chair), Mrs Joke van Lonkhuijzen, Mr Aad Veenman and Mr Antoon Vermeer. At regular intervals, the Remuneration Committee receives advice from internal and external specialists in the field of Achmea's remuneration policy, including the HR Director, the Director Internal Audit, and the company secretary who are all also a member of the Central Committee Remuneration Policy. In March 2017, a permanent education session in the field of remuneration policy took place for the entire Supervisory Board, with the attendance of a remuneration specialist.

### Monitoring responsible remuneration

One of the duties of the Remuneration Committee is monitoring the application of and compliance with the (variable) remuneration policy. Responsible remuneration is an important matter for Achmea (for more information please also see the section on Remuneration and the annual Achmea Remuneration Report on www.achmea.nl). In the Remuneration Committee meeting, meticulous reporting is made by the departments tasked with the implementation of the so-called key controls on the remuneration policy. This includes key controls relating to target setting, the method used to set them, whether goals have been achieved (sustainably), and the periodic risk analysis of the Achmea remuneration policy. The adoption of the so-called risk takers and identified staff are also recurring agenda items. Finally, each year the Group remuneration policy is discussed and whether it needs to be amended.

### Introduction of simplified and fine-tuned performance management process

As of 1 January 2017, a simplified process of performance management was introduced within the Achmea Group, both in the Netherlands and abroad. This process was reviewed and amended in 2016, partly on the initiative of the Remuneration Committee, in conjunction with, amongst others, the regulator. Over the past year, the Remuneration Committee has advised the Supervisory Board on implementation of this process for the members of the Executive Board. It has also actively sought out information (on the progress made) of the implementation.
The process of performance management and variable remuneration was conducted in a balanced manner within Achmea in 2017, while it was also extended to the various organisational levels. In modifying the process, it was decided to opt for greater simplicity and stricter management by restricting the number of Key Performance Indicators (KPIs), while also defining them more precisely, in a manner that matches the company's risk profile and risk appetite, in a way that aligns the strategy and long term value creation. A direct link was also made to the Achmea General Code of Conduct. Any violations of the code result in a downward adjustment of the variable remuneration. Based on the multi-year strategy map, which was revised for the 2017-2019 planning period, a link is established annually from six different perspectives (i.e. customer, societal context, employees, (business) partners, processes and financial results) with objectives which apply to the Achmea Group, divisions and segments and/or individual board members and employees. Here, there is a sound balance in the type of performance indicator, short and long-term performance management and in the criteria used as a basis for variable remuneration. Part of the objectives are also the personal development objectives, for instance in the context of strengthening leadership.

### Restriction of variable remuneration to maximum of 20%

At its first meeting of 2017, the Remuneration Committee advised the Supervisory Board on the introduction of a maximum of 20% for variable remuneration as of 1 January 2017 for employees in the Netherlands, where formerly the variable remuneration could exceed 20% of their fixed salaries within the stipulations of article 1:125 paragraph 2 of the Act on Remuneration Policies of Financial Undertakings (Wbfo). These include the members of the Executive

Board. The Supervisory Board agreed to this proposal. Individual members of the Executive Board are compensated for this amendment to their terms of employment by an adjustment to their fixed salaries of 4.95%. At the request of the Executive Board, the adjustment to fixed salaries did not take place as of 1 January 2017 but as of 1 January 2018.

### Executive Board remuneration benchmark

In 2017, the Remuneration Committee used an external benchmark to review the remuneration of the Executive Board. In this process, a peer group was constructed comprising comparable positions at ten Dutch and eleven European financial concerns and eleven non-financial Dutch and European concerns, including cooperatives. In positioning the benchmark, the size of the concerns in terms of revenue, balance sheet total and number of FTEs was taken into account. More details on the benchmark can be found in the 2017 Remuneration Report to be published in May 2018.

The outcomes of the benchmark were discussed in the Remuneration Committee and the Supervisory Board, as well as the Executive Board. In line with Achmea's Corporate Governance Code, the Executive Board provided its vision of the level and structure of remuneration to the Remuneration Committee.

Based on the outcomes of the benchmark, the Remuneration Committee concluded that the remuneration of the Executive Board is appropriate, taking into account the nature and size of Achmea and in comparison to the peer group. The outcomes show that the remuneration is sufficiently moderate. The Executive Board endorses this conclusion. On the advice of the Remuneration Committee, the Supervisory Board concluded that the benchmark gives no reason to modify the remuneration of the Executive Board. The remuneration of Achmea's Executive Board is below the median of the (combined) peer group, while Achmea is higher than the median in terms of size.

Another topic which the Remuneration Committee dealt with in 2017 was the internal remuneration ratio within Achmea. Here, among other topics, it looked at the ratio between the fixed salary of the highest-paid employee, the Chairman of the Executive Board, and the median of the fixed salaries of the personnel in the Netherlands (under the Collective Labour Agreement). This ratio was 18.5 in 2017. Furthermore, the Committee examined the ratios for each decile (10%) of Achmea's remuneration structure.

### Performance evaluation and variable remuneration of the Executive Board

Each year, the Remuneration Committee assesses the performance of Executive Board members over the relevant year. The Remuneration Committee advises on this and also on whether variable remuneration should be awarded to the Supervisory Board among other topics.

No variable remuneration were awarded over 2016 due to the financial results in 2016. Final decision-making on awarding variable remuneration over 2017 has yet to take place. More information on this will be published in the 2017 Remuneration Report.

In 2017, there were no downward adjustments or clawback of variable remuneration awarded to the Executive Board relating to previous years.

### 2017 Remuneration Report

A detailed summary of (other parts of) the remuneration for the active members of the Executive Board is given in the financial statements, note 35 "Related party transactions".

The remuneration package for Executive Board members includes the potential award of variable remuneration and pension in addition to the fixed remuneration.

For more information about remuneration, please see the Remuneration Report, which will be published on our websites www.achmea.nl and www.achmea.com in May 2018.

## SELECTION & APPOINTMENTS COMMITTEE REPORT

The Selection & Appointments Committee is responsible for monitoring the composition and profile of both the Supervisory Board and the Executive Board. The Committee looks for and makes recommendations regarding potential candidates, in some cases in conjunction with shareholders or the Central Works Council based on rights of nomination.

The Selection & Appointments Committee is comprised of three members of the Supervisory Board, namely Mr Aad Veenman (chairman), Mrs Mijntje Lückerath and Mr Antoon Vermeer.

### Changes and vacancies

In 2017, the main priorities were: i) the composition of the Executive Board, due to the expiration of the appointment period of Mr Roelof Konterman in 2017 and Mr Henk Timmer in 2018 and ii) the composition of the Supervisory Board, due to the expiration of the appointment period of Mrs Lineke Sneller and Mr Aad Veenman and filling the vacancy that had arisen in the Supervisory Board in 2016.

Last year, the Supervisory Board provided further information on the appointment of Mr Lamie as of 1 January 2017 as member of the Executive Board in its report. He succeeded Mr Arendse as Chief Financial Officer in April 2017.

After careful assessment by the Selection & Appointments Committee of the current composition of the Executive Board and the required competencies in the Board in light of the current requirements, it issued a positive recommendation to the Supervisory Board on the reappointment of Mr Konterman and Mr Timmer. The Supervisory Board reappointed Mr Konterman as of 1 April 2017 and Mr Timmer as of 1 March 2018 for a further four-year term. The Committee also discussed the composition of the Supervisory Board. After careful review by the Selection & Appointments Committee of the current composition of the Supervisory Board and the required competencies on the Board in light of the current requirements, Mr Veenman and Mrs Sneller were put forward for reappointment and each reappointed for a further four-year term by the General Meeting of Shareholders in March 2017.

The committee also discussed filling the vacancy that had arisen in 2016. After careful review by the Selection & Appointments Committee of the current composition of the Supervisory Board and the required competencies on the Board in light of the current regulatory challenges, the general profile was expanded to contain specific requirements. This profile was discussed with shareholder Vereniging Achmea, as part of the right of nomination of Vereniging Achmea. The nomination by Vereniging Achmea was discussed by the Selection & Appointments Committee, which then presented it to the Supervisory Board with a positive recommendation. The Supervisory Board subsequently put forward Mr Jan van den Berg to the General Meeting of Shareholders for appointment.

### Succession planning

The Selection & Appointments Committee regularly discussed succession planning for the Supervisory Board, the Executive Board and for the first management level below the Executive Board in 2017, based on a discussion of the Human Resources Performance Potential Portfolio. This meeting was once again held in 2017, with all members of the Supervisory Board in attendance. Items on the agenda included the company's diversity and Management Development policies, including the focus on internal training and promotion. The Supervisory Board also discussed succession planning at divisional board level. This provided the Supervisory Board with thorough insight into the management potential and management capabilities within the Group.

In 2017, the Committee examined diversity policy with respect to the composition of the Executive Board and the Supervisory Board. The Supervisory Board endorses Achmea's general diversity and inclusion policy, and on the advice of the Committee introduced a number of specific amendments to the diversity policy with respect to the composition of the Supervisory Board and the Executive Board. These specific amendments are: 1) a balanced male-female ratio in the Supervisory Board and Executive Board; the aim here is to achieve a target of at least 30% female members at all levels (and at least 30% male), 2) the correct mix of experience and expertise from the perspective of suitability of the individual and the composition of the team as a whole and 3) to achieve diversity and a balance in the ages of the Board members.

## 2017 FINANCIAL STATEMENTS AND DIVIDEND

PwC audited the Achmea B.V. 2017 financial statements and issued an unqualified audit report on 15 March 2018. In line with the proposal by the Executive Board and the recommendation of the Audit & Risk Committee, the Supervisory Board recommends that shareholders approve the 2017 financial statements. After approval of the financial statements by the General Meeting of Shareholders, the Executive Board proposes payment of a dividend of €123,6 million.  For the preferential shares, the Executive Board recommends that the General Meeting of Shareholders agrees to the payment of the full dividend equal to 5.5% of the fully paid-up capital. Apart from the approval of the financial statements, the General Meeting of Shareholders will also be asked to approve the amended dividend policy and to discharge Executive Board members from liability for the management they have conducted and to discharge Supervisory Board members from liability for the supervision they have conducted in the 2017 reporting year.

## ACKNOWLEDGEMENTS

We would like to take this opportunity to thank the Executive Board, the Central Works Council and all Achmea employees for their great commitment and the passion they have shown over the past reporting year.

15 March 2018

**The Supervisory Board**
A.W. (Aad) Veenman, Chairman
A.J.A.M. (Antoon) Vermeer, Deputy Chairman
J. (Jan) van den Berg*
P.H.M. (Petri) Hofsté
S.T. (Joke) van Lonkhuijzen-Hoekstra
M. (Mijntje) Lückerath-Rovers
A.C.W. (Lineke) Sneller
W.H. (Wim) de Weijer
R. Th. (Roel) Wijmenga

* *Mr Jan van den Berg has been appointed by the General Meeting of Shareholders and acceded to the Board of Supervisors as of 16 February 2018.*

# Corporate governance

## MAIN DEVELOPMENTS IN 2017

Achmea is a private company with limited liability, with its statutory seat in Zeist. Although in real terms Achmea is governed, organised and managed in the same manner as many listed organisations, its origins as a cooperative contribute to the way corporate governance is structured at the Supervisory Board and shareholder levels. Achmea adheres to the following relevant corporate governance codes: the Dutch Insurers' Code, the Dutch Banking Code and the relevant provisions of the Dutch corporate governance code.

**Changes in the Executive Board**
Mr Michel Lamie joined the Executive Board as a member effective 1 January 2017. His appointment filled the position which was vacated following the retirement of Mr Huub Arendse effective 1 April 2017. Mr Lamie assumed the role of CFO as of the same date. Before joining Achmea, Mr Lamie held a variety of positions at several Dutch insurance companies, most recently as Chief Executive Officer of De Goudse N.V.

**Changes in the Supervisory Board**
The Supervisory Board remained unchanged in 2017. A procedure to fill the open vacancy on the Supervisory Board was followed during the course of the year, resulting in the appointment of Mr Jan van den Berg effective 16 February 2018.

## CORPORATE GOVERNANCE CODES

**Insurers' Code of Conduct**
The Insurers' Code of Conduct includes a number of principles relating to the careful treatment of customers and the life-long education of directors and internal supervisors. This Code of Conduct (recent version dates from 2015) combines existing and new self-regulation of the sector with general provisions, including core values and rules of conduct. Based on the Code of Conduct, insurers give more depth to their public role, drawing on their own corporate vision. Achmea is doing this by means of, for example, the identity and the strategy map, and has integrated this into its processes and the Achmea Code of Conduct. For information about the embedding of the principles of careful customer treatment, please refer to the chapter 'Our customers' of the Annual Review. Details on how life-long education of directors and internal supervisors is embedded are included in the relevant sections of this chapter.

**Banking Code**
Part of the services we provide to our customers also includes banking activities, which we offer through Achmea Bank N.V. The Banking Code (2015), Het Maatschappelijk Statuut (the Social Charter) and the rules of conduct associated with the Bankers' Oath together make up the Future-Oriented Banking package. The purpose of this package is to play a key role in restoring trust in society in relation to banks and their roles in the community. Achmea Bank N.V. abides by the Banking code. Achmea Bank N.V. accounts for its compliance with the Banking Code's principles on the website www.achmeabank.nl and www.achmeabank.com. Here specific examples are used to illustrate how the principles were complied with.

**Dutch corporate governance code**
Since 1 January 2004, listed companies in the Netherlands have been required to report on compliance with the Dutch corporate governance code in their management report on a 'comply or explain' basis. The purpose of the Code is to facilitate – with or in relation to other laws and regulations – a sound and transparent system of checks and balances within Dutch listed companies and, to that end, to regulate relations between the executive board, the supervisory board and the general meeting of shareholders. Compliance with the Code contributes to confidence in the good and responsible management of companies and their integration into society. The Code was first adopted in 2003 and amended in 2008. The ongoing developments, the spirit of the times and overlap with legislation provided cause for amending the Code by the end of 2016. Although Achmea has listed instruments it is not a listed company. We have voluntarily adopted and embedded the majority of the Code's principles in our governance structure. Where applicable, we are almost fully in compliance with the principles and best practices.

In 2017, we did not comply fully with the following three principles of the corporate governance code:
- Independence of members of the supervisory board (principle 2.1.8)
- Duration of the appointment of a member of the Executive Board (principle 2.2.1)
- Adoption of the remuneration policy for the executive board by the AGM (principle 3.1.1).

Although all members of Achmea's Supervisory Board fulfil their duties without interference or consultation, as of 31 December 2017 two of the eight members of the Supervisory Board of Achmea B.V. did not comply with the independence principle because they are members of an executive board or supervisory board of an organisation holding more than 10% of the shares in Achmea. Members of Achmea's Supervisory Board are nominated by our shareholders (i) Vereniging Achmea, (ii) Rabobank, (iii) Gothaer Allgemeine Versicherung, Gothaer Finanz Holding and Schweizerische Mobiliar Holding jointly, and by the Central Works Council (COR).

Mr De Weijer was nominated by Vereniging Achmea and also serves on the board of Vereniging Achmea, which is composed of customers' representatives. However, this relationship is considered appropriate for Achmea because of its identity as a cooperative and the relationship with Vereniging Achmea as shareholder, whose focus is more on the interests of the customer and Achmea's continuity. Mrs Hofsté was nominated by the Central Works Council in 2015 and joined the Rabobank Supervisory Board in late December 2016. In addition, no single group of members of the Supervisory Board nominated by individual shareholders or the Central Works Council has a majority on the Supervisory Board. Members of the Supervisory Board are nominated by the General Meeting of Shareholders based on their expertise and independence and take part in the meetings without reference to or prior consultation with the parties which nominated them. Where appropriate, they refrain from participating in deliberations or decision-making.

As for the appointment term of the members of the Executive Board, the Corporate governance code recommends a term of for four years. The only exception, where Achmea does not comply with this principle, is the term of the Chairman of the Executive Board. His appointment is for an indefinite period of time. This contractual arrangement is complied with.

The Supervisory Board determines the salary and the terms and conditions of employment of members of the Executive Board. Achmea's remuneration policy is also assessed by the Remuneration Committee and adopted by the Supervisory Board. Achmea regards this as a matter for the Supervisory Board and therefore does not submit the matter to the General Meeting of Shareholders.

The manner in which we have adopted and embedded the Corporate governance code was discussed with and has been approved by the Supervisory Board. Likewise, our current corporate governance structure was approved by the General Meeting of Shareholders.

**Achmea Code of Conduct**
Achmea aims to be a leader in terms of its own rules of conduct and in anticipating current and new regulations. For example, Achmea decided that all employees take a special oath or affirmation for the financial industry, which is in line with the Achmea identity. Active control, exercised to foster integrity and prevent integrity violations and fraud, limits any negative impact on trust, returns and the cost of claims. Achmea has therefore drawn up an Achmea code of conduct to ensure ethical conduct in accordance with Achmea's values and standards. Achmea's Code of Conduct is available at www.achmea.nl.

By recording duties and responsibilities in the area of fraud, risk management and checks, the control over and limitation of fraud is secured. Should an integrity violation or fraud incident nevertheless occur, this can be reported on a confidential basis. A whistleblower policy is in place for this purpose and available at www.achmea.nl.

## EXECUTIVE BOARD

The Executive Board is responsible for managing the company. This implies that the Executive Board is responsible for and has the authority to make decisions concerning Achmea's day-to-day business in accordance with the principles set out in the articles of association. The Executive Board maintains a set of regulations that govern the specific duties and activities of – and the division of duties between – the individual members, as well as the decision-making process within the Executive Board. The Executive Board is obliged to inform the Supervisory Board of any fundamental differences of opinion between the Executive Board and the management of the companies or entities. There were no fundamental differences of opinion in 2017.
The Executive Board reports directly to the Supervisory Board. Each board member is directly responsible for specific Achmea activities (for further reference see the personal profiles of the members of the Executive Board), with clear reporting lines of divisional and staff directors. The entire Executive Board is involved in risk management. Involvement in risk management is evidenced by, among other things, the fact that besides the CFO and CRO, another member of the Executive Board sits on the Finance & Risk Committee and that risk management and compliance are regularly discussed in Executive Board meetings.

The Executive Board and its independently acting members ensure that the interests of all parties that have dealings with Achmea, including customers, shareholders and employees, are considered in a balanced way. The Executive Board takes Achmea's continuity, the corporate social environment in which we operate and applicable regulations and codes into account when considering these interests. All members of the Executive Board have taken the oath or affirmation.

Achmea has been using the 'four stakeholders' model for many years, ensuring that overall management and decision-making are in line with the interests of customers, employees, (business) partners and shareholders. This is all embedded in the strategy and identity of the Group and subsequently in the leadership profile, business plans and remuneration policy, and is also part of the considerations in every resolution adopted by the Executive Board. The formulation of objectives for the Executive Board and senior management is based on the Stakeholder Value Management model. The annual objectives have been ranked according to six different perspectives: customer, society, employee, partner, process and financials. All members of the Executive Board were present at virtually all board meetings.

**Composition and diversity**
Members of the Executive Board are appointed by the Supervisory Board on the non-binding nomination of Stichting Administratiekantoor Achmea (the A-shareholder in Achmea B.V.).

Executive Board members are selected based on their proven experience and competence in the financial services industry, and we endeavour to recruit them from within the organisation. The members of the Executive Board provide a good mix of specific insurance experience (health, non-life, pension & life) and experience in the public/retail market (healthcare, pensions) and the various distribution channels (direct, broker and bancassurance), as well as areas such as Finance, IT and HR. All Achmea Executive Board members match the general profile for members of the Executive Board and have been approved by the regulators in terms of their suitability and reliability.

The Executive Board is comprised of six members, five male and one female. Achmea aims to establish a good male/female diversity on the Executive Board. In addition to the aim of maintaining a balance in the Executive Board's skills while ensuring that newly appointed members have the necessary experience of insurance, finance and risk, improving gender diversity is always included in the considerations. In successor planning for the Executive Board and the management level immediately below it, the advancement of women to top positions remains a priority in each vacancy. In this, maintaining and strengthening the right mix of skills remain the key decisive factors in the selection process.

Please see the Report of the Supervisory Board for the composition of the Supervisory Board as of 31 December 2017 and the expertise table.

**Permanent education**

At the beginning of each year, the themes for the continuing education programme of both the Supervisory Board and the Executive Board are established. In consultation with the chairman of the Supervisory Board and the chairman of the Executive Board. This programme is aimed at maintaining and broadening the expertise of the members of the Supervisory Board and Executive Board. In addition to these special sessions, which are typically jointly attended by members of the Supervisory Board and Executive Board, attention is also given at regular meetings to relevant developments related to the financial industry, corporate governance, compliance, customer centricity and auditing through presentations given by internal and/or external specialists. There is also scope to address subjects of a topical nature. Members of the Executive Board continue to pursue education on an individual basis as well. Barring exceptional cases, all members of the Executive Board participate in continuing education sessions. In 2017 continuing education took place on subjects including integrity and fraud policy, IFRS 7 and 19, and the market risk model in connection with Solvency II. The Executive Board also focused intensively on innovation in 2017. For instance, during the company visit conducted in conjunction with the Supervisory Board, extensive consideration was given to the subject of 'thinking and acting innovatively' within the organisation, and members of both boards received detailed information on strategic innovation, for instance at InShared, the International Division's operations in Canada, and via Actify.

COMPOSITION OF THE EXECUTIVE BOARD AS OF 31 DECEMBER 2017

| NAME | NATIONALITY | GENDER | EDUCATION | POSITION | APPOINTED |
|---|---|---|---|---|---|
| W.A.J. van Duin (1960) | Dutch | Male | Law | Chairman | January 2004 |
| R. Konterman (1956) | Dutch | Male | Economics | Deputy Chairman | April 2013 |
| M.A.N. Lamie (1966) | Dutch | Male | Economics/ Accountancy | Chief Financial Officer | January 2017 |
| H. Timmer (1961) | Dutch | Male | Economics | Chief Risk Officer | April 2014 |
| B.E.M. Tetteroo (1969) | Dutch | Female | Accountancy | Member | June 2015 |
| R. Otto (1967) | Dutch | Male | Law/MBA | Member | August 2015 |

## SUPERVISORY BOARD

**Responsibilities and role in corporate governance**

The Supervisory Board is responsible for supervising and advising the Executive Board on its conduct and general management of the business. Supervisory Board approval is required for important business-related decisions, such as the appointment and dismissal of members of the Executive Board, strategic decisions, transfer of a significant part of the business, entering into or terminating a long-term partnership, major participations and investments, and termination of the employment of a considerable number of employees or significant changes in the employment conditions of a significant number of employees. This applies irrespective of the fact that fundamental and large-scale strategic changes or investments must have the approval of 80% of the votes in the General Meeting of Shareholders. The Supervisory Board and its individual members have a responsibility to obtain all relevant information required to perform their duties. These requirements are communicated to the chairman of the Supervisory Board. Information sources are usually the Executive Board, the Company Secretary and the external auditor. However, if deemed appropriate by the Supervisory Board, information can also be obtained from corporate officers and external advisers who can be invited to attend Supervisory Board meetings or provide permanent education. The Supervisory Board consists of members who, although they are nominated by shareholders or the Central Works Council, act in the interest of the company as a whole in the performance of their duties. All members of the Supervisory Board participate in meetings with no reference to or prior consultation with the parties that nominated them. All members of the Supervisory Board have sworn the oath or affirmation. In principle, all members of the Supervisory Board attend all Supervisory Board meetings and the meetings of the committees of which they are members.

**Composition and diversity**

The composition of the Supervisory Board and nominations in the event of vacancies reflect the cooperative shareholder structure and employee participation through Achmea's Central Works Council (COR). In conjunction with the shareholders, the company decided in 2013 to reduce the number of Supervisory Board members from a maximum of twelve to nine or ten members, which coincided with a reduction in the number of nominations made by majority shareholders. Vereniging Achmea is authorised to nominate candidates for four[1] seats on the Supervisory Board, one member of which is appointed on the recommendation of DFZ[2]. As a result of the merger between the shareholder of DFZ (Vereniging De Friesland Zorgverzekeraar) and Vereniging Achmea and the subsequent transfer of DFZ's operations to Achmea, DFZ's right of nomination has passed to Vereniging Achmea. As the indirect holder of the A-share, Vereniging Achmea also has the right to appoint the chairman from among the members of the Supervisory Board. Rabobank may nominate candidates for two[3] seats. Gothaer Allgemeine Versicherung, Gothaer Finanz Holding and Swiss Mobiliar have the right to jointly nominate one candidate. The Central Works Council nominated three members of the Supervisory Board effective 31 December 2017.[4] This arrangement is in keeping with the legal framework of the Central Works Council's right of recommendation. The Central Works Council is entitled to directly nominate three members based on a total of nine to ten members of the Supervisory Board.

In principle, every member of the Supervisory Board attends a meeting of the Central Works Council at least once a year. The General Meeting of Shareholders (re)appoints members of the Supervisory Board on the recommendation of the Supervisory Board. All the proposed changes to the composition of the Supervisory Board are discussed with the COR.

In 2017 the Supervisory Board had eight members. In filling these positions, the company's objective is to maintain a balanced mix of skills in the Supervisory Board while at the same time ensuring that the newly appointed member also has the required insurance, financial and risk management experience. Members of the Supervisory Board are selected and appointed based on a profile of the required professional background, education, (international) experience, skills, diversity and independence. The current composition of the Supervisory Board is such that the members can perform their duties properly because of the appropriate mix of experience and expertise. As of 31 December 2017, the Supervisory Board consists of four male and four female members. In addition to diversity in terms of knowledge, expertise and age, there is also gender diversity. Achmea's Supervisory Board therefore meets the legal requirement regarding gender diversity. All members of the Supervisory Board are in compliance with the Management and Supervision (Public and Private Companies) Act in terms of the number of supervisory board memberships that they hold.

1. *As of 31 December 2017: Veenman, Van Lonkhuijzen, De Weijer, vacancy*
2. *Van Lonkhuijzen*
3. *Vermeer and Wijmenga*
4. *Lückerath, Sneller and Hofsté*

**Permanent education**
For information on how the permanent education programme is organised, please refer to the relevant part of the section headed "Executive Board". In addition, new Supervisory Board members attend an introduction programme specially designed for them. Barring exceptional cases, all members of the Supervisory Board attend permanent education sessions. For more information on education courses attended in 2017, please see the Report of the Supervisory Board in this Year Report.

**Supervisory Board committees**
The Supervisory Board maintains three specialised committees that advise the full board: the Audit & Risk Committee, the Remuneration Committee and the Selection & Appointment Committee. All members of the Supervisory Board receive the minutes of the meetings of these committees and, on request, also the agenda and accompanying documents.

Financial, control, risk and compliance issues are discussed by the Audit & Risk Committee. These meetings are attended by the Chairman of the Executive Board, the CFO, the CRO and the external auditor. The directors of Internal Audit, Finance, Risk Management and Compliance are invited for the agenda items relevant to them. The Audit & Risk Committee holds meetings with the external auditor in the absence of the members of the Executive Board at least twice a year. Please see the Report of the Supervisory Board for further information.

The principal duty of the Remuneration Committee is to advise the Supervisory Board on remuneration policy for the entire Achmea Group (including foreign operating companies). The Remuneration Committee is responsible for formulating guidelines and monitoring the implementation of and compliance with the remuneration policy for the entire Achmea Group. This responsibility includes advising the Supervisory Board on the performance management of the Executive Board's members (for instance maintaining the balance between short and long-term interests and customers' interests). Remuneration is regularly evaluated, for instance with the aid of external benchmarks, and the committee assesses whether remuneration levels are appropriate in terms of the duties and responsibilities associated with a position. The Chairman of the Executive Board attends all meetings of the Remuneration Committee except if his own remuneration is on the agenda or in other cases to be determined at the discretion of the committee chairman.

The Selection & Appointment Committee's task is to monitor the composition and profile of both the Supervisory Board and the Executive Board. The committee looks for and makes recommendations regarding potential candidates, in some cases in consultation with the Central Works Council or the relevant shareholder that has the right to nominate candidates.

The chairman of the Executive Board attends all meetings of the Selection & Appointment Committee except if his own performance is on the agenda or in other cases to be determined at the discretion of the committee chairman.

## SHARES, SHAREHOLDERS AND SHAREHOLDERS' MEETINGS

**Shareholders**
The majority of Achmea's shareholders are non-listed European organisations with cooperative roots. Customers in the Netherlands are directly represented by Achmea's largest shareholder (Vereniging Achmea) and indirectly through Stichting Administratiekantoor Achmea (STAK Achmea). STAK Achmea is a shareholder that has issued depositary receipts for shares to Vereniging Achmea. STAK Achmea's board consists of the chairman and two deputy chairmen of Vereniging Achmea. The prior approval of Vereniging Achmea's board is required for the adoption of important resolutions by STAK Achmea. In certain cases, the prior approval of Vereniging Achmea's Council of Members is also required. At the end of 2017, Vereniging Achmea owned a total of 65.3% of Achmea's dividend rights and 61.6% of the voting rights in the General Meeting of Shareholders.

Rabobank, Achmea's second largest shareholder, is likewise a cooperative organisation. At the end of 2017, Rabobank held a total of 29.2% of the dividend rights in Achmea and 27.6% of the voting rights in the General Meeting of Shareholders.

Other shareholders that collectively represent 5.5% of the dividend rights and 5.2% of the voting rights in the General Meeting of Shareholders are BCP Pension Fund, Stichting Beheer Aandelen Achmea, Gothaer Allgemeine Versicherung, Gothaer Finanz Holding and Schweizerische Mobiliar Holding. Gothaer Allgemeine Versicherung, Gothaer Finanz Holding and Schweizerische Mobiliar Holding are members of the Eurapco alliance of independent European financial services providers (see www.eurapco.com for further information).

Apart from ordinary shares, 5.6% of Achmea's outstanding share capital consists of preference shares held by Achmea Tussenholding B.V., (under the direction of Achmea's Executive Board). All shares in Achmea Tussenholding B.V. are owned by Stichting Administratiekantoor Achmea Tussenholding, which has issued depositary receipts for shares to investors. Those investors therefore receive the dividend paid by Achmea on the preference shares. They do not have the right to vote in Achmea's General Meeting of Shareholders: this right is held by Achmea Tussenholding B.V.

## SHAREHOLDERS AS OF 31 DECEMBER 2017

| | CAPITAL RIGHTS | VOTING RIGHTS |
|---|---|---|
| Vereniging Achmea (direct and via STAK) | 65.30% | 61.63% |
| Rabobank | 29.21% | 27.57% |
| BCP Group | 2.77% | 2.61% |
| Gothaer Allgemeine Versicherung | 0.52% | 0.49% |
| Gothaer Finanz Holding | 0.59% | 0.56% |
| Schweizerische Mobiliar Holding | 0.69% | 0.65% |
| Stichting Beheer Aandelen Achmea | 0.92% | 0.86% |
| Achmea Tussenholding B.V.* | | 5.63% |

** Preference shares*

**Shareholders' meetings**
Due to the statutory two-tier regime that applies to Achmea, the authority of the General Meeting of Shareholders is restricted. Under the law and agreements in force, certain responsibilities rest with the Supervisory Board. The approval of the shareholders is nevertheless required for important corporate-law issues such as amendments to the articles of association, approval of the financial statements and decisions regarding profit appropriation and dividend distribution, resolutions concerning the issue of shares or the granting of rights to subscribe for shares (or appointing the Executive Board to arrange for such share issuance or granting of rights), the reduction of Achmea's share capital, the appointment and dismissal of members of the Supervisory Board and resolutions to dissolve, merge or divide Achmea. Crucial strategic resolutions that entail a fundamental change of course in Achmea's strategy and large-scale investments must be approved in the General Meeting of Shareholders by 80% of the votes cast. In the Annual General Meeting of Shareholders, which was held in April 2017, the members – besides regular resolutions regarding the 2016 annual report and financial statements – adopted resolutions on the company's dividend policy, the dividend distribution, and the discharge from liability of the members of the Executive Board and the Supervisory Board. In addition, resolutions were adopted on the reappointment of Mrs Sneller and Mr Veenman as Members of the Supervisory Board.

**Voting rights**
Specific rights are attached to A-shares, which are indirectly held by Vereniging Achmea, including the right to make a non-binding recommendation to the Supervisory Board concerning the appointment of members of the Executive Board, the appointment of the chairman of the Supervisory Board, the approval of a resolution concerning the dissolution, merger or division of Achmea, and the issue and transfer of Achmea shares. Holders of depositary receipts issued for A-shares and ordinary Achmea shares have the right to attend the General Meeting of Shareholders. They do not have the right to vote, however. Shareholders and holders of depositary receipts for shares may authorise someone in writing to represent them. Members of the Executive Board and Supervisory Board are authorised to attend the General Meeting of Shareholders. They have an advisory and informative role in this meeting.

**Statutory provisions of the dividend policy**
The rules on the distribution of dividend are set out in Achmea's articles of association. Dividend is owed and payable four weeks after it has been adopted by the General Meeting of Shareholders (unless a different date is determined in this regard). The Executive Board may propose to the General Meeting of Shareholders that the dividend be distributed wholly or in part otherwise than in cash. The General Meeting of Shareholders may resolve to distribute all or part of the net result. On a proposal from the Executive Board, the General Meeting of Shareholders may resolve to distribute an interim dividend. Achmea's dividend policy is detailed in the Capital and Liquidity Position chapter.

### ETHICS COMMITTEE

The Achmea Ethics Committee advises the Executive Board and operating companies on ethical dilemmas. It does so by assessing ethical and societal issues, as well as practical situations, against the background of our company's values and standards. This makes it possible to develop 'moral case law' and formulate ethical and moral guidelines specifically for Achmea. The committee also has an external member: Mr Muel Kaptein. Any Achmea employee may submit an ethical question or dilemma to the Ethics Committee. The committee is chaired by the Executive Board and further consists of employees of different operating companies. Subjects reviewed by the Ethics Committee in 2017 included the following:

- Experimental healthcare needs: accessibility of new medications and alternative treatment methods
- Raising employee awareness of the dangers of using mobiles (to call/send WhatsApp messages) while driving and of alcohol consumption
- Setting health insurance premiums: dilemma of maintaining reserves versus keeping prices competitive

# Biographies of Executive Board and Supervisory Board members

## Executive Board

### WILLEM A.J. VAN DUIN (1960)

**Chairman of the Executive Board**
Willem van Duin joined Achmea in 1987. He held various positions at holding level and in the Health, Broker and Direct Distribution divisions before being appointed to the Executive Board in January 2004. He was appointed Deputy Chairman of the Executive Board on 1 October 2008, and Chairman on 10 February 2009. In addition to his overall responsibility for Achmea, his core responsibilities include Corporate Strategy & CSR, Communications, Human Resources policy, Internal Audit, Administrative Bureau, external regulators and the Central Works Council. Mr Van Duin also serves as a member of the Executive Board of European Alliance Partners Eurapco and as deputy chairman of the Dutch Association of Insurers (Verbond van Verzekeraars), and member of the board of VNO-NCW and Nationale Coöperatieve Raad (National Council of Cooperatives). Internationally, he is the acting chairman of the International Federation of Health Plans (IFHP), a member of the Geneva Association and a member of the Supervisory Board of PharmAccess Group Foundation.

*From left to right: Michel Lamie, Roelof Konterman, Bianca Tetteroo, Willem van Duin, Henk Timmer, Robert Otto*

### ROELOF KONTERMAN (1956)

**Vice-Chairman of the Executive Board**
Roelof Konterman has worked for Achmea in various capacities since 1983, including five years abroad in Sweden and the US. He started out as a marketing manager at the business unit that is now Avéro Achmea and also served as managing director of FBTO. Since 2000, he has held various managerial positions in the Achmea Health Division and for health-related business units such as Eurocross and various Health Services. Since 2008 he has been divisional Chairman of Achmea Health, where he was responsible for the merger of Achmea and Agis in 2011. Mr Konterman joined the Executive Board on 1 April 2013 and was appointed Deputy Chairman on 15 June 2015. His core responsibilities within the Executive Board include the Zilveren Kruis, De Friesland Zorgverzekeraar and IM&IT divisions. In addition, Mr Konterman serves as a member of the Supervisory Boards of Independer, De Friesland Zorgverzekeraar and Achmea Zorgverzekeringen NV, a member of the Supervisory Board of Scout 24 in Switzerland and a member of the Advisory Board of the Amsterdam Health & Technology Institute.

### MICHEL A.N. LAMIE (1966)

**Chief Financial Officer**
Michel Lamie joined the Executive Board on 1 January 2017 and was appointed CFO on 1 April 2017. As a member of the Executive Board, among other responsibilities he is consultant for the asset manager for real estate and mortgages at Syntrus Achmea Real Estate & Finance (SAREF). In 2017, he was also appointed Chairman of the Supervisory Board of Achmea Reinsurance NV. After graduating from VU University Amsterdam with a degree in Economics and Accountancy, Mr Lamie began his career at KPMG, followed by a position as CFO of RSA Benelux. Mr Lamie worked at Achmea during the period from 2002 to 2005, most recently as Group Director Finance & Control. He served as a member of the board of De Goudse Verzekeringen since 2005, including three years as Deputy Chairman/CFO and, since 2009, as Board Chairman. In addition, Mr Lamie also served for many years as a director of the Dutch Association of Insurers (Verbond van Verzekeraars), and from 2007 he served on the supervisory board of insurance broker Van Lanschot Chabot, first as a member and later as chairman from 2009 (to the end of 2016).

## HENK TIMMER (1961)

**Chief Risk Officer**

Henk Timmer joined the Executive Board in March 2014. After earning degrees at the universities of Utrecht and Tilburg, Mr Timmer held various positions in auditing, consultancy and IT. He joined Achmea in 1997 as an auditor and manager for several business units, including IT, Health, Non-Life and Brokerage Distribution. In 2008, Mr Timmer was appointed managing director of Group Audit & Risk Services. In this role he headed the Audit, Risk and Integrity staff services. When the audit function was separated in 2012, he became a Director of Internal Audit, whose scope is the entire Achmea Group, both national and international. Mr Timmer joined the Executive Board on 1 March 2014. His key responsibilities within the Executive Board are Risk Management, Compliance, Legal Affairs, Human Resources and Central Services. Mr Timmer is a member of the Expert Group on Security of Stichting Maatschappij en Veiligheid, as well as representing Achmea in the CRO Forum. The latter is a group of professional risk managers representing the European insurance industry which focuses on developing and promoting best practices in Risk Management.

## ROBERT OTTO (1967)

Robert Otto joined the Executive Board in August 2015. After reading Law at Leiden University, he began his career in 1992 at ING. In his final position at the banking and insurance group he was responsible for ING Insurance and Postbank Insurance. After a period of two years as CEO of OHRA, he took up the post of managing director of the commercial division of Delta Lloyd in 2010. In mid-2013, Robert Otto joined Achmea as chairman of the Non-Life division. His core responsibilities on the Executive Board are the operating companies Centraal Beheer, Interpolis, Non-Life, the International Division, Market Strategy and Corporate Relations. In addition to his position at Achmea, Mr Otto also serves on the board of online retailer Thuiswinkel.org, as a member of the board of the Association of Mutual Insurers and Insurance Cooperatives in Europe (AMICE), as well as being the chairman of Sectorbestuur Schade (Non-Life Insurance Industry Board) of the Dutch Association of Insurers (Verbond van Verzekeraars) and chairman of the Supervisory Boards of Hagelunie and InShared. Mr Otto is also a member of the Supervisory Board of Achmea Schadeverzekeringen N.V.

## BIANCA E.M. TETTEROO (1969)

Bianca Tetteroo joined the Executive Board in June 2015. Mrs Tetteroo qualified as a chartered accountant in 1997 and completed her degree in information management at Nyenrode Business University. She has also attended various executive training programmes, including on corporate governance and leadership (Insead). She began her career in 1988 at the accountancy firm Mazars. She entered the financial services industry in 1996 at what was then called Fortis, where she held various positions in, among others, Asset Management, and de Verzekeraar. She joined Achmea in 2009, where she held the position of financial director at pension administrator Syntrus Achmea. Mrs Tetteroo had headed the Pension & Life division since 2012. Her core responsibilities on the Executive Board are Pensions and Life Insurance, Achmea Investment Management BV, Achmea Bank NV and Achmea Pension Services. She is a member of the Supervisory Boards of Achmea Pensioen en Levensverzekeringen N.V., Achmea Investment Management B.V., Achmea Bank N.V. and Syntrus Achmea Real Estate and Finance B.V. Mrs Tetteroo also serves on the Supervisory Board of De Kunsthal.

## Supervisory Board

### AAD W. VEENMAN (1947)

**Chairman of the Supervisory Board**
Aad Veenman is Chairman of the Supervisory Board. He is also a member of the Supervisory Board of Achmea Schadeverzekeringen N.V. From 2002 to 2009 he was CEO of NS Dutch Railways. Prior to this he worked for many years at the Stork industrial group, where he joined the Executive Board in 1990 and served as board chairman from 1998 to 2002. From 1998 until mid-June 2010, he also served on the Supervisory Board of Rabobank Nederland. Mr Veenman is the current Chairman of the Supervisory Board of TenneT B.V., a representative of the government-designated leading sector Logistics, and the chairman of Topteam Technology Base Twente.

*From left to right: Joke van Lonkhuijzen-Hoekstra, Antoon Vermeer, Mijntje Lückerath-Rovers, Wim de Weijer, Lineke Sneller, Roel Wijmenga, Aad Veenman, Petri Hofsté, Jan van den Berg.*

### ANTOON J.A.M. VERMEER (1949)

**Deputy Chairman of the Supervisory Board**
Antoon Vermeer serves as Deputy Chairman of the Supervisory Board. He is also chairing the Supervisory Board of Achmea Schadeverzekeringen NV. Mr Vermeer is co-owner of a dairy farm and until June 2014 he was Deputy Chairman of the Supervisory Board of Rabobank Nederland.

### ROEL TH. WIJMENGA (1957)

Roel Wijmenga was appointed member of the Supervisory Board as of 1 January 2015. He is also Chairman of the Supervisory Board of Achmea Pensioen- en Levensverzekeringen N.V. and a member of the Supervisory Board of Achmea Schadeverzekeringen N.V. Mr Wijmenga was CFO of ASR Verzekeringen from February 2009 to May 2014. Prior to this he was a member of Executive Board of Achmea and of the Board of Directors of Interpolis and a member of the Executive Board of Fortis ASR Verzekeringen. Mr Wijmenga previously held several business roles in the insurance industry: at AMEV and Fortis. From 2002 to 2007 he was also chairman of the employer delegation for the insurance industry's collective employment agreement. Mr Wijmenga is currently Chairman of the Philips Pension Fund and a member of the Bouwinvest Supervisory Board.

### WIM H. DE WEIJER (1953)

Wim de Weijer joined the Supervisory Board on 3 February 2016. He is also Chairman of the Supervisory Board of Achmea Zorgverzekeringen N.V. and its subsidiaries and Deputy Chairman of the Supervisory Board of PGGM N.V. Mr De Weijer's other positions are Chairman of the Supervisory Board of Wielco B.V., member of the Supervisory Board of ADG, and advisor and supervisory director on behalf of the private equity firm NPM Capital.

### PETRI H.M. HOFSTÉ (1961)

Petri Hofsté joined the Supervisory Board on 1 January 2015. She is also a member of the Supervisory Board at Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Investment Management B.V. Mrs Hofsté, a qualified chartered accountant, started her career at KPMG, where she was a partner in the Financial Services audit practice until 2006. She subsequently held the positions of group controller and Deputy CFO at ABN AMRO Group, Division Director of Banking Regulation at De Nederlandsche Bank and CFRO at APG Groep N.V. Mrs Hofsté is a member of the Supervisory Boards of Rabobank, Fugro N.V. and Kasbank N.V. and a member of the board of Stichting Nyenrode and Vereniging Hendrick de Keyser. Until 1 January 2018, Mrs Hofsté was Chairman of the Supervisory Board of Achmea Bank N.V.

### MIJNTJE LÜCKERATH-ROVERS (1968)

Mijntje Lückerath-Rovers is a member of the Supervisory Board. She is also a member of the Supervisory Board of Achmea Pensioen- & Levensverzekeringen N.V. and a Professor of Corporate Governance at Tilburg University. She is also a member of the Supervisory Board at NRC Media, member of the Supervisory Boards of the Royal Dutch Guide Dog Foundation (KNGF) and Blijdorp Zoo, board member of the Dutch Payments Association (Betaalvereniging Nederland) and member of the Pension Fund Code Monitoring Committee. Mrs Lückerath previously held positions as member of the Supervisory Boards at ASN Beleggingsinstellingen and Groenfonds. She is the author of a large number of scientific and popular scientific articles and a member of the editorial board of the Corporate Governance Yearbook.

### LINEKE C.W. SNELLER (1965)

Lineke Sneller is a member of the Supervisory Board. She is also a member of the Supervisory Board of Achmea Zorgverzekeringen N.V. and its subsidiaries. Mrs Sneller is a Professor of Accounting Information Systems and Management Accounting at Nyenrode Business University. Since starting her career at Ortec Consultants in 1988, she has held CIO positions at InterfaceFLOR, Tele2 and Vodafone. Mrs Sneller is acting chair of the Supervisory Board of CCV, member of the Supervisory Boards of ProRail and Infomedics and a non-executive director at Ortec.

### JOKE S.T. VAN LONKHUIJZEN-HOEKSTRA (1960)

Joke van Lonkhuijzen-Hoekstra is a member of the Supervisory Board, and for part of 2017 she also served as a member of the Supervisory Board of Achmea Zorgverzekeringen N.V. and its subsidiaries. Prior to the merger between Vereniging De Friesland, the shareholder of De Friesland Zorgverzekeraar, and Vereniging Achmea and the subsequent transfer of the Friesland Group's operations to Achmea, she was a member of the Supervisory Board and Audit Committee of De Friesland Zorgverzekeraar N.V. Mrs Van Lonkhuijzen has long experience in healthcare and began her career as a nurse. Until 2012, she was the Chair and CEO of the Amsterdam-based mental health service GGZ inGeest. From 2013 to 2015 she served as CFO and member of the Executive Board of healthcare provider Cordaan. Until 2016, Mrs Van Lonkhuijzen was a member of the Supervisory Board of the mental health research centre the Trimbos Institute and board member of the Netherlands Association of Healthcare Managers. She is the chair of the Board of Trustees for the postgraduate programme in Change Management at VU University Amsterdam, and since June 2017 member of the Supervisory Boards of Monuta Holding and Monuta Uitvaartverzekeringen.

### JAN VAN DEN BERG (1964)

Jan Van den Berg joined the Supervisory Board on 16 February 2018. Mr van den Berg has over 20 years of managerial experience in the international insurance market. He has worked at Nationale-Nederlanden, AXA and Prudential Financial, where he held the post of Asia President until 2017. Prior to that he worked at Coopers & Lybrand corporate finance.
Mr Van den Berg is a member of the Supervisory Boards of DHFL Pramerica Life Insurance, DHFL Pramerica Asset Management and Pramerica of Poland.

# Financial statements

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BEFORE APPROPRIATION OF RESULT)

(€ MILLION)

| | NOTES | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 13 | 792 | 825 |
| Associates and joint ventures | 14 | 84 | 145 |
| Property for own use and equipment | 15 | 415 | 431 |
| Investment property | 5 | 1,113 | 1,129 |
| Investments | 6 | 72,702 | 78,893 |
| Deferred tax assets | 16 | 712 | 739 |
| Income tax receivable | | | 94 |
| Amounts ceded to reinsurers | 7 | 656 | 1,397 |
| Receivables and accruals | 17 | 6,487 | 7,124 |
| Cash and cash equivalents | 18 | 2,884 | 2,192 |
| | | **85,845** | **92,969** |
| Assets classified as 'Held for sale' | 21 | 5,101 | 11 |
| **Total assets** | | **90,946** | **92,980** |
| **Equity** | | | |
| Equity attributable to holders of equity instruments of the company | | 9,941 | 9,774 |
| Non-controlling interest | | 8 | 8 |
| **Total equity** | **19** | **9,949** | **9,782** |
| **Liabilities** | | | |
| Liabilities related to insurance contracts | 7 | 57,293 | 61,345 |
| Other provisions | 20 | 1,111 | 1,334 |
| Financial liabilities | 8 | 16,755 | 18,942 |
| Derivatives | 6 | 770 | 1,565 |
| Deferred tax liabilities | 16 | 13 | 10 |
| Income tax payable | | 53 | |
| | | **75,995** | **83,196** |
| Liabilities classified as 'Held for sale' | 21 | 5,002 | 2 |
| **Total liabilities** | | **80,997** | **83,198** |
| | | | |
| **Total equity and liabilities** | | **90,946** | **92,980** |

## CONSOLIDATED INCOME STATEMENT

(€ MILLION)

| | NOTES | 2017 | 2016 |
|---|---|---|---|
| Gross earned premiums | 10 | 19,350 | 19,507 |
| Reinsurance premiums | | –343 | –104 |
| Change in provision for unearned premiums and current risks (net of reinsurance) | | 341 | 25 |
| **Net earned premiums** | **10** | **19,348** | **19,428** |
| Income from associates and joint ventures | | 10 | 13 |
| Investment income | 11 | 2,233 | 4,020 |
| Other income | 22 | 474 | 507 |
| **Total income** | | **22,065** | **23,968** |
| | | | |
| Net expenses from insurance contracts | 12 | 18,852 | 20,991 |
| Fair value changes and benefits credited to investment contracts | | 150 | 93 |
| Interest and similar expenses | 23 | 339 | 412 |
| Operating expenses | 24 | 2,248 | 2,649 |
| Other expenses | 25 | 155 | 237 |
| **Total expenses** | | **21,744** | **24,382** |
| | | | |
| **Result before tax** | | **321** | **–414** |
| Income tax expenses | 26 | 105 | –35 |
| **Net result** | | **216** | **–379** |
| | | | |
| Net result attributable to: | | | |
| Holders of equity instruments of the company | | 215 | –380 |
| Non-controlling interest | | 1 | 1 |
| | | | |
| Earnings per share | 28 | 0.37 | –1.12 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ MILLION)

| | NOTE | 2017 | 2016 |
|---|---|---|---|
| **Items that will not be reclassified to the Income statement** | | | |
| Remeasurements of net defined benefit liability [1] | | −19 | 26 |
| Unrealised gains and losses on property for own use [2] | | 4 | 5 |
| | | **−15** | **31** |
| | | | |
| **Items that may be reclassified subsequently to the Income statement** | | | |
| Currency translation differences (including realisations) on subsidiaries, goodwill, associates and joint ventures [3] | | −41 | −51 |
| Unrealised gains and losses on financial instruments 'Available for sale' [2] | | 47 | 901 |
| Share in other comprehensive income of Associates and joint ventures [2] | | 4 | 2 |
| Transfer from/to provision for Profit sharing and bonuses for policyholders [2] | | 167 | −661 |
| Reclassification to the Income Statement as Profit sharing and bonuses for policyholders from investment income [2] | | 62 | 343 |
| Gains and losses on financial instruments 'Available for sale' reclassified to the Income Statement on disposal [2] | | −220 | −479 |
| Impairment charges on financial instruments 'Available for sale' reclassified to the Income Statement on disposal [2] | | 16 | 23 |
| | | **35** | **78** |
| | | | |
| **Net other comprehensive income** | **27** | **20** | **109** |
| Net result | | 216 | −379 |
| | | | |
| **Comprehensive income** | | **236** | **−270** |
| | | | |
| **Comprehensive income attributable to:** | | | |
| Holders of equity instruments of the company | | 235 | −271 |
| Non-controlling interest | | 1 | 1 |

1. *Accounted for as part of Retained earnings*
2. *Accounted for as part of Revaluation reserve*
3. *Accounted for as part of Exchange difference reserve*

## CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY

(€ MILLION)

| | SHARE CAPITAL/ PREMIUM | OWN SHARES | LEGAL RESERVES | REVALUATION RESERVE | EXCHANGE DIFFERENCE RESERVE | HEDGING RESERVE | RETAINED EARNINGS | RESULT FOR THE YEAR | OTHER EQUITY INSTRUMENTS | **SUBTOTAL EQUITY [2]** | NON-CONTROLLING INTEREST | **TOTAL EQUITY** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | **11,357** | **−235** | **672** | **686** | **−271** | **−7** | **−3,672** | **380** | **1,350** | **10,260** | **17** | **10,277** |
| Net other comprehensive income [1] | | | | 134 | −51 | | 26 | | | 109 | | 109 |
| Net result | | | | | | | | −380 | | −380 | 1 | −379 |
| **Comprehensive income** | | | | **134** | **−51** | | **26** | **−380** | | **−271** | **1** | **−270** |
| Appropriations to reserves | | | 15 | 9 | | | 356 | −380 | | | | |
| Dividends and coupon payments | | | | | | | −215 | | | −215 | −1 | −216 |
| Other movements | | | | | | | | | | | −9 | −9 |
| **Balance at 31 December 2016 [1]** | **11,357** | **−235** | **687** | **829** | **−322** | **−7** | **−3,505** | **−380** | **1,350** | **9,774** | **8** | **9,782** |
| Net other comprehensive income | | | | 80 | −41 | | −19 | | | 20 | | 20 |
| Net result | | | | | | | | 215 | | 215 | 1 | 216 |
| **Comprehensive income** | | | | **80** | **−41** | | **−19** | **215** | | **235** | **1** | **236** |
| Appropriations to reserves | | | 9 | 25 | | | −414 | 380 | | | | |
| Dividends and coupon payments | | | | | | | −68 | | | −68 | −1 | −69 |
| **Balance at 31 December 2017** | **11,357** | **−235** | **696** | **934** | **−363** | **−7** | **−4,006** | **215** | **1,350** | **9,941** | **8** | **9,949** |

1. *In 2017 there has been a reassessment of the classification of a movement in 2016. As a consequence of this the comparative figures of the Revaluation reserve and Exchange difference reserve have been adjusted for €2 million.*
2. *Subtotal Equity relates to Equity attributable to holders of equity instruments of the company.*

Share capital/premium includes €10,923 million share premium (31 December 2016: €10,923 million). For an additional explanation reference is made to Note 19. With regard to the result for the year 2016 no dividends were distributed in 2017 to holders of ordinary shares (2016: €147 million). In 2017 an amount of €20 million (2016: €20 million) dividend on preference shares (of which Achmea B.V. received €3 million in dividend on the depositary receipts it holds in Stichting Administratiekantoor Achmea Tussenholding) and an amount of €51 million (2016: €51 million) coupon payment on Other equity instruments have been paid (net of taxes).

## CONSOLIDATED STATEMENT OF CASH FLOWS

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| **Cash flow from operating activities** [1] | | |
| Result before tax | 321 | –414 |
| *Adjustments of non-cash items and reclassifications:* | | |
| Unrealised results on Investments, including foreign currency results and value changes and provisions for uncollectability | –515 | –1,936 |
| Amortisation and impairment on Intangible assets, Property for own use and equipment, including foreign currency results | 86 | 214 |
| Amortisation of Deferred acquisition costs recognised as Receivables and accruals, including foreign currency results | 34 | 35 |
| Income from Associates and joint ventures | 28 | –12 |
| (Accrued) Interest expenses | 9 | 23 |
| Other changes and reclassifications | –38 | |
| | **–75** | **–2,090** |
| *Changes in operating assets and liabilities:* | | |
| Changes in Receivables and accruals (excluding Deferred acquisition costs) and Other liabilities recognised as Financial liabilities | 921 | 1,723 |
| Changes in Liabilities related to insurance contracts net of reinsurance | –1,035 | –342 |
| Changes in Other provisions | –199 | 135 |
| Changes in Financial liabilities (excluding holding activities) | –154 | –1,129 |
| | **–467** | **387** |
| *Cash flows operating items not reflected in Result before tax:* | | |
| Purchase of Investment property | –6 | –13 |
| Purchase of Investments | –31,658 | –33,972 |
| Divestments of Investment property | 66 | 38 |
| Divestments of Investments | 32,797 | 36,245 |
| Capitalised Deferred acquisition costs recognised as receivables and accruals | –55 | –30 |
| Received / paid Income taxes | 82 | –191 |
| Other changes | 113 | –33 |
| | **1,339** | **2,044** |
| **Total Cash flow from operating activities** | **797** | **341** |

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| **Cash flow from investing activities** [1] | | |
| Purchase of Property for own use and equipment | −55 | −55 |
| Investments in Intangible assets | −16 | −12 |
| Disposal of Subsidiaries, Associates, joint ventures and capital interests (net of cash) | 6 | 17 |
| Sales and disposal of Property for own use and equipment | 17 | 17 |
| Divestments of Intangible assets | 15 | 2 |
| Dividends received from Associates and joint ventures | 65 | 1 |
| | **32** | **−30** |
| **Cash flow from financing activities** [1] | | |
| Issue, repurchase and sale of equity instruments | | |
| Dividends and coupon payments | −85 | −232 |
| Interest paid | −52 | −66 |
| Issuance of Loans and borrowings recognised as Financial liabilities related to holding activities [2] | | 73 |
| Acquisition of minority interest | | −11 |
| | **−137** | **−236** |
| **Net cash flow** | **692** | **75** |
| Net cash and cash equivalents at 1 January | 2,192 | 2,117 |
| **Net cash and cash equivalents at 31 December** | **2,884** | **2,192** |
| Cash and cash equivalents include the following items: | | |
| Cash and bank balances | 2,860 | 2,049 |
| Call deposits | 24 | 143 |
| **Cash and cash equivalents at 31 December** | **2,884** | **2,192** |

1. *The consolidated statement of cash flows has been restructured to be consistent with the restructured balance sheet, as set out in Note 1E under Changes in presentation.*
2. *This item is included in Loans and borrowings and is presented in the Movement table loans and borrowings as Money deposited and Money withdrawn. The remaining part of Money deposited and Money withdrawn is included in Cash flow from operating activities.*

Included in the cash flows from operating activities for 2017 is interest received amounting to €792 million (2016: €799million), dividends received amounting to €63 million (2016: €62 million) and interest paid amounting to €20 million (2016: €20 million).

# Notes to the consolidated financial statements

## GENERAL INFORMATION

Achmea B.V. is a private company with limited liability incorporated in the Netherlands and seated in Zeist. The head office is located at Handelsweg 2 in Zeist. The Achmea Group (hereafter called Achmea) comprises Achmea B.V. and the entities it controls. Achmea is a financial services provider with insurance activities in the field of non-life, health, income and life. Furthermore Achmea offers banking services, asset management and pension management services, and other services. If references are made to the balance sheet in these consolidated financial statements, this refers to the statement of financial position.

## 1. ACCOUNTING POLICIES

### A. AUTHORISATION FINANCIAL STATEMENTS

The Achmea Consolidated Financial Statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Executive Board on 15 March 2018. At the same date, the Supervisory Board gave its advice to the General Meeting to adopt the Financial Statements. The Executive Board may decide to amend the Financial Statements as long as these have not been adopted by the General Meeting. The General Meeting may decide not to adopt the Financial Statements, but may not amend these.

### B. BASIS OF PRESENTATION

The Achmea Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards as at 31 December 2017 and as adopted by the European Union (hereafter EU and EU-IFRS). Furthermore, the Achmea Consolidated Financial Statements comply with the requirements of Section 362, paragraph 9, Book 2 of the Dutch Civil Code. All amounts in the Consolidated Financial Statements are in millions of euros, unless stated otherwise. Assets and liabilities in the statement of financial position are classified based on liquidity.

In the primary consolidated statements items of a similar nature are condensed. In the notes these items are disaggregated as they are of relative importance for Achmea. Relative importance is assessed based on both quantitative and qualitative criteria. Quantitative criteria relate to the totals of the relevant category in the primary consolidated statements and the relative importance of the item in these statements. If the item is of relative importance quantitatively, it is disclosed further (in accordance with the required IFRS disclosures). If the item is not of relative importance quantitatively, Achmea applies qualitative criteria, such as specific importance to a user of the financial statements, to assess if further explanation in notes is required. If an item is of relative importance qualitatively, it is disclosed further in accordance with the required IFRS disclosures. If an item is not of relative importance, either quantitatively or qualitatively, the notes are as limited as possible in accordance with the IASB Disclosure Initiative principles and related materiality principles.

Furthermore Achmea has separated the notes into the chapters: ‘Notes to significant balance sheet and income statement items’ and ‘Other notes’. The notes concerning the core activities of Achmea are included in ‘Notes to significant balance sheet and income statement items’. Other notes are included because they meet the quantitative or qualitative relative importance criteria and are included in the section ‘Other notes’.

## C. INITIAL APPLICATION OF ACCOUNTING POLICIES

In 2017, the following new Standards, amendments to Standards and Interpretations issued by the International Accounting Standard Board (IASB) were adopted:

- Amendments to IAS 7: Disclosure Initiative (aimed at improving disclosure effectiveness in financial reports). For the consolidated financial statements this amendment has resulted in a reference from the Statement of cash flows to Note 8 *Financial liabilities - Loans and borrowings* where the deposits and withdrawals of this item are presented. Other elements of the amendment do not have an impact on the notes to the consolidated financial statements.
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (clarification on the requirements for
- recognising deferred tax assets for unrealised losses on fixed rate debt instruments measured at fair value).

These amendments do not have an impact on Total equity and the Net result of Achmea.

## D. CHANGES IN STANDARDS AND AMENDMENTS WITH FUTURE APPLICATION DATE

The following standards and Interpretations were issued in 2017 or prior years and are not applied by Achmea in preparing its Consolidated Financial Statements 2017. These are:

### Amendments to IFRS 4 Insurance Contracts

The amendments are intended to address concerns about the different effective dates of the new standard for financial instruments, IFRS 9, and the new standard for insurance contracts (IFRS 17). These different effective dates may give rise to a temporary (accounting) volatility of results because of the lack of consistency between the valuation of the investments and the insurance liabilities. The amendments provide two options: the overlay approach and the deferral approach. The overlay approach permits entities that issue insurance contracts to reclassify the volatility of income or expenses arising from designated financial assets that results from implementing IFRS 9 from profit or loss to other comprehensive income. The deferral approach permits entities whose predominant activity is issuing contracts an optional temporary exemption from applying IFRS 9. Both approaches may be applied, if the requirements are met, until 2021. The standard is effective for reporting periods beginning on or after 1 January 2018.

Achmea will opt for temporary exemption from applying IFRS 9 as referred to above. As a consequence additional disclosures will have to be included in the financial statements from 2018 onwards.

### IFRS 9 Financial Instruments

IFRS 9 introduces a new model for the classification of financial assets. This model is driven by the cash flow characteristics and the business model in which an asset is held. With regard to financial liabilities the changes as a result of IFRS 9 are limited and for most financial liabilities the existing amortised cost measurement can be maintained. As part of IFRS 9, the IASB has introduced an expected-loss model to determine impairment losses. This model requires taking into account expected credit losses when financial instruments are first recognised. In case of a significant credit deterioration expected credit losses should be taken into account for the full lifetime. Finally, 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.

Achmea is assessing the impact of this standard, taking into account the interaction with the current standard for the accounting of insurance contracts (and proposed amendments thereon) and also the future standard for the accounting of insurance contracts.

### IFRS 15 Revenue from contracts with customers

The standard replaces IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide accounting principles for transactions that were not previously addressed comprehensively (for example service revenue and contract modifications) and provide principles for multiple-element arrangements.

IFRS 15 Revenue from Contracts with Customers is effective for reporting periods beginning on or after 1 January 2018, with early application permitted. In 2016, the IASB issued amendments to clarify a number of requirements of the standard with regard to the application of the standard. The IASB also issued amendments to ease the first application of the standard.

As Achmea is primarily an insurance company, the standard has no material impact on Net result and Total equity of Achmea.

### IFRS 16 Leases

IFRS 16 Leases establishes principles for the recognition, measurement and presentation of leases. In the financial statements of the lessee all leases, except for leases with a lease term of 12 months or less and so-called small leases, are recognised as an asset reflecting the right to use the asset for the lease period and a liability reflecting the obligation to pay the future lease payments. For the lessor, the reporting consequences of the new standard are limited. The amendments are effective for reporting periods beginning on or after 1 January 2019.

As a lessee, Achmea shall include both an asset and a liability in the balance sheet for a number of operating leases. However, the value thereof is limited as at 31 December 2017. Therefore Achmea does not expect the standard to have a material impact on Total assets, Total liabilities, Total equity and the Net result of Achmea.

### IFRS 17 Insurance Contracts

IFRS 17 establishes a number of principles in relation to the recognition, presentation, measurement and disclosure of insurance contracts. The purpose of the standard is to ensure that the effect of insurance contracts within the scope of IFRS 17 on the financial position, result and cash flows is adequately reflected in the financial statements and can be compared with other entities. The standard shall be effective for annual periods beginning on or after 1 January 2021, with early adoption being permitted. This standard was published by the IASB in May 2017. As at 31 December 2017 the standard has not yet been endorsed by the EU.

Achmea is assessing the impact of this standard, taking into account the interaction with the future standard for Financial Instruments (IFRS 9).

### Amendments to IAS 40: Transfers of investment property

The amendments clarify that an entity may transfer property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments are effective for reporting periods beginning on or after 1 January 2018. As at 31 December 2017, these amendments have not been endorsed by the EU.

Achmea already classifies its property in accordance with the amendment (clarification) in IAS 40. Therefore the amendment has no impact on Net result and Total equity of Achmea.

Except for the above (amendments to) standards, there are (amendments to) standards that were issued in 2017 or prior years and are not applied by Achmea in preparing its Consolidated Financial Statements 2017. Since these amendments to standards have no impact on Total equity, Net result and have no impact or a limited impact on the presentation and notes of Achmea, they are not described further. It concerns the following (amendments to) standards (which have not been endorsed by the EU):

- Annual improvements to IFRSs 2014-2016 cycle: annual improvements include adjustments with a limited impact (amendments, effective date 1 January 2017 and items at 1 January 2018).
- IFRS 2 Classification and measurement of share-based payment transactions (amendments, effective date 1 January 2018)
- IFRIC Interpretation 22 Foreign currency transactions and advance consideration (effective date 1 January 2018)
- IFRIC Interpretation 23 Uncertainty over income tax treatment (effective date 1 January 2019)
- IFRS 9 Prepayment features with negative compensation (amendments, effective date 1 January 2019)
- IAS 28 Long-term interest in associates and joint ventures (amendments, effective date 1 January 2019)
- Annual Improvements to the IFRS Standards 2015-2017 Cycle (amendments, effective date 1 January 2019)

## E. AMENDMENTS RELATED TO ACCOUNTING POLICIES, PRIOR PERIOD CORRECTIONS AND CHANGES IN PRESENTATION

### Changes in accounting policies

Within the segment Non-Life Netherlands the method for determining the income, expenses and result from underwriting by authorised agents has been changed. This concerns revenue from contracts where the agents enter into contracts with the policyholder on behalf of Achmea and the agents collect, pay and settle the relevant premiums and claims with the policyholder net of a commission, on behalf of Achmea. Before 2017, income, expenses and result were accounted with a quarter in arrear because more recent, reliable information was not available in time. Additionally, it was assessed whether the provisional figures of the previous quarter gave rise to an adjustment of the result from these contracts. The reporting by authorised agents accelerated, hence, from 2017 it is no longer necessary to recognise the income, expenses and result in the next quarter. The effect of this change in accounting policy for the comparative figures 2016 on Gross premiums Non-life is €7 million, Change in provision for unearned premiums and current risks (net of reinsurance) amounts to €4 million, Gross claims are €3 million, Operating expenses amount to €1 million and Other expenses €-5 million. The effect on the Result before tax is €4 million, after tax €3 million, and the effect on Total equity at the beginning of 2016 is €-3 million. The change in accounting policy has no effect on Total Equity of Achmea as at 31 December 2016.

### Changes in presentation

The structure of the Consolidated Financial Statements 2017 (including comparative figures) has been amended compared to previous years. The purpose of this amendment is to improve the readability of the consolidated financial statements and to simplify them where possible, also based on the IASB Disclosure Initiative. The most important amendments are the following::

- The consolidated statement of financial position, the consolidated income statement and the consolidated statement of cash flows are condensed. Further disaggregation is included in the notes to the consolidated financial statements of Achmea B.V. (see section B. Basis of presentation). The following items have been condensed compared to previous years in the primary consolidated statements:
    - Investments was previously Investments, Investments backing linked liabilities and Banking credit portfolio;
    - Receivables and accruals was previously Deferred acquisition costs and Receivables and accruals;
    - Liabilities related to insurance contracts was previously Insurance liabilities and Insurance liabilities where policyholders bear investment risk;
    - Other provisions was previously Post-employment benefits and Other provisions;
    - Financial liabilities was previously Investments contracts, Banking customer accounts, Loans and borrowings and Other liabilities;
    - Gross earned premiums was previously Gross premiums Non-Life, Gross premiums Health and Gross premiums Life;
    - Investment income was previously Investment income and Realised, unrealised gains and losses and Income from investments backing linked liabilities;
    - Other income was previously Banking income, Fee and commission income, and income from service contracts and Other income;
    - Net expenses from insurance contracts and Gross claims was previously Gross movements in insurance liabilities own risk, Claims and movements in insurance liabilities ceded to reinsurers, Profit sharing and bonuses for policyholders and Movements in insurance liabilities where policyholders bear investment risk;
    - Interest and similar expenses was previously Banking expenses and Interest and similar expenses.
- The grouping of the notes takes into account the significance of the notes to the consolidated financial statements of Achmea B.V. The notes are therefore classified either as notes about significant items or other notes (see section B. Basis of presentation);
- Key assumptions, estimates used and accounting policies relating to a specific item are included in the note of that specific item.

The above changes have no impact on Total Equity, Net result of Achmea and Earnings per share.

## F. CHANGES IN ACCOUNTING ESTIMATES

In preparing these Consolidated Financial Statements, the significant judgements made by management in applying Achmea's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the Consolidated Financial Statements 2016, except for the following changes:

- The provision for legal expenses insurance in the Non-Life Netherlands segment for the current claim year is determined, as in previous years, on the basis of the number of reported claims multiplied by the standard rate for each jurisdiction. As of 2017 the processing time of claim files being handled internally is divided over the term of the file based on updated historical patterns instead of a standard rate. For older claim years, at each reporting date the amount of the provision for older claim years is furthermore reviewed on the basis of payment patterns of the past, whereas before the provision for older claim years was not reviewed. This is not only done for the target groups, but also for the jurisdictions within the target groups. In addition a further breakdown of cost allocations will be applied from 2017, for more accurate estimates. Achmea is of the opinion that these adjustments result in more accurate claims provision estimates for legal expenses claims. This change in accounting estimate had a positive impact of €21 million on the Net result and Total Equity at the time of the change in 2017.

- For certain blocked savings accounts and deposits linked to mortgage loans in the Pension & Life Netherlands segment the counterparty margin in the discount curve to determine the fair value has been changed in 2017. As of 2017 the fair value is determined based on the risk of irrecoverability of similar financial instruments issued by the relevant party where the savings account is held. Until 2016 the counterparty margin was determined based on market prices of a limited number of quoted instruments, to mitigate the credit risk. The issue of new instruments by the relevant party in 2017 has led to improved insights to determine the risk of irrecoverability that are more in line with the risk profile of the savings accounts. A prerequisite is that the counterparty margin always equals or exceeds zero. This change in accounting estimate had a positive impact of €17 million on Investments and an equal impact on Liabilities related to insurance contracts, and therefore had no impact on the Net result and Total Equity at the time of the change in 2017.

## G. CONSOLIDATION FRAMEWORK

### Basis for consolidation

All of Achmea's subsidiaries, associates and joint ventures are included in the Consolidated Financial Statements, based on Achmea's accounting framework. The following principles apply to Achmea's Consolidated Financial Statements.

### Subsidiaries

Subsidiaries are entities over which Achmea has control. Achmea controls an entity when Achmea is exposed or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The assessment of control is based on the economic substance of the relationship between Achmea and the entity and considers existing and potential voting rights that are substantive. For a right to be substantive, Achmea must have the practical ability to exercise that right. Third-party interests in these entities are presented as Non-controlling interest within Total equity.

Investment funds managed by Achmea in which Achmea holds an interest are consolidated in the Consolidated Financial Statements if Achmea has control. The assessment of control is based on the economic substance of the relationship between Achmea and the investment fund and, amongst others, considers existing and potential voting rights that are currently exercisable and convertible. In assessing control, all interests held by Achmea in the investment fund are considered, regardless if the financial risk related to the investment is borne by Achmea or by the policyholders. An exception to this is when the fund meets the definition of a silo (i.e. assets, liabilities and/or equity within the relevant entity are separated) or when, under strict facts and circumstances, a direct link between the policyholder and the fund can be assumed. On consolidation of an investment fund, a liability is recognised to the extent that Achmea is legally obliged to buy back participations held by third parties. The liability is presented in the Consolidated Financial Statements as Financial liabilities. Where this is not the case, other participations held by third parties are presented as Non-controlling interests. The assets allocated to participations held by third parties are presented *as Investments – Investments on own account*. Participations held by Achmea on behalf of policyholders are presented in the Consolidated Financial Statements as *Investments - Investments backing linked liabilities*.

### Joint ventures

Entities over which Achmea and other entities share joint control by means of contractual arrangements are considered to be joint ventures. Achmea accounts for joint ventures using the equity method.

### Associates

Entities over which Achmea exercises significant influence are accounted for using the equity method. Generally, significant influence is presumed to exist when the participation in ordinary share capital or voting rights (including potential voting rights) is between 20% and 50%.

### Intra-group adjustments

Intra-group transactions have been eliminated in the Consolidated Financial Statements. Profits and losses resulting from transactions with associates and joint ventures are eliminated to the extent of Achmea's interest in the associate or joint venture.

### Business combinations of entities under common control

For the accounting of business combinations of entities or businesses under common control, Achmea uses the pooling of interest method in case of a (legal) merger and carry over accounting (transfer based on the carrying amount) in case of an acquisition. Such transactions do not have an impact on Net result and Total equity of Achmea.

## H. ACCOUNTING FRAMEWORK

This section sets out the general accounting policies. All assets and liabilities are measured at fair value, unless a different measurement is stated in the accounting policies. The specific accounting principles applicable to a certain line item in the financial statements are included in the note to the relevant item.

### Consolidated statement of cash flows

The Consolidated Statement of Cash Flows has been prepared according to the indirect method with a breakdown into cash flows from operating, investing and financing activities. Cash and cash equivalents comprise cash, bank balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of Achmea's cash management processes are recognised as a component of Cash and cash equivalents. In total cash flow from operating activities, Result before tax is adjusted for those items in the Income Statement and changes in operating assets and liabilities, that do not result in actual cash flows during the year. Due to the nature of Achmea's activities, in which both insurance and banking are part of the operations, cash flows related to Investment property, Investments and Liabilities related to insurance contracts and Financial liabilities related to insurance contracts are presented as part of Total cash flows from operating activities.

### Foreign currency differences

The Consolidated Financial Statements are presented in euros, which is Achmea's functional and presentation currency. Items included in the Financial Statements of Achmea's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). For consolidation, assets and liabilities of foreign subsidiaries with a functional currency other than the euro are translated into euros at the year-end exchange rates.

The income and expenses of these subsidiaries are translated at the weighted average exchange rates for the reporting period. Translation differences arising from the application of year-end exchange rates to the opening balance of net assets and goodwill of these subsidiaries and to the results for the reporting period are recognised in Total equity and reported as Net other comprehensive income.

The net asset value of associates and joint ventures with a functional currency other than the euro is translated into euros at the year-end exchange rates. The results of associates and joint ventures are translated at the weighted average exchange rates for the reporting year. Translation differences, arising from the application of reporting date exchange rates to the opening net asset value of associates and joint ventures and to the results for the reporting period, are recognised in Total equity and reported as Net Other Comprehensive Income.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet date exchange rates of monetary assets and liabilities denominated in currencies other than the functional currency are recognised in Net result. Exceptions are foreign exchange gains and losses recognised in Total equity as part of qualifying cash flow hedges or a qualifying net investment in a foreign operation. Refer to the accounting policies in the applicable disclosures for more details regarding the accounting of foreign currency differences for specific assets and liabilities.

### Recognition financial instruments

When Achmea becomes a party to the contractual provision of a financial instrument (i.e. at trade date), Achmea recognises the instrument at fair value including transaction cost (unless the financial instrument is classified as 'At fair value through profit or loss').

### Derecognition financial instruments

A financial asset (or part of a financial asset) is derecognised when the contractual rights to receive cash flows from the financial asset have expired or when Achmea has transferred substantially all risks and rewards of ownership. Also if Achmea neither transfers nor retains substantially all the risks and rewards of ownership.

The asset will also be derecognised if Achmea does not have or no longer has control over the asset, even if Achmea does not transfer or retain the risks and rewards related to an asset.

In transfers where control over the asset is retained, Achmea continues to recognise the asset to the extent of its continuing involvement. The extent of continuing involvement is determined by the extent to which Achmea is exposed to changes in the value of the asset. A financial liability (or a part of a financial liability) is derecognised when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. Upon derecognition, the difference between the disposal proceeds and the carrying amount is recognised in the Income Statement as a realised gain or loss. Any cumulative unrealised gains or losses previously recognised in Total equity are transferred from Total equity to the Income Statement. Achmea uses the average cost method when derecognising financial assets and liabilities.

### Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported at the net amount in the balance sheet when Achmea:
- has a current legally enforceable right to offset the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Impairment

In general, an impairment of an asset exists when its carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. At each reporting date, Achmea assesses whether there is an indication that an asset could be impaired and whether it is necessary to recognise an impairment loss. The goodwill from business combinations and other intangible assets with an indefinite life is tested for impairment every year. Impairments on Investments are recognised as *Realised and unrealised gains and losses* in the Other income of the Income Statement. All other impairments are recognised as Other expenses in the Income Statement. Impairment losses recognised in prior years are reversed if the reversal can be objectively attributed to the disappearance or removal of the impairment event since the impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. An increase in the carrying amount due to the reversal of the impairment loss will not exceed the carrying amount if no impairment loss would have been recognised in prior periods. The increase due to a reversal of an impairment loss is recognised in the Income Statement (Other income - *Realised and unrealised gains and losses* for fixed-income investments and in Other expenses for other reversals). Impairment losses on equity instruments classified as 'Available for sale' are not reversed through the Income Statement. Subsequent fair value changes are recognised in the Revaluation reserve (part of Total equity). An impairment regarding goodwill is not subject to reversal. For more details relating to the specific accounting policies for impairment, reference is made to the accounting policies for the specific items as included in the applicable disclosures.

### Borrowing costs

Borrowing costs incurred for the construction of qualifying assets (assets that take a substantial period of time to acquire or construct) are capitalised during the period required to complete and prepare the asset for its intended use. As Achmea borrows funds on a continuous basis, the amount of borrowing costs is based on the weighted average of the borrowing costs applicable to the borrowings of Achmea that are outstanding during the period. Other borrowing costs are recognised in the Income Statement in the period in which they have been incurred.

### Leasing

Leases entered into by Achmea are primarily operating leases. The total payments made under operating leases are recognised in the Income Statement on a straight-line basis over the period of the lease. A property interest that is held by Achmea under an operating lease and rented out to a third party is not classified as Investment property.

## I. KEY ACCOUNTING ESTIMATES

For the measurement of certain items of the financial statements, Achmea uses assumptions and estimates concerning future results or other developments, including the likelihood, timing or amounts of future transactions or events. Inherent to estimates is that the actual results may differ materially. Important estimates relating to a certain financial statement item are also included in the note to the balance sheet item. A number of key estimates which are not explained in a note to a specific financial statement item are presented below.

### Control assessment

In making the assessment whether Achmea has control over an entity, Achmea analyses whether it has power over the entity. The outcome of this analysis depends on the purpose and design of the entity, what are the relevant activities (that drive the entity's returns) and how decisions about them are taken and whether rights of the entity give current ability to direct the relevant activities. In performing this assessment, Achmea has defined the most relevant activity as the ability to determine the strategic policies of an entity. The outcome of the analysis also depends on whether Achmea is exposed to or has rights to variable returns from its involvement with the entity and whether Achmea has the ability to use its powers over the entity to affect the amount of its returns. If an investee performs activities for the benefit of the public good and not only for the benefit of Achmea and/or its customers (for example health related foundations), no ability for Achmea to use its power over the entity to affect the entity's return is presumed to exist. Different assumptions may result in a different outcome of the control assessment.

### Measurement income tax receivable

The measurement of the income tax receivable depends among other things on the application of the tax rules. It can be unclear how a specific tax law provision applies to a certain transaction or event. There may be a lack of clarity regarding the application of the participation exemption facility to income derived from the sale of certain activities. At the end of 2017 this was the case for a specific transaction. The acceptability of the tax treatment chosen by Achmea depends on a court judgement. The difference of opinion between Achmea and the tax authorities as to the tax treatment of this transaction ranges from €0 to €295 million. When determining the income tax payable Achmea has taken this uncertainty into account by assuming the most likely outcome within this range. However, the actual income tax to be paid depends on the judgement in legal proceedings and therefore may result in other cash flows under the tax position.

## 2. CAPITAL AND RISK MANAGEMENT

Effective capital and risk management is essential for Achmea's continuity, and for maintaining a long-term relationship with our clients and other stakeholders.

- Capital management ensures that Achmea and all its supervised entities have sufficient capital to secure the interests of all stakeholders in the short and long term.
- Risk management involves identifying and assessing risks, determining and implementing risk control measures and the monitoring and reporting on risks. The starting point in this context is not so much a matter of avoiding risk but rather of making well-informed decisions about the risks to be accepted in realising the business objectives. This involves the objectives of Achmea as a group as well as the objectives of individual entities.

Capital and risk management complement each other and demand an integrated approach. For instance, the risk profile is quantified using a partial internal model, approved by the college of supervisors, that is also used to calculate the required capital. In terms of risk, Achmea has defined its risk appetite and statements about the capital are an important part of this. Each year, the risk and solvency position are assessed in conjunction with each other in the Own Risk & Solvency Assessment (ORSA).

This section discusses capital and risk management at Achmea in greater detail. First Achmea's capital position and risk profile are detailed. More information is then provided on the risk management system used for managing the risks and the capital management.

### A. CAPITAL POSITION

Capital is managed according to the legal framework, economic principles and the principles of rating agencies. The legal framework is based on IFRS, Solvency II, Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR). CRD IV/CRR is a framework that focuses specifically on banking activities and the management of investment funds. As set out in Achmea's risk appetite and capital policy, Achmea strives for a target Solvency II ratio of 165%.

At year-end 2017 Achmea and its entities are sufficiently funded in accordance with statutory requirements.

At year-end 2016 and during 2017 the ratio of FBTO Verzekeringen N.V. temporarily fell below the requirement. To restore the capital position of FBTO Verzekeringen N.V. a subordinated loan was provided and a capital contribution has taken place.

### Insurance activities

Solvency II is the solvency regime for insurance companies in the European Union that came into effect on 1 January 2016.

SOLVENCY RATIO (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Eligible own funds Solvency II | 8,386 | 8,345 |
| Solvency Capital Requirement | 4,555 | 4,623 |
| **Surplus** | **3,831** | **3,722** |
| Ratio (%) | 184% | 181% |

For calculating the required capital under Solvency II ('Solvency Capital Requirement' (SCR)) Achmea uses a partial internal model, which the college of supervisors has approved. See the section on the risk management system for more information on the partial internal model.

The Solvency II ratio has increased by 3 percentage points to 184% (31 December 2016: 181%). The improved capital position is the result of a combination of a €41 million increase in the Solvency II eligible own funds to €8,386 million (2016: €8,345 million) and a €68 million decrease in the SCR to €4,555 million (2016: €4,623 million).

The increase in the Solvency II eligible own funds results from positive revaluations resulting from developments in the financial markets: higher interest rate, lower spreads on countries and credits, and rising stock markets. In addition lower cost assumptions in combination with an adjustment of the mortality experience within the Dutch life insurance business contributed to the increase. The loss realised for tax purposes leads to a lower deferred tax asset. This results in a shift from Tier 3 to Tier 1 capital, limiting the capping of Tier 3 capital. This is offset by a decrease in equity due to the allocation of capital to limit the increase in health insurance premiums, planned dividends relating to the positive annual result and the announced repurchase of own shares.

The SCR decreased mainly due to a decline in market risk and life risk. The market risk has declined because in 2017 an adjusted hedging strategy was implemented to reduce the interest rate sensitivity of the solvency ratio for Achmea Pensioen- en Levensverzekeringen N.V. As a result, the interest rate risk decreased. The life risk has declined due to several effects that mainly have an impact on the longevity, expenses and lapse risks. Interest rate increases reduce the impact of interest-rate sensitive shocks in respect of longevity and expenses risks. Furthermore, cost assumptions have been refined and mortality experience and lapse assumptions have been updated, resulting in a lower best estimate of Liabilities related to insurance contracts and therefore a lower capital requirement. The counterparty default risk increases due to extension of the mortgage portfolio, as well as extension of the derivatives portfolio relating to the capital hedge and start of the security lending programme.

For a quantitative disclosure of the SCR reference is made to the section Risk profile.

The table below provides an overview of the composition of the eligible equity under Solvency II (eligible own funds). This consists of the available equity (on economic principles) and subordinated loans qualifying as equity. This equity serves as a buffer to absorb risks and financial losses.

## ELIGIBLE OWN FUNDS SOLVENCY II

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Tier 1 | 6,363 | 6,296 |
| Tier 2 | 1,340 | 1,356 |
| Tier 3 | 683 | 693 |
| **Total eligible own funds Solvency II** | **8,386** | **8,345** |

With the coming into effect of Solvency II on 1 January 2016 it was set out in legislation that capital instruments qualifying for Solvency I but not for Solvency II were allowed to be included in the Solvency II eligible own funds for a period of 10 years. For Achmea this concerns the following instruments:

- Tier 1 Hybrid capital 6% (€600 million);
- Tier 1 Preference shares 5.5% (€311 million);
- Tier 2 Subordinated loans 6% (€500 million).

These instruments may no longer be included in the Solvency II own funds from 1 January 2026. Therefore they must be refinanced or redeemed before that date. Achmea will proceed to do so as soon as possible (contractual call date), taking into account the conditions on the financial markets and available room in the various Tier categories.

The composition of equity under the Solvency II regulations is not the same as equity for IFRS purposes. Under Solvency II, the equity from banking activities and asset management are deducted. In addition there are valuation differences and restrictions. The table below shows the composition of eligible own funds under Solvency II and the relationship with the IFRS equity.

RECONCILIATION BETWEEN EQUITY FINANCIAL STATEMENTS AND SOLVENCY II ELIGIBLE OWN FUNDS (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Equity Financial statements | 9,949 | 9,782 |
| Subordinated liabilities in Basic Own Funds | −1,350 | −1,350 |
| Own shares | 235 | 235 |
| **Total IFRS excess of assets over liabilities** | **8,834** | **8,667** |
| Valuation differences Solvency II | −825 | −866 |
| **Total economic excess of assets over liabilities** | **8,009** | **7,801** |
| Subordinated loans eligible under Solvency II and "grandfathered" instruments | 1,940 | 1,956 |
| **Available own funds Solvency II** | **9,949** | **9,757** |
| Foreseeable dividends, payments and expenses | −315 | −91 |
| Not qualifying tier 3 capital | −53 | −122 |
| Own shares | −235 | −235 |
| Equity in banking- and investment institutions (CRD IV) | −923 | −941 |
| Other restrictions | −37 | −23 |
| **Eligible own funds Solvency II** | **8,386** | **8,345** |

## Banking activities

The European Union has issued directives on capital requirements of banks, based on the Guidelines developed by the Basel Committee on banking supervision. Based on these directives, De Nederlandsche Bank (DNB) has issued minimum capital requirements. As of 1 January 2014, banking capital requirements are governed by the Capital Requirement Directive IV (CRD IV) and the Capital Requirements Regulation (CRR).

Achmea uses the Standardised Model to determine its credit risk. The Total Capital Ratio (TCRI) based on CRD IV/CRR increased from 19.7% in 2016 to 20.4% in 2017, primarily due to the decrease of the mortgage portfolio of Achmea Bank.

CAPITAL RATIO CRD IV/CRR (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Core capital - Tier 1 | 894 | 922 |
| Supplementary capital - Tier 2 | 4 | 5 |
| **Qualifying capital** | **898** | **927** |
| | | |
| Risk-weighted assets | 4,414 | 4,715 |
| Core Equity Tier 1 ratio | 20.3 | 19.6 |
| Total Capital ratio | 20.4 | 19.7 |

As a result of timing differences there may be minor differences between the equity of banking and investment companies as set out under Solvency II and as presented in the above table. In addition certain items, including revaluation results and unaudited positive results, may not or not fully be included in the above calculations under the CRR.

## B. THE RISK PROFILE

- The risk profile and risk classification of Achmea as financial service provider consist of the following main risks:
- Insurance risk: Achmea is exposed to life, non-life and health risks through its product range as an insurance company.
- Market risk: as a financial service provider, Achmea is exposed to market risk due to its investment portfolio, minimum guarantees and profit sharing (life insurance and disability insurance) and retail banking products (mortgages, deposits, savings accounts and current accounts).
- Counterparty risk: Achmea is exposed to counterparty risk in its investments, mortgage loans, treasury, reinsurance activities, and in its dealings with healthcare providers, intermediaries and policyholders.
- Liquidity risk: Achmea is exposed to liquidity risk at group level and within the entities with regard to the insurance and banking activities.
- Operational risk: Achmea runs the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- Compliance risk: Achmea runs the risk of non-compliance with laws and regulations, which may result in legal or administrative sanctions that in turn may result in substantial financial loss or reputational damage. Compliance risk is a particular type of operational risk that is differentiated from other kinds of risk in practice; it requires its own specific controls.

In addition to this Achmea runs strategic risks, i.e. specific risks related to the risk profile in the long term.

Below is a description of Achmea's general risk profile, based on the SCR (Solvency Capital Requirement) outcomes under Solvency II, and an overview of the key risks identified.

### Partial internal model

The table below gives an overview of Achmea's risk profile based on the SCR results under Solvency II as calculated using the partial internal model. See the section on the risk management system for more information on the partial internal model.

SOLVENCY CAPITAL REQUIREMENT (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Market risk | 2,075 | 2,291 |
| Counterparty Risk | 643 | 560 |
| Life Risk | 1,760 | 1,861 |
| Health Risk | 1,889 | 1,861 |
| Non Life Risk | 816 | 770 |
| Intangible Assets | 1 | 4 |
| Diversification | −2,632 | −2,645 |
| **Basic Solvency Capital Requirement** | **4,552** | **4,702** |
| | | |
| Loss-Absorbing Capacity | −616 | −706 |
| Operational Risk | 586 | 596 |
| **Solvency Capital Requirement (Cons)** | **4,522** | **4,592** |
| | | |
| SCR Other Financial Sectors & Other entities | 33 | 31 |
| **Solvency Capital Requirement** | **4,555** | **4,623** |

A large part of the SCR results directly from the product range and consists of insurance risk, comprising life, non-life and health risks. The total volume decreased slightly in 2017 after diversification. As a financial service provider Achmea is also exposed to market risk due to its investment portfolio, and life insurance and disability insurance with minimum guarantees and profit sharing. The market risk has decreased in 2017. Further the risk profile according to the SCR includes counterparty risk (including investments in mortgages) and operational risk. More information on the composition of the risk profile of insurance risk and market risk is included in the relevant sections on these risks.

In accordance with Solvency II regulations the Loss-Absorbing Capacity has been taken into account for the calculation of the Solvency Capital Requirement. This comprises: 1. the Loss-Absorbing Capacity of expected profits for the internal model for the premium and the reserve risk; and 2. the Loss-Absorbing Capacity of Deferred Taxes (LACDT). These items can be used to compensate for some losses.

## Key risks

Below the key specific risks are described, although not in a specific order of priority. Annually these risks are identified and the measures taken are assessed with the boards of the operating companies and the Executive Board. These risks are characterised by their specific nature and can have a major impact if they were to materialise without any risk management measures having been taken.

Key risks with a possible impact on the long term, the strategic risks, are:

- Innovation
  Developments in financial services are occurring at a rapid pace. It is important that Achmea innovates its processes and products/services fast enough in response to these new developments. A particular point of attention is the possibility of disruptive changes arising from new entrants and/or new products/services. Together with specific developments such as self-driving cars and home automation, this mainly plays a role in non-life insurance.
- Digitisation
  The current pace of digitisation presents great opportunities but also threats. It is important that Achmea focuses on continued digitisation of its processes, supported by IT systems, to respond to changing customer needs.
- Consistently low interest rates
  If interest rates remain low for an extended period of time this will result in lower investment returns. Particular attention will be paid to the valuation of the technical provisions under Solvency II and the Liability Adequacy Test, because with a continued low interest rate it will not be possible to earn without taking risk the interest used in the valuation curve after 20 years (because of the use of the Ultimate Forward Rate).
- Competitive costs
  As major financial service provider Achmea has the advantage of economies of scale, but also has the disadvantage of a large-sized organisation. The implementation of changes requires a greater effort than it does for other market parties, who are able to operate from a lower cost base – most importantly with regard to service-related activities.
- Distribution partners
  Achmea makes use of several distribution partners for the sale of its products, such as Rabobank. It is important to consistently align the parties' mutual expectations to ensure that the products and services developed match what the distribution partners wish to sell.
- Public policy and legislation
  Laws and regulations have a significant impact on Achmea as a company. There is a risk that Achmea's revenue model will be affected by public policy and changes in laws and (tax) regulations, as well as by organizing solidarity in society differently. This risk mainly concerns health, pensions and income protection.
- Competencies and talents
  Specific competencies and talents are important to the realisation of Achmea's corporate objectives. Extra attention is given to business acumen, innovation, agility, working in an international context, required expertise and appropriate remuneration.

Achmea monitors these risks closely, as part of the periodic monitoring of the risk profile and the annual ORSA (Own Risk and Solvency Assessment) report.

Key risks with a possible impact on the short term are:

- Volatility in the financial markets
  As a financial service provider with an investment portfolio, products with minimum guarantees and profit sharing conditions, Achmea has a large exposure to the financial markets. Major financial shocks including significant developments in interest rates and/or credit spreads and a drop in the stock markets have occurred in the past and may occur again. This market risk is actively managed by means of a diversified investment portfolio and active management of the different financial positions.
- Longevity risk and catastrophes
  Important insurance-related risks Achmea is exposed to are longevity risk and catastrophe risk. An unexpected further increase in life expectancy, for example because of breakthroughs in medical science, could have a significant impact on the pay-out level of the life and pension activities. Catastrophes such as earthquakes and storms always have a significant impact, and the risk of these occurring appears to be increasing as a result of climate developments. Longevity risk is actively managed by diversification of the life and pension portfolio, and transfer of the risk. Catastrophe risk is largely mitigated by reinsurance.
- Operational and compliance risks
  Key recognised operational and compliance risks are information security and cybercrime, liability claims and reputational risk. The risks related to cybercrime are high, especially as a result of malware and ransomware attacks using rapidly changing technologies. Risks surrounding the security of websites and privacy sensitive information also remain high, due to a changing IT environment and changing hacking techniques. The risk of the irresponsible handling of big data is increasing in a world where data become increasingly important. The reputation of insurers as part of the financial sector is still under pressure. Everything an insurer does, is judged from a social perspective.

These key risks with a possible impact on the short-term are managed as part of the regular risk management policy as described in the next section.

## C. THE RISK MANAGEMENT SYSTEM

The Achmea risk management system sets out how the risks at Achmea level and for each main risk are managed. Capital management forms an integral part thereof. This section first describes the key elements of the risk management system, and then sets out the risk profile and risk response for each main risk in more detail.

For an adequate risk management system at Achmea, there needs to be understanding and clarity of the key principles for risk management in the organisation, with these principles being followed uniformly and completely. The Achmea risk strategy sets out the main principles:

- Principles pertaining to risk appetite such as maintaining a solid capital and liquidity position that is sufficient for Achmea to meet its obligations, now and in the future.
- Principles pertaining to the risk management structure such as the ‘Three Lines of Defence’ model and the chosen integrated approach for the management of risks. Achmea assesses the various risk types and the risks inherent in the various operating companies and supervised entities in conjunction with another.
- Principles pertaining to the culture such as the encouragement by the Achmea Executive Board and management of an open culture in which risks can be openly discussed and where decision making is based on an appropriate balance between risk, capital and expected return.

Below is set out how Achmea gives substance to these principles.

## Risk appetite

Risk appetite reflects Achmea's attitude to taking risks and gives an indication of its willingness to accept a high or a low risk level. Risk appetite consists of a number of principles as part of the risk strategy with an elaboration in Risk Appetite Statements and corresponding Key Risk Indicators (KRIs) to monitor whether Achmea is operating within the limits of the risk appetite.

An overview is given below of the risk appetite principles and their translation into KRIs as part of Achmea's risk strategy.

| FINANCIAL | RISK APPETITE PRINCIPLES | KEY RISK INDICATORS |
|---|---|---|
| RESULT AND VOLATILITY | Achmea realises a sustainable result that ensures a continuous access to the capital market. Extreme fluctuations in the economic result are avoided. | - Free Capital Generation<br>- Fixed Charge Coverage Ratio |
| CAPITAL | Achmea has a strong capital position. | - Solvency ratio Solvency II<br>- Capital surplus S&P<br>- Economic solvency |
| LIQUIDITY | Achmea's current and future liquidity position is sufficient to meet its obligations. | - Available liquidity in a going concern situation and after a stress situation. |
| FINANCIAL RISK POLICY | Achmea knows as insurer its financial risks and pursues an adequate financial risk policy that aims to avoid undesired risk concentrations. Achmea utilises an important part of its risk capital for insurance risk. | - Required capital for the relevant risk<br>- Exeeding of counterparty limits |

| NON-FINANCIAL | RISK APPETITE PRINCIPLES | KEY RISK INDICATORS |
|---|---|---|
| PRODUCT QUALITY AND SERVICES | Achmea offers a secure and transparent solution to clients that continuously meet the clients' needs, at a fair price. | - Certification Customer Oriented Insurer<br>- Achmea KBC customer interest Dashboard<br>- PARP issue indicator |
| COMPLIANCE | Achmea has an adequate compliance policy to comply with laws and regulations. Employees, clients, suppliers and other partners of Achmea operate with integrity. | - Violations and implementation of laws and regulations<br>- Integrity violations |
| OPERATIONAL RISK / INTERNAL CONTROL | Achmea knows as insurer and service provider its operational risks and has an adequate operational risk policy aimed at the prevention of material financial losses due to insufficient or failing internal processes or personnel and systems or external events. | - Internal Control Framework<br>- Financial loss because of operational risks<br>- Very urgent issues<br>- Disruption of business-critical chains<br>- Reputation score |
| CORPORATE SOCIAL RESPONSIBILITY | Achmea realises its corporate objectives in a socially responsible manner and aims at providing a demonstrable social added value through its insurance and investment activities. Achmea remains relevant on this topic by reacting adequately to social developments. | - Transparency benchmark of the Ministry of Economic Affair<br>- Benchmark of the association of Investors of sustainable development.<br>- Inquiries of the 'fair insurance pointer' |

Risk appetite is explored here in terms of the perspectives of the financial and non-financial statements, with the principles of the financial statements giving substance to the financial perspective and the principles of the non-financial statements giving substance to the other perspectives of Achmea's strategy map. Risk appetite also covers all the main risks in Achmea's risk classification.

### Three Lines of Defence model

As stated in the principles of the risk strategy, Achmea's governance structure is based on the 'Three Lines of Defence' model.


The first line is responsible for the day-to-day risk management. It is supported by the second line, which also reports periodically on Achmea's risk profile. The third line complements these activities by carrying out periodic testing of the effectiveness of internal control, governance and risk management and reporting on this.

### Solvency II key functions

The risk management function, the actuarial function, the compliance function and the internal audit function have been set up In line with the Solvency II requirements.

- At group level the risk management function, the actuarial function and the compliance function are fulfilled by the staff department Risk & Compliance. These functions report to the Chief Risk Officer of the Executive Board, but also have direct access to the business, the Executive Board, the Audit & Risk Committee and the Supervisory Board, as well as a formal escalation line to the chairpersons of the Executive Board, the Audit & Risk Committee and the Supervisory Board.
- The internal audit function at group level is fulfilled by the Internal Audit department. This function reports to the chairman of the Executive Board, has a formal information and escalation line to the chairpersons of the Audit & Risk Committee and the Supervisory Board, and has direct and unlimited access to business units.
- For the Dutch and non-Dutch entities under supervision the functions are fulfilled either at group level or locally.

### Risk committees

Achmea has risk committees both at group level and within the business units.

- At group level, the Supervisory Board supervises the Executive Board. The Audit & Risk Committee advises the Supervisory Board among other things on financial, administrative organisational and compliance matters, as well as on the risk profile and the set-up of internal control systems. The presence of a Chief Risk Officer on the Executive Board helps ensure a permanent focus on risk management in our business operations.
- The Finance & Risk Committee (FRC) is an executive committee of the Executive Board. It is a platform with members of the Executive Board, managers of the relevant (financial and risk) departments and finance directors of several business units. The FRC focuses on discussing and deciding on the issues related to finance, risk management, investment policy, actuarial issues and compliance at group level.
- The FRC has a subcommittee: the Model Approval Committee (MAC), with delegated responsibility for approving risk models.
- Specifically for product development a Product Advisory Committee (PAC) has been established at group level for the Product Approval and Review Processes (PARP) within the business units.
- Aligned with the FRC at the group level, there are Finance & Risk Committees within the business units that discuss and manage risks, possibly complemented by specific committees such as the Underwriting Committee at Achmea Reinsurance and the Asset & Liability Committee and the Credit Committee at Achmea Bank.

### Model management and validation

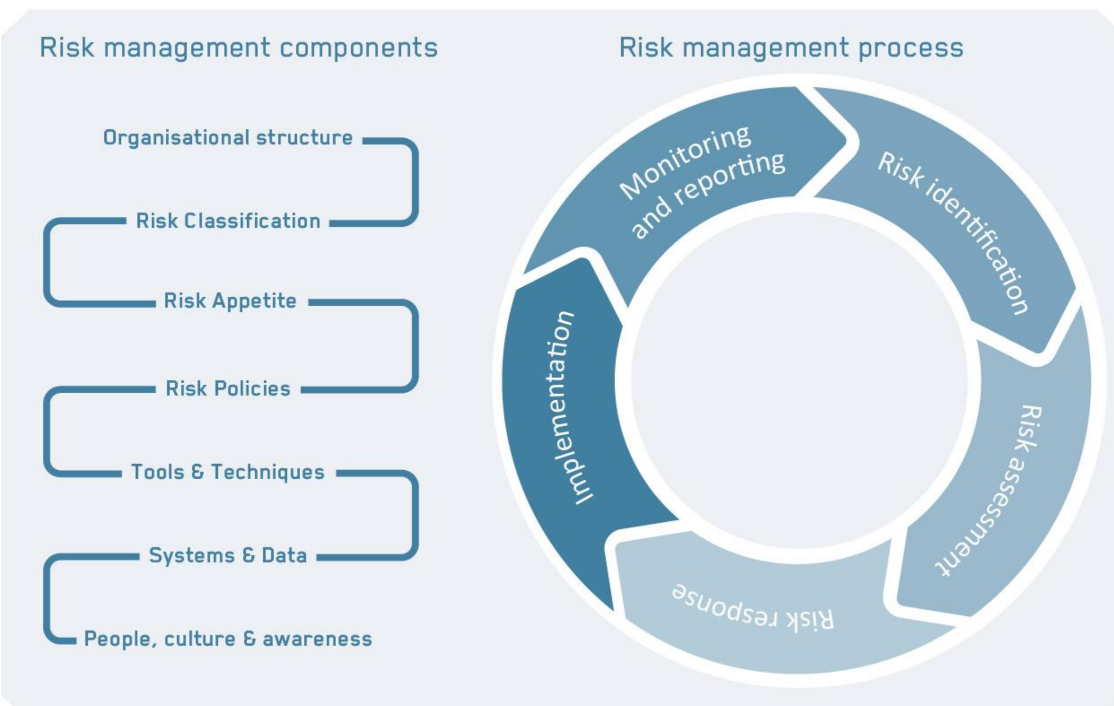
The development and management of models including the partial internal model is subject to strict model governance which ensures that the models are adequately managed. Models are assessed and the models with a high gross risk are documented, implemented, tested and periodically validated by a model validation function and approved by the MAC. Part of the management is that model changes are implemented and approved in accordance with a controlled change procedure.

Besides the approval in the MAC the partial internal model is also approved by the Executive Board, the boards of the entities that use the partial internal model, the Audit & Risk Committee and the Supervisory Board. After the internal governance is completed a newly developed model is submitted to the college of supervisors for approval.

### Integrated Risk Management Framework

The Integrated Risk Management Framework (IRMF) describes the risk management system of Achmea and sets out in more detail the completeness, consistency and efficiency of the aforementioned integrated approach for the management of risks as referred to in the risk strategy.

RISK MANAGEMENT FRAMEWORK




### Risk identification and risk assessment

Several risk assessments are carried out throughout the year making use of quantitative and qualitative tools and techniques:

- Qualitative risk assessments (Risk Self Assessments) focus on areas such as strategy, projects and operational risks. This includes, amongst others, a qualitative risk assessment with the management of the business units and the Executive Board, in which the key risks are identified and assessed.
- Achmea uses risk models to make a quantitative estimate of our risk profile, including the Solvency II partial internal model. These risk models are used amongst others in the planning & control cycle, product development and pricing, determining the reinsurance programme, preparing the investment plan and capital management.
- Finally, scenarios and stress tests provide insight into what happens under extreme circumstances or when several factors occur simultaneously. These scenario and stress tests are used as part of the periodic monitoring of the risk profile. Annually, they are used to analyse the key risks in greater depth.

### Monitoring and reporting

Achmea's risk profile is monitored periodically, and on the basis of that second and third line reports are drawn up for the Executive Board, the Audit & Risk Committee and the Supervisory Board. For the main risk types, line management periodically verifies that the risk is still within the risk limits set on the basis of the risk appetite. Line management also monitors the follow-up of actions arising from the qualitative risk assessments. Finally, an Internal Control Framework is used to systematically monitor key risks and key controls throughout the organisation. Cross-references are included in the framework to information security, Solvency II, the Achmea Customers Centricity program, the quality seal 'Customer oriented Insurance' (KKV) and the In Control Statement (ICS) that is issued internally as an important component of the internal risk management and internal control systems.

In addition to the periodic monitoring of our risk profile, the group-wide risk and solvency assessment report ORSA is prepared annually for the insurance activities. For the banking activities an ICAAP (Internal Capital Adequacy Assessment Process)/ILAAP (Internal Liquidity Adequacy Assessment Process) report is prepared. These reports provide insight into, and an assessment of the development of the risk profile, solvency and liquidity during the planning period, both under regular and under stressed circumstances. These reports are provided annually to the college of supervisors and local regulators for the non-Dutch entities. The extent to which the existing and future capital and liquidity position are considered to be adequate under normal and under extreme circumstances is laid down in the ORSA report. The appropriateness of the partial internal model is also assessed in the ORSA.

Achmea's recovery plan contains information on the degree to which Achmea as Group is prepared for, and can recover from, severe (financial) developments which lead to a financial crisis situation.

### Partial internal model

For calculating the required capital under Solvency II (SCR) Achmea uses a partial internal model, that has been approved by the college of supervisors, as risk model. Some risks are quantified using an internal model and the other risks are quantified using the standard formula of Solvency II. Inflation risk is added to the market risk.

The scope of the internal model is:
- For non-life risk the premium and reserve risk of Achmea Schadeverzekeringen N.V., N.V. Hagelunie and Interamerican Property and Casualty Insurance Company S.A.
- For non-life risk the natural catastrophe risk of Achmea Schadeverzekeringen N.V., N.V. Hagelunie, Interamerican Property and Casualty Insurance Company S.A. and Achmea Reinsurance Company N.V.
- For health risk (health Not Similar to Life Techniques, NSLT) the premium and reserve risk of Achmea Schadeverzekeringen N.V. and Interamerican Property and Casualty Insurance Company S.A.
- For health risk (health Similar to Life Techniques, SLT) the risks relating to disability, rehabilitation and revision percentages of Achmea Schadeverzekeringen N.V.

For the Solvency II calculation (including Solvency II eligible own funds) Achmea uses assumptions and estimates with regard to future results or other developments, including the probability, realisation moment or amount of future transactions or events. Inherent in estimates is that the actual results may differ materially. Part of these assumptions and estimates correspond to the assumptions and estimates mentioned under Note 1 Accounting Policies – I (Key accounting estimates) and the accounting policies as included for the specific items in the Consolidated Financial Statements. For the Solvency II calculation (including Solvency II eligible own funds) several additional assumptions and estimates are applied additionally or instead. The most important additional assumptions and estimates are the following:

- Cash flows used for the assessment of the market value of the Liabilities related to insurance contracts and Amounts ceded to reinsurers. Estimates under cash flows include the expected premium income and claims for future years and include assumptions on mortality, claims, lapse, work disability, costs and interest.
- Projected fiscal results (after shock) and analysis of future results.
- Market value of contingent liabilities.
- The absorbing capacity of deferred taxes in the event of a shock in capital.

In addition, the final size of the SCR (including the Solvency II eligible own funds) is still subject to assessment by De Nederlandsche Bank (DNB). This means that interpretations may change, and consequently the reported Solvency II figures may change.

**INSURANCE RISK**

Insurance risk is the risk of loss, or of adverse change in the value of Liabilities related to insurance contracts, resulting from inadequate pricing and provisioning assumptions and encompasses life risk, non-life risk and health risk.

The Insurance Risk Policy describes how insurance risks are managed, our 'risk response'. A key ingredient is the Product Life Cycle (PLC) approach, which consists of the following phases:

- Business planning
- Product development
- Underwriting
- Reinsurance
- Policy management
- Claim process
- Determination of assumptions
- Reserving
- Product review
- Reporting and analysis

The different phases of the product life cycle approach contribute to the management of the insurance risk. These phases are explained in more detail below and in the sections on life, non-life and health risks.

### Product development and product review

For the introduction of new insurance products, Achmea has formulated a Product Approval and Review Policy. Achmea wants to offer clients secure and transparent solutions meeting their needs, with a fair pricing policy. Products may not be marketed or distributed without careful consideration of the risks and careful assessment of other relevant aspects, including the duty of care towards clients. Existing products are also reviewed periodically to ensure that these are still in the interest of the client. In addition the periodical review focuses on the strategic interest of a product, the business case of a portfolio, premium structure, profitability and standard return ratio of the product.

### Reinsurance

Achmea Reinsurance Company N.V. (hereinafter Achmea Reinsurance) is the reinsurance company of the group and fulfils three roles: advisor, risk carrier and purchaser. Achmea Reinsurance provides reinsurance cover for the Achmea entities. To that end it enters into reinsurance contracts with the Achmea entities, including the non-Dutch entities as well as with third parties. Through retrocession the contracts are partially placed with external reinsurers. In addition to its own reinsurance programme Achmea Reinsurance has entered into a reinsurance contract with a financial character and a number of incoming reinsurance contracts with strategic partners, Eurapco partners and other external insurers and reinsurers.

Achmea has a reinsurance policy in which all responsibilities with regard to the reinsurance process are laid down. The Underwriting Committee of Achmea Reinsurance decides on the retention within the framework of the reinsurance policy, Achmea's risk appetite and the risk appetite of Achmea Reinsurance. After approval by the Executive Board the reinsurance programme is placed in the market. The purchase of reinsurance cover for non-Dutch entities is arranged by the entities themselves. Within the framework of the reinsurance policy the non-Dutch entities have the opportunity to decide by themselves where they purchase their reinsurance. Achmea Reinsurance carries the risk in most programmes of the non-Dutch entities.

The reinsurance programme mainly consists of catastrophe excess-of-loss contracts and per risk excess-of-loss contracts. Individual risks that exceed the treaty limit of the 'per risk' programmes are covered on a facultative basis. The reinsurance programme consists of several layers to place the programme as efficiently as possible. In 2017 the catastrophe programme was the main programme with regard to the retention of Achmea Reinsurance. Furthermore Achmea uses insurance-linked securities (catastrophe bonds) on a limited scale.

### Reserving

In the reserving process the Liabilities related to insurance contracts are determined for the current insurance contracts. The methodology used for this may vary according to the regime: IFRS accounting, including IFRS Liability Adequacy Testing, Solvency II, local accounting and local solvency (for the entities not covered by the Solvency II regime). The Liabilities related to insurance contracts are determined at least four times a year. At least twice a year they are also tested for adequacy, and more often if deemed necessary or required by law.

## Life Risk

Life risk is the risk of loss, or of adverse change in the value of Liabilities related to insurance contracts, resulting from:
- the changes in the level, trend or volatility of the underlying risk drivers (mortality rates, expenses, lapse rates);
- the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events.

It encompasses mortality, longevity, lapse and expense risk.

### Risk profile

The Netherlands is the main market where Achmea is exposed to life risk. In the Netherlands Achmea is closed to new business except for the annuities and life insurance products. Ireland (Friends First), Greece (Interamerican) and Slovakia (Union) are the Life markets outside the Netherlands where Achmea operates.

The Life portfolio consists of life insurance with profit participation, unit-linked insurance and other life insurance:
- Life insurances with profit participation are traditional life products with profit participations, like saving products and group contracts. These products create an exposure to mortality/longevity risk and to market risk for Achmea.
- For unit-linked insurance the policyholders bear the investment risks.
- Other Life insurance consists of traditional products without profit participation like term insurance, both stand-alone and linked to mortgages (mortality risk).

LIFE RISK

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Mortality | 211 | 234 |
| Longevity | 1,155 | 1,195 |
| Disability / morbidity | 35 | 37 |
| Lapse | 495 | 523 |
| Expense | 641 | 705 |
| Catastrophe | 142 | 147 |
| Diversification | −919 | −980 |
| **Solvency Capital Requirement Life risk** | **1,760** | **1,861** |

The required capital for Life risk decreased to €1,760 million in 2017. The SCR is calculated using the standard formula of Solvency II. The decrease is due to the updated mortality experience and lapse assumptions, the higher interest rates and the decrease in size of the portfolio.

Longevity risk is predominant in Life risk and therefore this exposure is monitored closely. For Life, concentration risks concern an unexpected increase of the life expectation and a pandemic.

### Risk response

For life insurance acceptance, medical examinations are required. Tariffs are differentiated by risk category (smoking / non-smoking). For individual contracts in the Netherlands there is an 'en bloc' clause which allows the premium to be increased in extreme cases. With this instrument, the consequences of adverse mortality and increased expenses can be mitigated.

Reinsurance is used in Life risk to limit mortality and catastrophe risk. Achmea Pensioen- en Levensverzekeringen N.V., Friends First and Interamerican Greece are all protected by reinsurance for large sums. Achmea Reinsurance has a quota-share agreement with Achmea Pensioen- en Levensverzekeringen N.V., part of which is placed in the market. These contracts are sensitive for the mortality and catastrophe risk. A pandemic is not reinsured by Achmea, but is reviewed every three years to assess if reinsurance is required. Individual lives with high-risk capitals are reinsured.

The mortality tables used in the Netherlands and Ireland take into account a future increase of the life expectancy. Elsewhere, to ensure adequacy, standard mortality tables are adjusted in various ways, such as age adjustments.

## Non-life Risk

Non-life risk is the risk of loss or of adverse change in the value of Insurance liabilities resulting from:
- fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements;
- significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

It encompasses premium, reserve, lapse and catastrophe risk.

### Risk profile

The Netherlands is the main market where Achmea is exposed to non-life risk. Greece (Interamerican), Turkey (Eureko Sigorta), Slovakia (Union) and Australia are the Non-life markets outside the Netherlands where Achmea operates.

The risks covered by Achmea are within the typical lines of business, such as motor (hull and liability), transport / aviation, fire and natural events, general liability and legal assistance.

NON-LIFE RISK (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Lapse | 143 | 141 |
| Premium and reserve | 550 | 516 |
| Catastrophe | 464 | 440 |
| Diversification | −341 | −327 |
| **Solvency Capital Requirement Non-life risk** | **816** | **770** |

The required capital for Non-life risk increased to €816 million in 2017. The SCR is calculated using a partial internal model approved by the college of supervisors. The increase mainly relates to additional risk capital being held for injury claims.

Within Non-life, catastrophe risk is a large risk. Mainly the property and motor hull insurance lines are exposed to catastrophe risk. The predominant natural perils are wind damage and hail risk in the Netherlands and earthquake risk in our entities in Greece (Interamerican) and Turkey (Eureko Sigorta). Motor hull in the Netherlands includes the risk of flood. For Non-life concentration risk refers to major claims resulting from the above-mentioned natural perils and large fires. The catastrophe risk has increased because the reinsurance programme of Eureko Sigorta, due to the low rating of Turkish insurers, may not be included in full.

### Risk response

Acceptance guidelines ensure a good assessment of the risk, acceptance (under possible conditions) and premium setting. In the Netherlands Achmea does not underwrite heavy industrial risks such as airports or power plants. In Turkey, these types of risks are underwritten from a strategic viewpoint. The risks are either 100% fronted via reinsurers or accepted with a very minimal retention.

Reinsurance is used to manage exposure to weather-related events, natural disasters, events involving multiple victims, major fires and large claims in general and motor third-party liability. Part of the retention is maintained at Achmea Reinsurance. The reinsurance programme provides the following covers:
- Catastrophe: this is an excess-of-loss programme for the cumulated (mainly natural) catastrophe claims of the portfolios property/engineering (residential, commercial, agro farmers), greenhouse (horticulture) and motor hull. These portfolios are pooled in an external programme with different retentions. For the Dutch entities Achmea Reinsurance provides three individual excess-of-loss programmes with also different retentions. For the catastrophe programme of the Dutch entities storm risk is the dominant risk type. For the non-Dutch entities Achmea Reinsurance carries the risk in reinsurance programmes for earthquake risk in Greece, Turkey and Slovakia and flood risk in Turkey and Slovakia. Eureko Sigorta has reinsured its largest catastrophe risk, earthquake risk, partly through the Turkish Catastrophe Insurance Pool and proportional treaties.
- Property: this is an excess-of-loss programme for the individual claims (mainly fire claims) of the relevant portfolios.
- General Liability and Motor Third Party Liability: this is a reinsurance programme for general and motor liability risks and large personal injury claims.

In lines of business such as general liability and motor liability (mainly bodily injury) with long settlements, the claims reserve is exposed to the risk of inflation. This risk is managed as part of market risk, periodically it is evaluated if this risk should be covered.

## Health Risk

Health risk is the risk of loss or of adverse change in the value of Insurance liabilities resulting from:
- changes in the level, trend, or volatility of the medical expenses incurred in servicing insurance contracts (health Not Similar to Life Techniques (health NSLT));
- fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements (health Not Similar to Life Techniques (health NLST));
- changes in the level, trend or volatility of the underlying risk drivers (longevity, incidence, lapse, expense, recovery and revision percentages) for disability insurance (health Similar to Life Techniques (health SLT));
- significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under such extreme circumstances (health CAT).

### Risk profile

Health risk is present in disability insurance (long-term, health SLT), sickness and accident insurance (short-term, health NSLT) and medical expenses (short-term, health NSLT).

The risks of the sickness and accident insurance are comparable to non-life risk and are managed accordingly, see the section on non-life risk. Below is more detailed information on disability insurance and medical expenses.

Disability products cover the risk of a reduction in income resulting from inability to work due to disability (long-term, Health SLT).
- In the Netherlands, Achmea offers disability products based on local regulatory requirements. In the Dutch regulations there is a distinction between employers (including self-employed) and employees. For employers and the self-employed there is no public insurance and a full private insurance is available. For employees there is a public insurance, the Work and Income according to labour ability (Wet werk en inkomen naar arbeidsvermogen WIA) which consists of two covers: the income provision in case of full and permanent disability (Inkomensvoorziening volledig en duurzaam arbeidsongeschikten, IVA) and the return to work provision in case of partial or non-permanent disability (Werkhervatting gedeeltelijk arbeidsgeschikten, WGA). There are two types of private insurance: supplements to the public insurance and (re)insurance of the WGA, since a company can choose to bear the WGA risk itself and exit the public insurance. Main uncertainties in the WGA insurance cover are the inflow and duration of the disability.
- In Ireland, disability insurance is an important business line written on a standalone basis, but these products are also offered as part of life insurance products (Permanent Health Insurance, PHI). The PHI contracts guarantee the premium rates for the duration of the contract for individual policyholders and for a limited period in the case of group contracts.

Disability insurance risks are changes in legislation, the level of absenteeism due to illness, the frequency and the extent to which people are disabled, the rate of recoveries from disability, and the level of interest and inflation rates.

The Netherlands is the main market where Achmea offers health insurance. The health insurance system consists of two components: a basic health and a supplementary health insurance.
- For the basic health insurance, Achmea Zorgverzekeringen N.V. offers a direct settlement policy ('natura'), a refund policy ('restitutie') and a selective policy. The basic health insurance covers the standard health care and is mandatory for anyone who lives or works in the Netherlands and must be purchased from a health insurer based in the Netherlands. All insurers have a duty to accept all applicants. Premiums for the basic health insurance are partly influenced by political decision-making. The Dutch government determines the extent of coverage under the basic health insurance package and the conditions applicable to the basic health insurance package, including admission and the maximum discount for group contracts (10% of the gross premium).
- In addition, the government determines the payments health insurers receive from the health insurance equalisation fund. The compensation paid through the equalisation fund is financed by employers and the Dutch government. Payments by this fund depend on the risk profile and the portfolio of the health insurance company.
- Supplementary health insurance offers policyholders an opportunity to expand the cover provided by the basic health insurance. This insurance is optional and is comparable in nature and method to non-life insurance. The cover provided by these insurances is not tied to government stipulations and there is no obligation of acceptance and no risk equalisation system. Achmea offers a variety of dedicated supplementary health insurance packages. Premiums for supplementary health insurance are tailored to the cover offered.

HEALTH RISK

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Health risk SLT | 284 | 278 |
| Health risk NSLT | 1,712 | 1,685 |
| Health catastrophe | 65 | 76 |
| Diversification | −172 | −178 |
| **Solvency Capital Requirement Health risk** | **1,889** | **1,861** |

The required capital for Health risk increased to €1,889 million in 2017. The SCR for income insurance risks (Health risk SLT) is calculated using an internal model approved by the college of supervisors and for the other health risks using the standard formula of Solvency II. The increase mainly relates to an increase in the premium and reserve risk due to an increase in the bodily injury provision and higher expected premium volumes.

The uncertainties for a health insurer are specifically in basic health care, and occur for various reasons.
- Political decisions.
- The equalisation model which is not suitable for long-term care.
- Growing competition in healthcare.
- The settlements with Zorginstituut Nederland (ZiNL) per occurrence year, and the clearing of over and under-funding. The uncertainty of the health-related expenses arises from the dependence on the timely processing of invoices by health insurers, the settlement of claims and the availability of reliable historical data.

In the process of estimating insurance liabilities and income from the health insurance equalisation fund uncertainties are present, due to the timeliness of the processing of invoices by health insurers, the transfer of long-term care and the restrictions of ex-ante budgeting.

### Risk response

Within disability, after the initial claims report a customer follows a reintegration program that assesses whether interventions by external service providers may be valuable. This consists of workplace adjustment or waiting list mediation. In the vast majority of the agreements with maturities longer than one year the premium can be adjusted according to a clause in the policy conditions. The possibility of high claims per single risk for disability is mitigated by limiting the insured income and, in some cases, the use of reinsurance.

Achmea has taken a number of measures to mitigate the uncertainties on the health costs. The insurance liabilities for outstanding claims and receivables from ZiNL are based on best estimates of expected amounts and a provision is formed for uncertainties. Claim estimates are generated periodically in order to gain insight into relevant developments and the adequacy of insurance liabilities. In addition to these measures, there is more information available on a national level about the macro claims, which is also used to assess the estimates. Furthermore Achmea reduced the upward potential of, in particular, specialised medical care, mental healthcare and district nursing by agreeing ceiling arrangements and fixed-sum contracts with healthcare providers. Achmea limits counterparty risk by periodic monitoring and stopping payments exceeding contractual arrangements.

### MARKET RISK

Market risk is the risk of loss or adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments. It encompasses interest rate risk, equity risk, property risk, spread risk and currency risk. Inflation risk is included in interest rate risk.

### Risk profile

As a financial service provider, Achmea is exposed to market risk due to its investment portfolio, minimum guarantees and profit sharing (life insurance and disability insurance) and retail banking products (mortgages, deposits, savings accounts and current accounts).

MARKET RISK (NON CRD ACTIVITIES)

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Interest rate | 418 | 817 |
| Equity | 990 | 1,086 |
| Property | 399 | 396 |
| Spread | 827 | 788 |
| Currency | 111 | 216 |
| Diversification | −670 | −1,012 |
| **Solvency Capital Requirement Market risk** | **2,075** | **2,291** |

The required capital for Market risk decreased to €2,075 million in 2017. The SCR is calculated using the standard formula of Solvency II. The decrease mainly results from the implementation of an adjusted hedging strategy for Achmea Pensioen- en Levensverzekeringen N.V., resulting in a significant reduction of the interest rate risk. The inflation risk also decreased. Furthermore the equity risk is reduced due to a changed classification of senior unsecured loans from equity risk to spread risk and the sale of commodities. The currency risk has decreased due to the sale of investments incurring currency risk and the implementation of a currency hedge.

IFRS SENSITIVITIES

(€ MILLION)

| | 31 DECEMBER 2017 | | 31 DECEMBER 2016 | |
|---|---|---|---|---|
| | IMPACT SHOCK TOTAL EQUITY IFRS | IMPACT SHOCK | IMPACT SHOCK TOTAL EQUITY IFRS | IMPACT SHOCK |
| Equity -20% | -462 | −5% | -513 | −5% |
| Interest -40bp [1] | 23 | 0% | 15 | 0% |
| Interest +40bp [1] | -22 | 0% | -14 | 0% |
| Property -20% | -167 | −2% | -169 | −2% |

1. *The rate interest sensitivities as at 31 December 2017 are calculated taking into account profit sharing through shadow accounting which is recognised in the insurance liabilities. For comparison purposes the sensitivities as at 31 December 2016 have been recalculated and adjusted accordingly.*

The sensitivity of the solvency position under Solvency II to various changes in the underlying assumptions is included below.

SOLVENCY II SENSITIVITIES

(€ MILLION)

| | 31 DECEMBER 2017 | | | 31 DECEMBER 2016 | | |
|---|---|---|---|---|---|---|
| | ELIGABLE OWN FUNDS | SOLVENCY CAPITAL REQUIREMENT | RATIO (%) | ELIGABLE OWN FUNDS | SOLVENCY CAPITAL REQUIREMENT | RATIO (%) |
| Equity -20% | -571 | -181 | −5% | -724 | -157 | −10% |
| Interest -50bp [1] | 150 | 286 | −8% | | | |
| Interest +50bp [1] | -112 | -16 | −2% | | | |
| Property -20% | -310 | -32 | −6% | -307 | -35 | −5% |

1. *In 2017 the steering on and measurement of the interest rate risk has been changed. As a result figures based on 50bp as at 31 December 2016 do not compare properly to the sensitivities as at 31 December 2017 and the developments in interest rate sensitivity during 2017. Also the figures as at 31 December 2016 do not properly reflect the interest rate sensitivity of the Solvency II figures for future periods. Therefore no comparative figures for 2016 are included for interest rate sensitivity.*

### Risk response

The Market Risk Policy describes how market risks are managed:

- For its Dutch insurance companies, Achmea manages market risk positions within a market risk process consisting of an Asset & Liability Management (ALM) process and an investment plan process. The key objective is to ensure that the market risk profile in combination with counterparty risk remains within the defined risk appetite. The total investment portfolio is split into a

matching-portfolio and a return-portfolio. The matching-portfolio must ensure proper matching with the insurance liabilities with regard to market risk, within the agreed framework. The return-portfolio focuses on generating investment income by taking market risks. Within the limits of the risk appetite a risk budget for market risk is set based on the ALM study. This research is executed at least once a year. Following this an optimal return portfolio (the strategic investment mix) is determined that fits the set market risk budget and provides the highest return given additional restrictions on, for example, liquidity and minimum size per asset class. The market risk is monitored periodically, focusing on deviations from the strategic mix, and managing the interest rate exposure.
- For the insurance entities outside the Netherlands, an ALM and investment plan process is followed, based on guidance from the Group. The general principle within Achmea with regard to market risk incurred by the non-Dutch entities is that this risk should be limited and that the investment portfolio must replicate the liabilities through a portfolio consisting of low-risk bonds and deposits and cash for short-term investments

The market risk process uses the partial internal model under Solvency II, where the market risk is calculated using the standard formula, as well as an additional internal risk model.

In 2017 Achmea completed the development of an internal model for market risk under Solvency II, after which it has been submitted for approval to De Nederlandsche Bank. The objective is to use this internal model from 2018 for capital and risk management purposes.

## Interest rate risk

Interest rate risk is the risk of loss resulting from the sensitivity of the values of assets and liabilities to changes in the term structure of interest rates (both nominal and real) or in the volatility of interest rates.

### Insurance activities

The result and solvency ratio under Solvency II are influenced by the accounting classification of affected balance sheet items, recognition of impairments and the impact of the interest rate curve used to value the Liabilities related to insurance contracts within the life insurance business. In the liability adequacy test the risk-free discount rate is used as published by EIOPA. A change in interest rates would not have the same effect on the value of the liabilities as on the value of the assets, because of the use of the Ultimate Forward Rate (UFR) in the EIOPA curve. This is also applicable to Solvency II where Achmea's solvency ratio is also sensitive for a change in interest rates, because when the interest rate changes the value of the long-term liabilities does not change equally with the value of the assets because of the use of the UFR.

The Market Risk Policy describes how this interest rate risk is managed:
- Achmea's interest rate policy for the Dutch insurance entities is to manage the interest rate risk of investments and liabilities using different interest scenarios. For this assessment, interest rate shocks are applied to the replicating portfolios and the related actual investment portfolios. The interest rate sensitivity of the net position is assessed on a monthly basis for the entities under supervision. Achmea Pensioen- en Levensverzekeringen N.V. uses a limit for the interest rate sensitivity of the Solvency II solvency ratio at parallel interest rate shocks of 100 basis points and a limit for the sensitivity of the volatility of interest rates. Furthermore, the long-term effects of parallel interest movements and steepening and flattening of the interest rate curve is monitored for Achmea Pensioen- en Levensverzekeringen N.V. For the other entities the interest rate risk is managed based on the interest rate sensitivity of the economic interest rate risk at parallel interest rate shocks of 40 and 100 basis points.
- Achmea's foreign subsidiaries apply a duration matching approach within bandwidths laid down in the local investment plans and monitored locally via committees.

The interest rate risk is hedged by means of an overlay management process that makes use of interest rate derivatives (swaps and swaptions). The value of the interest rate derivative position is €2,495 million (2016: €2,496 million) with a notional amount of €30.1 billion (2016: €30.2 billion).

### Banking activities

Risk taking and managing interest rate risk as a source of profitability is a core business activity for a bank. The focus of the banking activities of Achmea is on retail banking products (mortgages, deposits, savings and current accounts). The majority of these products or services generate interest rate risk. This risk is managed through the Interest Rate Risk Policy, which mitigates the risk by using derivatives (interest rate swaps and forward rate agreements). Within Achmea's banking activities no non-linear derivatives are used, e.g. swaptions, caps and floors.

SENSITIVITIES BANKING ACTIVITIES

(€ MILLION)

| | 2017 ACHMEA BANK | 2016 ACHMEA BANK |
|---|---|---|
| Income at Risk +100 basis points | 16 | 8 |
| Value at Risk | 40 | 76 |
| Stress test -100 basis points | 22 | -15 |
| Stress test +100 basis points | -6 | -16 |

## Equity risk

Equity risk is the risk of loss resulting from the sensitivity of the values of assets and liabilities to changes in the level or volatility of market prices of equities. For more insight into the equity portfolio refer to Note 6, Investments.

For the Dutch insurance entities the purpose of investing in equities is to cover the average long-term risk premium. Equities offer a higher return potential than fixed-income securities and offer diversification potential. The aim is to buy equities at a relatively low value and sell equities at a relatively high value. Equities are spread across several asset classes to capitalise on diversification benefits.

Achmea's non-Dutch subsidiaries follow a specific investment plan based on Group guidelines and local laws and regulations. As described in the general section on the Market Risk Policy the general principle with regard to market risk is that this risk should be limited for foreign subsidiaries.

Apart from Ireland (proportionality) and De Friesland Zorgverzekeraar (proportionality) Achmea also uses the Equity Transitional to determine the risk capital for the equity risk.

## Property risk

Property risk is the risk of loss resulting from the sensitivity of the values of assets and liabilities to changes in the level or volatility of market prices of real estate. An overview of the investment property portfolio is given under Note 5 Investment property.

Property is part of the investment mix due to its attractive properties with regard to expected return, relatively low volatility and a low correlation with bonds and equities. Diversification within the property portfolio consists of diversification between different regions and sub-asset classes, as well as within the different regions and sub-asset classes.

## Spread risk

Spread risk is the risk of loss resulting from the sensitivity of the values of assets and liabilities to changes in the level or volatility of credits spreads over the risk-free interest rate term structure.

Achmea's main exposure to spread risk is from investment-grade credits (€8,740 million, 2016: €8,129 million), convertible bonds (€358 million, 2016: €350 million) and emerging market debt (€271 million, 2016: €252 million).

Spread risk is managed as part of the Counterparty Risk Policy and the Market Risk Policy. Please refer to the section on Counterparty default risk for a more detailed description of the framework. Achmea mitigates the spread risk through a conservative investment strategy that balances the exposure types (corporates, financials, covered bonds, government related bonds and asset backed securities), the credit rating, the maturity profile and the regional allocation.

The Market Risk Policy provides additional principles for stabilising the Solvency II solvency ratio. Achmea has a decreased sensitivity for spread risk because of the application of a volatility adjustment in the valuation of the liabilities.

## Currency risk

Currency risk is the risk resulting from the sensitivity of the values of assets and liabilities to changes in the level or volatility of currency exchange rates.

Achmea is exposed to currency risk, specifically in US dollars, as part of the regular investment portfolio (equities, fixed-income investments and listed real estate) and non-Dutch reinsurance contracts denominated in foreign currency. Another significant exposure is the Turkish lira, through the investments in Eureko Sigorta and Garanti Emiklilik.

The exchange rate risk table below shows the total exposure to the major currencies at year end.

EXCHANGE RATE RISK

(€ MILLION)

| | 2017 TOTAL EXPOSURE | 2017 NOTIONAL AMOUNT OF HEDGING INSTRUMENTS | 2017 NET EXPOSURE | 2016 TOTAL EXPOSURE [1] | 2016 NOTIONAL AMOUNT OF HEDGING INSTRUMENTS [1] | 2016 NET EXPOSURE [1] |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| US dollar | 2,525 | 2,491 | 34 | 2,958 | 2,694 | 264 |
| Pound sterling | 1,028 | 415 | 613 | 1,081 | 449 | 632 |
| Japanese yen | 122 | 124 | −2 | 97 | 99 | −2 |
| Swiss franc | 485 | 480 | 5 | 539 | 349 | 190 |
| Turkish lira | 107 | | 107 | 120 | | 120 |
| Danish krone | 44 | 35 | 9 | 91 | 87 | 4 |
| Other | 228 | 162 | 66 | 228 | 169 | 59 |
| | **4,539** | **3,707** | **832** | **5,114** | **3,847** | **1,267** |
| **Liabilities** | | | | | | |
| US dollar | 62 | 28 | 34 | 42 | 5 | 37 |
| Pound sterling | 661 | | 661 | 634 | | 634 |
| Japanese yen | | | | | | |
| Swiss franc | 172 | 191 | −19 | 375 | 186 | 189 |
| Turkish lira | | | | | | |
| Danish krone | | | | | | |
| Other | 6 | | 6 | 16 | 14 | 2 |
| | **901** | **219** | **682** | **1,067** | **205** | **862** |
| **Net position** | | | | | | |
| US dollar | 2,463 | 2,463 | | 2,916 | 2,689 | 227 |
| Pound sterling | 367 | 415 | −48 | 447 | 449 | −2 |
| Japanese yen | 122 | 124 | −2 | 97 | 99 | −2 |
| Swiss franc | 313 | 289 | 24 | 164 | 163 | 1 |
| Turkish lira | 107 | | 107 | 120 | | 120 |
| Danish krone | 44 | 35 | 9 | 91 | 87 | 4 |
| Other | 222 | 162 | 60 | 212 | 155 | 57 |
| | **3,638** | **3,488** | **150** | **4,047** | **3,642** | **405** |

1. *In view of Achmea's decreased exchange rate exposure to the Polish zloty, as from 2017 this currency is replaced by the Japanese yen in the above table. The comparative figures have been adjusted accordingly*

The exposure in the investment portfolio is generally hedged with foreign exchange contracts. Achmea Reinsurance hedges the currency risk of the expected profit from the reinsurance and retrocession contracts on an economic basis. The net investment in, or the income streams from, its non-euro subsidiaries are not hedged, because the operation of these subsidiaries are regarded as part of Achmea's long-term strategy.

## COUNTERPARTY DEFAULT RISK

Counterparty default risk is the risk of loss resulting from unexpected default, or deterioration in the credit standing, of the counterparties and debtors of Achmea.

### Risk profile

Achmea is exposed to counterparty risk in the area of investments, mortgage loans, treasury, reinsurance, healthcare providers, intermediaries, and policyholders. Achmea's banking activities provide primarily loans with real estate as collateral (mortgages) and/or with a security deposit as collateral.

An overview of the financial investments categorised by credit rating, an overview of the assets and liabilities subject to offsetting and similar agreements and an overview of financial assets that are past due or impaired, are included in Note 32.

#### Risk response

The counterparty risk group level governance framework is set out in the Counterparty Risk Policy, which describes amongst others the process for initiating transactions with new counterparties, the limits and distribution per counterparty within Achmea departments and entities and the limit revision and exposure control process. The main ‘prevention’ objective in managing counterparty risk at group level is to prevent undesired concentrations, and ensure that portfolios are well diversified. Additionally, important measures in managing counterparty risk are arranged, for example to ensure proper recovery processes to withstand credit events. For healthcare providers the aim is to prevent negative net positions to limit the counterparty risk.

The limits per rating in the Counterparty Risk Policy are given in the following table:

MAXIMUM EXPOSURE ON GROUPLEVEL (€ MILLION)

| | SUPRANATIONAL INSTITUTIONS AND GOVERNMENTS | OTHER COUNTERPARTIES |
|---|---|---|
| AAA | (no limit) | 500 |
| AA+, AA, AA- | 500 | 350 |
| A+, A, A- | 300 | 225 |
| BBB+ | 200 | 150 |
| BBB | 150 | 100 |
| BBB- | 75 | 50 |

In addition a minimum rating restriction of A- applies to reinsurers. The Counterparty Risk Policy sets out deviating limits for specific exposures and offers the possibility to apply for exemption for specific situations. This means that these maximum exposure limits at group level do not apply to the exposure towards the Rabobank Group. This exposure mainly consists of mortgage-linked saving accounts held at Rabobank Group related to life insurance policies in force (Note 6, Investments).

#### Derivatives

Derivative transactions are only initiated with counterparties that meet Achmea’s rating requirements and collateral requirements. ISDA master agreements (International Swaps and Derivative Association) are in place between Achmea entities and its derivative counterparties. The policy defines collateral requirements that must be specified in the individually negotiated Credit Support Annexes. Only government bonds issued by highly rated countries and cash collateral in Euros, US dollars, British pounds and Swiss francs are accepted as collateral. Independent valuation of derivatives, daily settlement of collateral and increasing haircuts related to remaining maturity of the collateral received, further reduces the counterparty default risk.

#### Mortgages

The portfolio consists of mortgages with a low risk profile (mortgages in the Netherlands with National Mortgage Guarantee (NHG) which is provided by the government), securitised mortgages with an average risk profile (all other mortgage receivables and purchased own bonds) and mortgages with a high-risk profile (all other mortgage receivables with a credit above 75% of the foreclosure sale value). The credit risk for mortgages is managed by applying an acceptance policy aimed at optimisation of the risk profile of the portfolio and subsequently monitoring interest and repayments and other risk indicators.

#### Reinsurers

Reinsurers are part of the counterparty risk governance framework, which provides guidelines for entering into transactions with new counterparties, limits and allocations per counterparty. At Achmea Reinsurance the Underwriting Committee decides on the composition of the panel of reinsurers. Counterparty risk is monitored quarterly by the Finance & Risk Committee of Achmea Reinsurance.

#### Policyholders

The counterparty risk of receivables relating to policyholders is managed by premium collection measures. In the event that the policyholder is in arrears in the payment of premiums for their (basic) health insurance, there is a national regulation in place through Zorginstituut Nederland (ZiNL). This regulation ensures that all unpaid premiums due for more than six months are compensated. The risk for Achmea is therefore limited to at most six months of unpaid premiums per insured person. For other non-life insurances the cover can be suspended or terminated in the event of non-payment.

### LIQUIDITY RISK

Liquidity risk is the risk of loss resulting from the inability to meet efficiently both expected and unexpected current and future cash flows and collateral needs without negatively affecting either daily operations or the financial condition of a legal entity.

#### Risk profile

Achmea runs liquidity risk at group level and with regard to its insurance and banking activities.

From the perspective of the insurance activities this is related to catastrophes such as extreme storms and hail. Maturity analyses of the insurance liabilities are presented in Note 7, Liabilities related to insurance contracts.

The table below presents the liquidity risk as managed by the banking activities. The amounts disclosed in the maturity analysis are the current undiscounted contractual cash flows, which do not take into account future transactions such as refinancing.

LIQUIDITY RISK EXPOSURE BANKING (€ MILLION)

| 2017 | LESS THAN 3 MONTHS | BETWEEN 3 AND 12 MONTHS | BETWEEN 1 AND 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|
| Assets | | | | | |
| Investments | 2,267 | 1,331 | 4,312 | 5,337 | 13,247 |
| Cash and cash equivalents | 890 | | | | 890 |
| Other assets | 38 | 1 | | | 39 |
| **Total assets** | **3,195** | **1,332** | **4,312** | **5,337** | **14,176** |
| | | | | | |
| Liabilities | | | | | |
| Financial liabilities | 3,677 | 1,812 | 3,589 | 1,950 | 11,028 |
| Derivatives | 4 | 25 | 184 | 360 | 573 |
| **Total liabilities** | **3,681** | **1,837** | **3,773** | **2,310** | **11,601** |
| **Net liquidity gap** | **-486** | **-505** | **539** | **3,027** | **2,575** |

LIQUIDITY RISK EXPOSURE BANKING (€ MILLION)

| 2016 | LESS THAN 3 MONTHS | BETWEEN 3 AND 12 MONTHS | BETWEEN 1 AND 5 YEARS | MORE THAN 5 YEARS | TOTAL |
|---|---|---|---|---|---|
| Assets | | | | | |
| Investments | 1,185 | 903 | 2,569 | 9,678 | 14,335 |
| Cash and cash equivalents | 748 | | | | 748 |
| Other assets | 16 | | | | 16 |
| **Total assets** | **1,949** | **903** | **2,569** | **9,678** | **15,099** |
| | | | | | |
| Liabilities | | | | | |
| Financial liabilities | 3,074 | 1,352 | 4,357 | 2,332 | 11,115 |
| Derivatives | 4 | 33 | 274 | 454 | 765 |
| **Total liabilities** | **3,078** | **1,385** | **4,631** | **2,786** | **11,880** |
| **Net liquidity gap** | **-1,129** | **-482** | **-2,062** | **6,892** | **3,219** |

#### Risk response

The Liquidity Risk Policy describes how liquidity risk is managed. Achmea has defined metrics for each of its legal entities as well as the Holding. The metrics provide insight in Achmea's liquidity position and liquidity risk exposure for various time horizons under normal conditions as well as for a range of moderate and extreme stress events.

In line with the business plan, liquidity planning takes place at both holding and entity level. In addition the liquidity contingency plan describes the procedures and measures to arrange liquidity in times of stress. This plan describes possible actions and sources of funds taking into account the behaviour of other counterparties.

Insurance specific liquidity risk is managed by the entities. In their liquidity planning, cash inflows and outflows from insurance activities are taken into account. Huge distortions could arise in case of a catastrophe, when payments to clients have to be made, while corresponding payments are not yet received from reinsurers and from Zorginstituut Nederland (ZiNL). Liquidity risk within Achmea's insurance operations is mitigated through the availability of cash, credit facilities and a high level of investments in liquid assets. An important measure in the management of liquidity risk at Achmea Reinsurance is alignment of the payment conditions in the reinsurance contracts of the incoming and outgoing reinsurance contract.

For the banking activities, Achmea manages its liquidity risk as part of its internal liquidity adequacy assessment process (ILAAP) at different levels:

- In the short term (overnight to one month), the bank's cash position is managed on a daily basis.
- In the medium term, Achmea measures the net funding requirement (NFR) against different scenarios to control its liquidity risk. The NFR measures the amount of funding needed to fulfil obligations, including any refinancing requirement in the capital market and net increase in assets of the retail business (e.g. mortgages).
- For the long term, the bank strives for a well-diversified funding base both in terms of maturity and funding sources. Furthermore, the bank has liquidity contingency plans in place.

A liquidity barometer is in place to calculate all assets, liabilities and off balance sheet exposures under stress scenarios. The maximum cash outflow is calculated with scenario-based stress tests over the short term (30 - 90 days). Important metrics for the banking entity are the liquidity coverage ratio (LCR), defined as the stock of high quality liquid assets divided by the net cash outflow over a 30-day period, and the net stable funding ratio (NSFR), defined as the available amount of stable funding divided by the required amount of stable funding. Both indicators are above the 100% limit.

### OPERATIONAL RISK

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. This may result in financial loss, but also in reputational damage. Reputational risk is not considered a separate risk category, but a form of damage that may ensue from the risks Achmea is exposed to.

#### Risk profile

The main operational risks include risks with respect to information security and cybercrime, risk related to the IT change program and liability risk on products and services. The cybercrime risks are high, as a result of malware and ransomware attacks using changing techniques. Risks surrounding the security of websites and privacy sensitive information also remain high, as a result of a changing IT environment and changing hacking techniques. The risk of irresponsible behaviour with handling big data is increasing in a world where data become increasingly important. The reputation of insurers as part of the financial sector is still under pressure. Everything an insurer does is judged from a social perspective.

#### Risk response

Annually risk analyses are performed to identify the operational risks within Achmea. During the year risk analyses are conducted at various levels and on various topics, e.g. in the form of project risk assessments.

For identified risks an Internal Control Framework is used, which is based on the COSO model and uses key risks and key controls. Annually, after the risk analyses are performed, the key risks and key controls of the framework are updated. Subsequently the framework is used to systematically monitor the effectiveness of control measures throughout the organisation. Cross-references are included in the framework to information security and Solvency II. An Internal Control Statement is compiled annually based on the Control Framework.

The Operational Risk Policy describes how operational risk is managed. Additional policies and procedures apply to specific risk events, such as information security, business continuity and outsourcing:

- Information security: all activities towards the realisation of a continuously optimal level of availability, integrity and confidentiality of information and information systems to ensure business continuity, protect customers' interest, prevent financial loss and reputational damage and comply with laws and regulations.
- Business Continuity Management (BCM): this concerns identifying threats and their potential impact, determining the minimum service level required for customers and other stakeholders, and implementing and testing measures to prevent major disruptions of business-critical chains and to mitigate the impact of the disruptions to an acceptable level.
- Outsourcing: outsourcing processes must be managed carefully, based on a risk/return evaluation and written documentation of reciprocal obligations.

Managing operational risk is supported by regular monitoring of the Internal Control Framework and adequately responding to issues and incidents in the business operations. An organisation-wide systematic issue and incident management process has been set up for this purpose.

**COMPLIANCE RISK**

Compliance risk is the risk of diminishing reputation or current of future treats to the capital or result of an organisation as a result of a failure to comply with laws and regulations, and insufficient adherence to values, norms and (supervisory) rules. Failing to comply may result in legal or regulatory sanctions, material financial loss, or reputational damage.

### Risk profile

Compliance substantiates the following areas:

- Customer protection (amongst others distribution of products, customer communications, PARP)
- Customers Due Diligence Policy
- Privacy Policy
- Compliance regulations competition
- Whistle-blower Policy and procedures
- Achmea Insider Regulation
- Conflict of interests and bribery (corruption)
- Integrity & Fraud Policy

### Risk response

Annually risk analyses are performed to identify the operational risks within Achmea. During the year risk analyses are conducted at various levels and on various topics.

With regard to compliance with laws, regulations and internal rules of conduct, the most important legal provisions are translated into risks.

For identified risks an Internal Control Framework is used, which is based on the COSO model and uses key risks and key controls. Annually, after the integrated risk analyses are performed, the key risks and key controls of the framework are updated. Subsequently the framework is used to systematically monitor the effectiveness of control measures throughout the organisation.

Achmea's Laws & Regulation Committee identifies new and amended legislation and determines the impact on the organisation. Implementation is the responsibility of operational management. In case of profound impact on Achmea, the committee will advise the Executive Board to start a comprehensive implementation project. Achmea monitors the implementation of laws and regulations through a specific module in the Internal Control Framework.

Supervisory investigations have a major impact on the business. Not only from local regulations but also international legislation such as FATCA, UK Bribery act, European legislation on privacy. Much effort is required to assist the regulators in their investigations and this is coordinated by the Laws & Regulation Committee.

There is a large focus on customers' interests, where the customer policy information is being clarified and the product development process and customer advice processes are being improved.

An increasing number of incidents relates to privacy issues. This can be explained on the one hand by the move of Achmea toward a digital insurer and on the other hand by society's increased focus on privacy issues. Continued attention will be given to the monitoring of privacy issues and the implementation of the new European General Data Protection Regulation (GDPR), including big data initiatives.

The control of integrity risk as part of compliance risk is set out in the Achmea Code of Conduct and the Integrity & Fraud Policy. In the Achmea Code of Conduct the core values, core qualities and rules of conduct of Achmea are recorded. These general rules of conduct are applicable to all employees of Achmea. The Integrity & Fraud Policy contains the principles on which substance is given to the integrity risks in operational management, such as: anti-corruption, gifts, side-line activities, contracting third parties and the execution of the Strategic Integrity Risk Analysis (SIRA). The SIRA provides insight in the main integrity risks and the effectiveness of the control environment for these risks.

Managing compliance risk is supported by regular monitoring of the Internal Control Framework and adequately responding to issues and incidents in the business operations. An organisation-wide systematic issue and incident management process has been set up for this purpose.

## D. CAPITAL MANAGEMENT

The objective of capital management is to ensure that the Achmea Group and all its entities are always adequately funded to secure the interests of all stakeholders in the short and long term. The capital position of Achmea has been described in the beginning of this section on capital and risk management. In this section more information on the capital policy is recorded.

In the capital policy the risk appetite is worked out in greater detail, based on internal capital standards as well as limits related to leverage and return.

- The principle premise of the capital policy is that all entities must be adequately funded, which involves having a buffer at entity level that is above the statutory minimum that is sufficient to be able to absorb setbacks.
- At group level an additional buffer is held to absorb any capital shortfall at the entities.
- The capital policy also includes an overview of the measures to be taken if internal limits are exceeded, including various options to change the risk profile.

The capital position of the Achmea Group and its entities is managed by monitoring the current capital position and projecting the future capital position. This involves calculating the effects of scenarios and stress tests, and distributing capital within the Achmea Group.

Achmea's funding strategy is based on assuring access to international capital and credit markets at low cost, underpinned by credit ratings. Access to the capital and money markets is arranged both at Achmea Bank and holding level:

- Funding at holding level could come from dividends from subsidiaries, issuance of debt and credit lines with a number of national and international banks. At group level Achmea also maintains committed and uncommitted credit facilities with several mainly international banks. At year-end 2017 the committed credit facilities of €750 million were undrawn.
- For the insurance activities the Holding is involved in the financing of operational activities of certain subsidiaries by increasing capital or subordinated loans.
- Achmea's banking activities main funding sources are securitisations, covered bonds, unsecured funding and retail funding (deposits and savings accounts). Achmea strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

Besides the legal framework based on IFRS, Solvency II, Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) Achmea also focuses on capital surplus (calculated in accordance with the S&P capital model) in relation to an AA level, the 'debt leverage ratio[1]' and the 'fixed-charge coverage ratio[2]'. The debt leverage ratio has decreased to 25.9% in 2017 (31 December 2016: 26.4%) as a result of increased profitability. The fixed-charge coverage ratio was 3.4x (31 December 2016: -0.9x) as a result of the increased result.

The ratios are calculated based on the following information:

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Loans, Other equity instruments and preference shares | | |
| Of which related to banking activities | 5,473 | 5,498 |
| Of which related to non-banking activities | 3,093 | 3,093 |
| Equity attributable to holders of equity instruments of the company | 9,941 | 9,774 |
| Other equity instruments | 1,350 | 1,350 |
| Preference shares | 311 | 311 |
| Intangible assets - Goodwill | 652 | 652 |
| | | |
| Interest and similar expenses | | |
| Of which related to banking activities | 287 | 360 |
| Of which related to non-banking activities | 52 | 52 |
| Coupon payments on Other equity instruments and dividend preference shares | 85 | 85 |
| Operational result | 349 | -319 |
| Amortisation charges intangible assets | 38 | 40 |
| Amortisation charges Property own use and equipment | 41 | 44 |

1. *The debt leverage ratio is calculated as follows: non-banking liabilities minus Preference shares as a percentage of the sum of Equity attributable to holders of equity instruments of the company and non-banking liabilities minus Other equity instruments, Preference shares and Goodwill.*
2. *The fixed-charge coverage ratio is calculated as follows: the ratio between Interest and similar expenses related to non-banking activities and the Operational result adjusted for Interest and similar expenses related to non-banking activities, Coupon payments on Other equity instruments and dividend preference shares, and Amortisation charges. Based on the example of Standard & Poor's, the calculation has been adjusted based on the amortisation of intangible assets.*

### Dividend and coupon payments

In preparing the financial statements the Executive Board proposes an appropriation of the Net result. In line with the dividend policy it is proposed to distribute a dividend of 45% of the Net result after deduction of coupon payments on hybrid capital designated as Other equity instruments, subject to the condition that the dividend distribution is not contrary to the prudential financial policy of the Group.

The Executive Board tests if the solvency at the end of the financial year – based on the partial internal model – exceeds 130%. The proposal is based on the Group's long-term financial outlook, taking into account the interests of the Achmea stakeholders. This includes, among other things, legal reserve restrictions, capital and liquidity development over the planning period, the outcome of scenario and stress tests and various ratios from a rating agency perspective, such as the S&P and Fitch capital position, the debt leverage ratio and the fixed-charge coverage ratio.

The resolution to distribute dividends is passed by the General Meeting. The General Meeting is authorised to resolve on a different dividend distribution than the distribution proposed in the financial statements. Dividends may only be distributed to shareholders and other persons entitled to distributable profits to the extent that equity exceeds the reserves to be maintained pursuant to the law.

The resolution of the General Meeting to distribute dividends must be approved by the Executive Board. The Executive Board will only withhold its approval if it is aware that, or should reasonable be able to anticipate that, Achmea B.V., upon payment, will not be able to continue paying its due and payable debts.

Coupon payments on Other equity instruments are subject to the limitations described in the prospectus. The prospectus is available on the Achmea website (www.achmea.com). These coupon payments are part of the Group liquidity forecast prepared in line with the liquidity policy (for more information refer to the liquidity risk section).

Achmea B.V. has several options to generate cash, to be able to pay dividends and the above-mentioned coupons. Examples include credit facilities, dividends paid by group companies with sufficient financial scope, disposal of assets and attracting additional funding.

The group companies' financial scope for dividend payments is determined based on similar criteria as mentioned above. Depending on the activities of the group company different percentages and ratios apply.

## 3. SEGMENT REPORTING

### SEGMENT CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(€ MILLION)

| | NON-LIFE NETHERLANDS | HEALTH NETHERLANDS | PENSION & LIFE NETHERLANDS | RETIREMENT SERVICES NETHERLANDS | INTER-NATIONAL ACTIVITIES | OTHER ACTIVITIES [1] | INTER-SEGMENT ELIMINATIONS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Intangible assets | 635 | | 4 | | 71 | 82 | | 792 |
| Associates and joint ventures | | 4 | | | 74 | 6 | | 84 |
| Property for own use and equipment | 56 | 7 | 1 | | 53 | 298 | | 415 |
| Investment property | | | 1,060 | | 4 | 49 | | 1,113 |
| Investments | 6,563 | 3,316 | 48,825 | 13,247 | 1,382 | 1,300 | −1,931 | 72,702 |
| Deferred tax assets | | | 787 | | 43 | 33 | −151 | 712 |
| Income tax receivable | | | | | | 126 | −126 | |
| Amounts ceded to reinsurers | 218 | | 207 | | 317 | 93 | −179 | 656 |
| Receivables and accruals | 1,132 | 4,703 | 291 | 97 | 327 | 221 | −284 | 6,487 |
| Cash and cash equivalents | 164 | 592 | 684 | 927 | 233 | 324 | −40 | 2,884 |
| | **8,768** | **8,622** | **51,859** | **14,271** | **2,504** | **2,532** | **−2,711** | **85,845** |
| Assets classified as 'Held for sale' | | | | | 5,101 | | | 5,101 |
| **Total assets** | **8,768** | **8,622** | **51,859** | **14,271** | **7,605** | **2,532** | **−2,711** | **90,946** |
| | | | | | | | | |
| **Equity** | | | | | | | | |
| Equity attributable to holders of equity instruments of the company | 1,747 | 3,039 | 4,122 | 878 | 714 | −559 | | 9,941 |
| Non-controlling interest | 8 | | | | | | | 8 |
| **Total equity** | **1,755** | **3,039** | **4,122** | **878** | **714** | **−559** | | **9,949** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities related to insurance contracts | 6,505 | 4,389 | 45,323 | | 1,326 | 870 | −1,120 | 57,293 |
| Other provisions | 16 | | 4 | 6 | 41 | 104 | 940 | 1,111 |
| Financial liabilities | 327 | 1,194 | 2,104 | 12,790 | 511 | 2,083 | −2,254 | 16,755 |
| Derivatives | 8 | | 155 | 573 | | 34 | | 770 |
| Deferred tax liabilities | 155 | | | 9 | | | −151 | 13 |
| Income tax payable | 2 | | 151 | 15 | 11 | | −126 | 53 |
| | **7,013** | **5,583** | **47,737** | **13,393** | **1,889** | **3,091** | **−2,711** | **75,995** |
| Liabilities classified as 'Held for sale' | | | | | 5,002 | | | 5,002 |
| **Total liabilities** | **7,013** | **5,583** | **47,737** | **13,393** | **6,891** | **3,091** | **−2,711** | **80,997** |
| | | | | | | | | |
| **Total equity and liabilities** | **8,768** | **8,622** | **51,859** | **14,271** | **7,605** | **2,532** | **−2,711** | **90,946** |

1. *Within segment Other there are intercompany positions with the other segments which can result in negative positions.*

## SEGMENT CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 [1]

(€ MILLION)

| | NON-LIFE NETHERLANDS | HEALTH NETHERLANDS | PENSION & LIFE NETHERLANDS | RETIREMENT SERVICES NETHERLANDS | INTER-NATIONAL ACTIVITIES | OTHER ACTIVITIES [2] | INTER-SEGMENT ELIMINATIONS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Intangible assets | 635 | | 7 | | 77 | 106 | | 825 |
| Associates and joint ventures | | 4 | 56 | | 76 | 9 | | 145 |
| Property for own use and equipment | 57 | 7 | 3 | | 55 | 309 | | 431 |
| Investment property | | | 1,045 | | 38 | 46 | | 1,129 |
| Investments | 6,318 | 3,477 | 50,418 | 14,294 | 5,561 | 1,394 | −2,569 | 78,893 |
| Deferred tax assets | | | 855 | | 54 | 42 | −212 | 739 |
| Income tax receivable | 203 | | | 6 | | 136 | −251 | 94 |
| Amounts ceded to reinsurers | 241 | 8 | 272 | | 972 | 135 | −231 | 1,397 |
| Receivables and accruals | 1,183 | 5,167 | 290 | 73 | 455 | 183 | −227 | 7,124 |
| Cash and cash equivalents | 38 | 449 | 590 | 693 | 259 | 216 | −53 | 2,192 |
| | **8,675** | **9,112** | **53,536** | **15,066** | **7,547** | **2,576** | **−3,543** | **92,969** |
| Assets classified as 'Held for sale' | | 11 | | | | | | 11 |
| **Total assets** | **8,675** | **9,123** | **53,536** | **15,066** | **7,547** | **2,576** | **−3,543** | **92,980** |
| | | | | | | | | |
| **Equity** | | | | | | | | |
| Equity attributable to holders of equity instruments of the company | 1,745 | 3,116 | 4,021 | 863 | 785 | −756 | | 9,774 |
| Non-controlling interest | 8 | | | | | | | 8 |
| **Total equity** | **1,753** | **3,116** | **4,021** | **863** | **785** | **−756** | | **9,782** |
| | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Liabilities related to insurance contracts | 6,407 | 4,754 | 46,685 | | 3,777 | 940 | −1,218 | 61,345 |
| Other provisions | 32 | 34 | 8 | 6 | 69 | 195 | 990 | 1,334 |
| Financial liabilities | 276 | 1,206 | 1,847 | 13,407 | 2,906 | 2,152 | −2,852 | 18,942 |
| Derivatives | 16 | 11 | 728 | 765 | | 45 | | 1,565 |
| Deferred tax liabilities | 191 | | | 25 | 6 | | −212 | 10 |
| Income tax payable | | | 247 | | 4 | | −251 | |
| | **6,922** | **6,005** | **49,515** | **14,203** | **6,762** | **3,332** | **−3,543** | **83,196** |
| Liabilities classified as 'Held for sale' | | 2 | | | | | | 2 |
| **Total liabilities** | **6,922** | **6,007** | **49,515** | **14,203** | **6,762** | **3,332** | **−3,543** | **83,198** |
| | | | | | | | | |
| **Total equity and liabilities** | **8,675** | **9,123** | **53,536** | **15,066** | **7,547** | **2,576** | **−3,543** | **92,980** |

1. *In 2017 the allocation of a number of balance sheet items to the segments was reassessed. The comparative figures have been adjusted accordingly to provide a better insight into the developments. The adjustments in the comparative figures in the consolidated statement of financial position (balance sheet) have also been incorporated in the segmented balance sheet. Reference is made to the notes to the balance sheet for more information.*
2. *Within segment Other there are intercompany positions with the other segments which can result in negative positions.*

## CONSOLIDATED INCOME STATEMENT PER SEGMENT 2017

(€ MILLION)

| | NON-LIFE NETHERLANDS | HEALTH NETHERLANDS | PENSION & LIFE NETHERLANDS | RETIREMENT SERVICE NETHERLANDS | INTER-NATIONAL ACTIVITIES | OTHER ACTIVITIES | INTER-SEGMENT ELIMINATIONS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Gross earned premiums | 3,290 | 13,184 | 1,569 | | 1,206 | 255 | −154 | 19,350 |
| Reinsurance premiums | −152 | 8 | −32 | | −205 | −116 | 154 | −343 |
| Change in provision for unearned premiums and current risks (net of reinsurance) | 22 | 326 | | | 3 | −10 | | 341 |
| **Net earned premiums** | **3,160** | **13,518** | **1,537** | | **1,004** | **129** | | **19,348** |
| Income from associates and joint ventures | | −1 | 4 | | 7 | | | 10 |
| Investment income | 111 | 48 | 1,464 | 428 | 202 | 7 | −27 | 2,233 |
| Other income | 16 | 107 | 18 | 160 | 50 | 125 | −24 | 452 |
| **Total income (excluding non-operational items) [1]** | **3,287** | **13,672** | **3,023** | **588** | **1,263** | **261** | **−51** | **22,043** |
| | | | | | | | | |
| Net expenses from insurance contracts | 2,286 | 13,278 | 2,481 | | 755 | 51 | 1 | 18,852 |
| Fair value changes and benefits credited to investment contracts | | | | | 150 | | | 150 |
| Interest and similar expenses | 3 | 1 | 9 | 316 | | 62 | −52 | 339 |
| Operating expenses related to insurance activities | 798 | 475 | 172 | | 271 | 65 | | 1,781 |
| Operating expenses for non-insurance activities | 20 | 7 | | 266 | 36 | 138 | | 467 |
| Other expenses | 14 | 39 | 19 | −6 | 35 | 4 | | 105 |
| **Total expenses (excluding non-operational items) [1]** | **3,121** | **13,800** | **2,681** | **576** | **1,247** | **320** | **−51** | **21,694** |
| | | | | | | | | |
| **Operational result** | **166** | **−128** | **342** | **12** | **16** | **−59** | | **349** |
| Transaction results (mergers and acquisitions) | 11 | | | −11 | −39 | 11 | | −28 |
| **Result before tax** | **177** | **−128** | **342** | **1** | **−23** | **−48** | | **321** |
| Income tax expenses | 37 | | 74 | 2 | −3 | −5 | | 105 |
| **Net result** | **140** | **−128** | **268** | **−1** | **−20** | **−43** | | **216** |
| Expense ratio [2] | 25.0% | 3.5% | | | 22.7% | | | |
| Claims ratio [2 & 3] | 70.5% | 98.2% | | | 74.0% | | | |
| Combined ratio [2 & 3] | 95.5% | 101.7% | | | 96.7% | | | |
| Amortisation charges | 3 | 2 | 3 | | 19 | 52 | | 79 |
| Impairment losses | 9 | 13 | 10 | −7 | 50 | −5 | | 70 |

1. *Total income and Total expenses are presented in the segmented consolidated income statement excluding non-operational items. The amounts as presented in the table above can be reconciled with the amounts as presented in the Consolidated income statement as follows: Transaction results (mergers and acquisitions) are presented as part of Other income and Other expenses in the Consolidated income statement.*
2. *The ratios of the segment International activities include both Non-life and Health insurance.*
3. *The ratios of the segment Non-life are adjusted by correcting Movements in insurance liabilities where policyholders bear investment risks (included in Net expenses from insurance contracts) by €53 million for the unwinding of discount of the provisions for income products. This unwinding of discount took place based on the rate as applied to set the premiums of these contracts.*

## CONSOLIDATED INCOME STATEMENT PER SEGMENT 2016 [1]

(€ MILLION)

| | NON-LIFE NETHERLANDS | HEALTH NETHERLANDS | PENSION & LIFE NETHERLANDS | RETIREMENT SERVICE NETHERLANDS | INTER-NATIONAL ACTIVITIES | OTHER ACTIVITIES | INTER-SEGMENT ELIMINATIONS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Gross earned premiums | 3,191 | 13,092 | 1,794 | | 1,192 | 360 | −122 | 19,507 |
| Reinsurance premiums | −109 | 228 | −43 | | −204 | −98 | 122 | −104 |
| Change in provision for unearned premiums and current risks (net of reinsurance) | 6 | 47 | | | −29 | 1 | | 25 |
| **Net earned premiums** | **3,088** | **13,367** | **1,751** | | **959** | **263** | | **19,428** |
| Income from associates and joint ventures | | 1 | 1 | | 9 | 2 | | 13 |
| Investment income | 160 | 36 | 3,248 | 488 | 223 | −89 | −46 | 4,020 |
| Other income | 15 | 118 | 17 | 169 | 47 | 158 | −21 | 503 |
| **Total income (excluding non-operational items) [2]** | **3,263** | **13,522** | **5,017** | **657** | **1,238** | **334** | **−67** | **23,964** |
| | | | | | | | | |
| Net expenses from insurance contracts | 2,531 | 13,160 | 4,499 | | 806 | −6 | 1 | 20,991 |
| Fair value changes and benefits credited to investment contracts | | | | | 93 | | | 93 |
| Interest and similar expenses | 3 | 1 | 4 | 382 | 1 | 85 | −64 | 412 |
| Operating expenses related to insurance activities | 871 | 529 | 212 | | 272 | 157 | | 2,041 |
| Operating expenses for non-insurance activities | 21 | 6 | | 286 | 12 | 283 | | 608 |
| Other expenses | 22 | 22 | 17 | 7 | 29 | 45 | −4 | 138 |
| **Total expenses (excluding non-operational items) [2]** | **3,448** | **13,718** | **4,732** | **675** | **1,213** | **564** | **−67** | **24,283** |
| | | | | | | | | |
| **Operational result** | **−185** | **−196** | **285** | **−18** | **25** | **−230** | | **−319** |
| Impairments goodwill / intangible assets | | | | | −93 | | | -93 |
| Transaction results (mergers and acquisitions) | | | | | | -2 | | -2 |
| **Result before tax** | **−185** | **−196** | **285** | **−18** | **−68** | **−232** | | **−414** |
| Income tax expenses | -62 | | 48 | -2 | 27 | -46 | | −35 |
| **Net Result** | **−123** | **−196** | **237** | **−16** | **−95** | **−186** | | **−379** |
| Expense ratio [3] | 27.9% | 4.0% | | | 23.2% | | | |
| Claims ratio [3 & 4] | 79.0% | 98.5% | | | 74.3% | | | |
| Combined ratio [3 & 4] | 106.9% | 102.5% | | | 97.5% | | | |
| Amortisation charges | 8 | 3 | 3 | | 14 | 58 | | 86 |
| Impairment losses | 6 | 26 | 13 | 2 | 93 | 13 | | 153 |

1. *In 2017 the allocation of a number of items to the segments was reassessed. The comparative figures have been adjusted accordingly to provide a better insight into the developments. The adjustments in the comparative figures in the Consolidated income statement have also been incorporated in the Consolidated income statement per segment. Reference is made to the notes to the income statement for more information.*
2. *Total income and Total expenses are presented in the segmented Consolidated income statement excluding non-operational items. The amounts as presented in the table above can be reconciled with the amounts as presented in the Consolidated income statement as follows: Transaction results (mergers and acquisitions) are presented as part of Other income and Other expenses in the Consolidated income statement. Impairments goodwill / intangible assets are presented as part of the Other Expenses.*
3. *The ratios of the segment International include both Non-life and Health insurance.*
4. *The ratios of the segment Non-life are adjusted by correcting Movements in insurance liabilities where policyholders bear investment risks (included in Net expenses from insurance contracts) by €88 million for the unwinding of discount of the provisions for income products. This unwinding of discount took place based on the rate as applied to set the premiums of these contracts (so-called contract rate).*

GEOGRAPHICAL SEGMENT REPORTING, INCLUDING INTERGROUP ADJUSTMENTS

(€ MILLION)

| | THE NETHERLANDS | TURKEY | GREECE | IRELAND | SLOVAKIA | OTHER | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|---|---|---|---|
| Gross earned premiums [1] | 18,144 | 335 | 318 | 151 | 385 | 17 | 19,350 | 19,507 |
| Other income [1] | 424 | 4 | 21 | 23 | 2 | | 474 | 507 |
| | | | | | | | | |
| Total assets [2] | 83,341 | 667 | 1,323 | 5,272 | 276 | 67 | 90,946 | 92,980 |
| Non-current assets | 56,635 | 346 | 531 | | 94 | 32 | 57,638 | 72,609 |

1. *The 2016 figures have been adjusted for comparison purposes. For more information refer to the notes to the income statement.*
2. *Of the total assets of Ireland €5,101 million is recognised in Assets classified as 'Held for sale'. For more information reference is made to Note 21 Assets and liabilities held for sale and divestments.*

**SEGMENTATION**

Segments are components of Achmea that are regularly reviewed by the Executive Board in order to allocate resources to the segment and to assess its performance. Achmea is divided into the following segments:

### Non-life Netherlands

Consists of Dutch non-life insurance business to cover customers' risks related to motor vehicles, property, general liability, occupational health and accident, including disability and short-term sickness.

### Health Netherlands

Covers basic and supplementary health insurance and health services in the Netherlands. The segment Health Netherlands consists of two operating segments that have been aggregated based on the fact that they have similar economic characteristics, i.e. the same kind of insurance products are sold by these operating segments.

### Pension & Life Netherlands

Covers pension and life business in the Netherlands, including unit-linked insurance (investment insurance).

### Retirement Services Netherlands

Covers asset management and pension management activities in the Netherlands. Furthermore, this segment includes the activities of Achmea Bank focused on providing residential mortgage loans, saving accounts and investment funds in the Netherlands to individuals.

### International activities

Contains all activities outside the Netherlands. Segment International activities operates actively in the countries Australia, Greece, Ireland, Slovakia and Turkey. Furthermore Achmea intends to start up an online insurance company in Canada, together with a partner. The international activities consist primarily of insurance activities. Insurance activities relate to the provision of Non-life, Health and Life insurance policies, including the provision of investment contracts containing no or insignificant insurance risk. Furthermore, associates in which significant influence is exercised by management outside the Netherlands are included within this segment.

### Other activities

This segment consists of a broad range of activities that, on an individual basis, do not comply with the threshold for a reportable segment. The segment covers amongst others Independer.nl, Syntrus Achmea Vastgoed and Achmea Reinsurance. Furthermore, investments not related to the abovementioned segments, Shared Service Centres and staff departments, net of their recharges to the above segments, are included in this segment.

The segments formulate strategic, commercial and financial policies within the overall strategy, performance targets and risk appetite set by the Executive Board. All segment revenues reported, with the exception of internal reinsurance contracts, relate to external customers.

## 4. SUBSEQUENT EVENTS

On 9 February 2018 the Executive Board, mandated by the General Meeting, repurchased Achmea ordinary shares for a preliminary purchase price of €96 million. The final purchase price of the repurchased shares, as well as the final number of repurchased shares, will be determined in the first quarter of 2018. The Executive Board has been granted a mandate to repurchase shares up to an amount of €100 million. This amount is deducted from Solvency II eligible own funds as at 31 December 2017.

## NOTES TO SIGNIFICANT BALANCE SHEET AND INCOME STATEMENT ITEMS

### 5. INVESTMENT PROPERTY

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 1,129 | 1,114 |
| Purchases | 6 | 13 |
| Disposals | −66 | −38 |
| Fair value changes recognised in profit or loss | 65 | 25 |
| Changes due to reclassification [1] | −23 | 14 |
| Transfer from property for own use | 2 | 1 |
| **Balance at 31 December** | **1,113** | **1,129** |

1. *For more information on the reclassification in 2017 reference is made to Note 21 Assets and liabilities held for sale and divestments. The reclassification in 2016 relates to the rent incentive presented as part of Investment property as of 2016, instead of as part of Receivables and accruals.*

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Residential | 481 | 465 |
| Retail | 306 | 324 |
| Offices | 288 | 298 |
| Other | 38 | 42 |
| **Total** | **1,113** | **1,129** |

Investment property is leased under operating lease contracts, in general with fixed monthly lease payments which may be reviewed at contractually agreed times. Minimal lease payments under operating lease contracts, not cancellable without penalty, for this investment property are as follows:

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Less than 1 year | 7 | 9 |
| 1 - 5 years | 30 | 35 |
| Over 5 years | 28 | 25 |
| **Total** | **65** | **69** |

#### KEY ESTIMATES TO DETERMINE THE VALUE OF INVESTMENT PROPERTY

The methods used to determine the revalued amount for Property for own use and fair value of Investment property are described in Note 9 Fair value hierarchy. The assumptions used in applying some of these methods are supported by the terms of any existing lease and other relevant contracts and by external evidence such as recent and expected general economic trends, current market rents for similar properties in the same location and condition. Various assumptions should be made and techniques applied in valuing property whereby these assumptions and techniques, may have significant consequences for the valuation.

#### ACCOUNTING POLICIES INVESTMENT PROPERTY

Investments property is measured at fair value. All fair value changes are recognised as Realised and unrealised gains and losses in the Investment income in the Income Statement. Rental income from Investment property is recognised as Investment income in the Income Statement. Investment property that is being constructed or developed for future use as Investment property is classified as 'Property in development' and stated at cost until its fair value can be reliably determined.

## 6. INVESTMENTS

### INVESTMENTS CLASSIFIED BY NATURE

(€ MILLION)

| | INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS | | INVESTMENTS – AVAILABLE FOR SALE | | INVESTMENT – LOANS AND RECEIVABLES | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Investments own risk | | | | | | | | |
| Equities & similar investments | 138 | 555 | 2,944 | 2,868 | | | 3,082 | 3,423 |
| Fixed income investments [1] | 3,227 | 4,723 | 31,023 | 31,083 | 646 | 643 | 34,896 | 36,449 |
| Derivatives | 3,324 | 4,081 | | | | | 3,324 | 4,081 |
| Other financial investments | 37 | 32 | 82 | 60 | 2,068 | 2,228 | 2,187 | 2,320 |
| Investments backing linked liabilities | | | | | | | | |
| Equities & similar investments | 5,147 | 6,277 | | | | | 5,147 | 6,277 |
| Fixed income investments | 3,495 | 3,660 | | | | | 3,495 | 3,660 |
| Derivatives | 79 | 380 | | | | | 79 | 380 |
| Investment property | | 452 | | | | | | 452 |
| Other financial investments [2] | 7,767 | 8,172 | | | | | 7,767 | 8,172 |
| Banking credit portfolio | | | | | | | | |
| Fixed income investments | 239 | 261 | | | 12,486 | 13,418 | 12,725 | 13,679 |
| **Total at 31 December** | **23,453** | **28,593** | **34,049** | **34,011** | **15,200** | **16,289** | **72,702** | **78,893** |

1. *From financial year 2017 overnight deposits are no longer included in Fixed income investments, but will be included in Cash and cash equivalents. For comparison purposes the comparative figures have also been adjusted by €21 million.*
2. *Other financial investments include cash and cash equivalents relating to investments backing linked liabilities (in funds/depots).*

Equity investments and similar investments of in total €3,082 million (31 December 2016: €3,423 million) consist of investments in listed ordinary shares of €1,533 million (31 December 2016: €1,391 million), alternative investments of €814 million (31 December 2016: €1,178 million), investments in real estate funds of €232 million (31 December 2016: €286 million), investments in fixed-income funds of €417 million (31 December 2016: €422 million) and other investments of €86 million (31 December 2016: €146 million).

Other financial investments for own account classified as Loans and receivables mainly concern savings accounts linked to life insurance contracts held with Rabobank Groep, for which the interest revenue is based on the interest rate that the policyholder pays on his mortgage loan.

MOVEMENTS INVESTMENTS

(€ MILLION)

| | INVESTMENTS OWN RISK | | INVESTMENTS BACKING LINKED LIABILITIES | | BANKING CREDIT PORTFOLIO [1] | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Balance at 1 January | 46,273 | 44,875 | 18,941 | 18,730 | 13,679 | 14,889 | 78,893 | 78,494 |
| Investments and loans granted | 21,007 | 23,639 | 9,323 | 8,845 | 1,123 | 1,489 | 31,453 | 33,973 |
| Divestments and disposals | −20,686 | −23,973 | −9,979 | −9,602 | −1,966 | −2,631 | −32,631 | −36,206 |
| Fair value changes | −1,260 | 1,940 | 1,023 | 575 | | | −237 | 2,515 |
| Change in value due to fair value hedge accounting | | | | | −102 | −68 | −102 | −68 |
| Foreign currency differences | −442 | −140 | −97 | 13 | | | −539 | −127 |
| Accrued interest and rental | 95 | 60 | 248 | 275 | | | 343 | 335 |
| Cash movements | | | −3 | −38 | | | −3 | −38 |
| Changes due to reclassification [2] | −1,498 | −128 | −2,823 | 2 | −9 | | −4,330 | −126 |
| Oher changes [3] | | | −145 | 141 | | | −145 | 141 |
| **Balance at 31 December** | **43,489** | **46,273** | **16,488** | **18,941** | **12,725** | **13,679** | **72,702** | **78,893** |

1. *The Banking credit portfolio includes a provision for credit losses in the amount of €39 million at 31 December 2017 (€78 million at 1 January 2017). Additions to and withdrawals from the provisions during 2017 amounted to €12 million (2016: €21 million) and €46 million (2016: €40 million).*
2. *The amount in 2017 takes into account reclassification relating to assets and liabilities at year-end 2017 held for sale (Investments own risk €-1,518 million and Investments backing linked liabilities €-2,827 million). For more information on this reclassification refer to Note 21 Assets and liabilities held for sale and divestments.*
3. *Other changes relate to the consolidation of a number of investment pools. These pools are included in the consolidated figures of Achmea Pensioen- en Levensverzekeringen N.V. because a control relationship exists under IFRS 10.*

### Investments own risk

The investments designated as 'At fair value through profit or loss' as at 31 December 2017 amounted to €3,402 million (31 December 2016: €5,310 million). Derivatives are used for hedging purposes. Achmea holds no financial instruments for trading purposes.

Based on their contractual maturity, an amount of €32,609 million (2016: €34,757 million) of fixed income investments and other investments is expected to be recovered after twelve months after reporting date. For all assets without a contractual maturity date, it is assumed that they will be expected to be recovered after twelve months after the reporting date.

INVESTMENTS CLASSIFIED BY NATURE

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Government and Government related or guaranteed bonds | 14,745 | 18,311 |
| Securitised bonds [1] | 990 | 1,514 |
| Corporate bonds | 9,819 | 8,415 |
| Convertible bonds | 309 | 302 |
| Mortgages | 7,240 | 5,850 |
| Loans, deposits with credit institutions | 331 | 386 |
| Other | 1,462 | 1,671 |
| | **34,896** | **36,449** |

1. *Securitised bonds include €916 million (2016: €954 million) asset backed securities (collateralized).*

Achmea's interests in unconsolidated structured entities such as bonds with collateral mortgages, collateral demand for car leasing and other pledged assets are presented in the line item Investments - Securitised bonds. The composition of Achmea's portfolios in the interests in structured entities is widely dispersed looking at the individual amount per entity. For the main part Achmea invests in the senior rated interest of these asset backed securities, limiting the potential credit losses. For the most significant non-consolidated structured entities the following table presents the maximum exposure to loss for Achmea as at 31 December 2017, which equals the carrying amount of the securities at that date. Furthermore, the table presents a comparison of Achmea's interest with the total amount of Notes issued by the structured entity. The amount shown as Total amount of issued notes is based on the deal size at issue of the notes.

## INVESTMENTS IN CONSOLIDATED STRUCTURED ENTITIES

(€ MILLION)

| | | 31 DECEMBER 2017 | | 31 DECEMBER 2016 |
|---|---|---|---|---|
| | MAXIMUM EXPOSURE TO LOSS | TOTAL AMOUNT OF ISSUED NOTES AT ISSUED DATE | MAXIMUM EXPOSURE TO LOSS | TOTAL AMOUNT OF ISSUED NOTES AT ISSUED DATE |
| Mortgage backed securities | 712 | 28,867 | 761 | 62,889 |
| Car leasing receivables securities | 88 | 11,396 | 69 | 6,934 |
| Other securities | 116 | 6,057 | 124 | 5,201 |
| **Carrying amount of interest in structured entity as at 31 December** | **916** | **46,320** | **954** | **75,024** |

Achmea did not provide financial or other support to unconsolidated structured entities. Nor does Achmea have intentions to provide financial or other support to unconsolidated structured entities in which Achmea has an interest or previously had an interest.

## DERIVATIVES CLASSIFIED BY NATURE

(€ MILLION)

| | ASSETS | LIABILITIES | 31 DECEMBER 2017 |
|---|---|---|---|
| Interest rate derivatives | 3,226 | 731 | 2,495 |
| Currency derivatives | 41 | 19 | 22 |
| Equity derivatives | 48 | 18 | 30 |
| Other derivatives | 9 | 2 | 7 |
| | **3,324** | **770** | **2,554** |
| | ASSETS | LIABILITIES | 31 DECEMBER 2016 |
| Interest rate derivatives | 3,927 | 1,431 | 2,496 |
| Currency derivatives | 103 | 107 | −4 |
| Equity derivatives | 48 | | 48 |
| Other derivatives | 3 | 27 | −24 |
| | **4,081** | **1,565** | **2,516** |

### ANALYSIS BY ESTIMATED TIME TO MATURITY OF UNDISCOUNTED CASHFLOWS OF DERIVATIVES (LIABILITIES)

(€ MILLION)

| 31 DECEMBER 2017 | WITHIN 1 YEAR | 1-3 YEARS | 3-5 YEARS | > 5 YEARS | TOTAL |
|---|---|---|---|---|---|
| Interest rate derivatives | 119 | 153 | 70 | 420 | 762 |
| Currency derivatives | 19 | | | | 19 |
| Equity derivatives | 18 | | | | 18 |
| Other derivatives | 2 | 1 | | | 3 |
| | **158** | **154** | **70** | **420** | **802** |

| 31 DECEMBER 2016 | WITHIN 1 YEAR | 1-3 YEARS | 3-5 YEARS | > 5 YEARS | TOTAL |
|---|---|---|---|---|---|
| Interest rate derivatives [1] | 165 | 339 | 238 | 859 | 1,601 |
| Currency derivatives | 108 | | | | 108 |
| Equity derivatives | | | | | |
| Other derivatives | 4 | 23 | 1 | | 28 |
| | **277** | **362** | **239** | **859** | **1,737** |

1. *From financial year 2017 the back-to-back swaps are included in the undiscounted contractual cash flows of derivative liabilities. For comparison purposes the comparative figures have been adjusted for an amount of €45 million in the category 'Within 1 year' and €54 million in the category '1-3 years'.*

### ANALYSIS BY ESTIMATED TIME TO MATURITY OF UNDISCOUNTED CASHFLOWS OF DERIVATIVES TO NOTIONAL AMOUNTS AND FAIR VALUE

(€ MILLION)

| | 31 DECEMBER 2017 | | | 31 DECEMBER 2016 | | |
|---|---|---|---|---|---|---|
| | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES |
| Interest derivatives | 38,294 | 3,226 | 731 | 37,543 | 3,927 | 1,431 |
| Forward exchange contracts | 3,246 | 41 | 19 | 3,503 | 30 | 107 |
| Currency swaps | | | | 9 | 73 | |
| | 41,540 | 3,267 | 750 | 41,055 | 4,030 | 1,538 |

## Investments backing linked liabilities

Investments backing linked liabilities comprise assets for insurance contracts with segregated investments, deposits for group life contracts with full profit sharing, unit-linked life insurance policies, investment contracts and investments covering obligations under policies where the benefits are index-linked.

Investments backing linked liabilities are separated from other investments which are invested in accordance with the requirements towards holders of life insurance or investment contracts. Policyholders and holders of investment contracts are entitled to all gains recorded and to the total amount of the investments shown under this heading, but they also have to carry any losses. For this reason the valuation of Insurance liabilities where policyholders bear investment risks are linked to these investments.

Investments backing linked liabilities are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of Achmea.

### Banking credit portfolio

BANKING CREDIT PORTFOLIO CLASSIFIED BY NATURE

(€MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Fixed income investments | | |
| Mortgages | 11,770 | 12,577 |
| Loans, deposits with credit institutions | 993 | 1,093 |
| Other loans and advances to private sector | 1 | 87 |
| Allowance account | −39 | −78 |
| | **12,725** | **13,679** |

The fair value of the banking portfolio measured at fair value is subject to changes in creditworthiness of the issuer. The impact on the fair value of the Banking credit portfolio amounted to €6 million cumulatively at year-end 2017 (year-end 2016: €8 million). The effect in 2017 is €-1 million (2016: €1 million).

An amount of €939 million (2015: €1,093 million) is not available on demand, and consists of collateral for derivatives and funds related to securitisation transactions. An amount of €9,200 million (2016: €11,718 million) of the Banking credit portfolio is expected to be recovered after twelve months after reporting date.

The fair value of the Banking credit portfolio measured at amortised cost at year-end is €12,792 million (2016: €13,688 million). As at 31 December 2017, the carrying amount of the loans is affected by impairment losses amounting to €105 million (2016: €184 million). There are no reversals of impairment losses in both 2017 and 2016. The carrying amount is reduced through use of an allowance account. The impairment loss is mainly a result of individual assessments of the expected cash flows in relation to the loans. For 2017, the interest income related to impaired financial instruments is €4 million (2016: €5 million).

### KEY ASSUMPTIONS AND ESTIMATES WHEN ASSESSING THE VALUATION OF INVESTMENTS

**Impairment testing of financial assets**

Each reporting date Achmea applies judgement to establish whether a loss event has occurred, resulting in an impairment loss for an investment. When the financial condition of a counterparty changes, Achmea specifically assesses the counterparty's ability to meet both principal and interest payments on fixed-income investments. Objective evidence of impairment of an equity investment classified as 'Available for sale' includes information about significant changes with an adverse effect have taken place in the market, the technological, economic or legal environment in which the counterparty operates, and indicates that the cost of the investment in the equity investment may not be recovered. A significant or prolonged decline in the fair value of an equity investment below its cost is also objective evidence for impairment. Equity investments held in an unrealised loss position that are below cost for over twelve consecutive months or significantly below cost (20%) at reporting date are impaired. When determining the impairment loss, qualitative indicators are also used before these thresholds are met.

The Banking credit portfolio is evaluated for impairment on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. An impairment of an asset exists if there is objective evidence that one or more events after the initial recognition have had a reliably estimated negative impact on the expected future cash flows of such asset. Current observable data may include changes in unemployment rates, property and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Fair value investments determined using valuation techniques**

In the absence of an (active) market, the fair value of non-quoted investments is estimated by using present value of future cash flows or other valuation techniques. Reference is made to Note 9 Fair value hierarchy for a detailed description of the methods used. Valuation techniques are subjective in nature and can have a significant impact on the determination of fair values for certain investments. Valuation techniques involve various assumptions on the pricing factors. The use of different valuation techniques and assumptions could have an effect on the fair value.

## ACCOUNTING POLICIES INVESTMENTS

**Classification of investments**

The general principle underlying the classification of investments, and therefore the accounting policies for investments, is that this is aligned with the valuation of related liabilities. Achmea applies the following framework:
- Investments backing banking liabilities measured at amortised cost and investments backing insurance liabilities related to own account savings accounts are classified as 'Loans and receivables';
- Investments backing banking liabilities measured at fair value, investments backing insurance liabilities where cash flows are discounted using current market interest rates, investments backing insurance liabilities where the policyholder bears the investment risk and investment contracts are classified as 'At fair value through profit or loss';
- Investments held for trading, mostly derivatives, and Private equity investments in the form capital interests in investment funds are classified as 'At fair value through profit or loss'. Achmea uses derivatives to manage its exposure to market risks arising from operating, investing and/or financing activities;
- Other investments are classified as 'Available for sale'.

**Initial measurement**

An investment is initially measured at fair value increased by transaction costs that are directly attributable to the acquisition or issue of an investment, unless an investment is classified as 'At fair value through profit or loss'. In that case the initial measurement equals the fair value and transaction costs are included directly in the Income Statement.
In some cases, the fair value deviates the initially measured from the transaction price, (so called day 1 gain/loss). If the fair value is evidenced by observable market data, the 'day 1 result' will be accounted for in the Income Statement as Investment income Realised gains and losses. In all other cases, the value is adjusted to defer the difference between the fair value and initial value to future periods. The 'day 1 result' is recognised in the Income Statement only to the extent it arises from a change in a factor (including time) that market participants would take into account.

**Subsequent measurement**

*Investments classified as 'Loans and receivables'*
These investments are stated at amortised cost, less any allowance for uncollectability. If there is objective evidence that an impairment loss on 'Loans and receivables' has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet occurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). A new amortised cost schedule is determined which governs the future interest income recognised in the Income Statement.

The Banking credit portfolio, measured at amortised cost, is adjusted to reflect identified incurred losses (including incurred but not yet reported losses) within the portfolio. If all or part of the portfolio proves to be uncollectible, the amount concerned is written off from the corresponding allowance account

*Investments classified as 'Available for sale'*
Investments classified as 'Available for sale' are measured at fair value. Other changes in fair value are transferred to the Revaluation reserve, part of Total equity net of deferred taxes. Exchange differences resulting from changes in the amortised cost of fixed-income investments are recognised in the Income Statement. Upon derecognition of the investment any cumulative unrealised gains or losses, recognised in Total equity, are transferred to the Income Statement as Realised gains and losses. Interest income on fixed-income investments is determined by using the effective interest rate method. When optional dividends are taken up as shares, an amount equal to the cash dividend is recognised in the Income Statement.

The unrealised fair value changes for fixed-income investments that cover insurance liabilities of which the cash flows are based on locked assumptions within the Dutch life insurance business and which are discounted at fixed discount rates, are included in Total equity and subsequently transferred to Profit sharing and bonuses for policyholders as part of the Insurance liabilities. This transfer is halted whenever Profit sharing and bonuses for policyholders is negative. Unrealised losses on the fixed-income investments included in the Income Statement, in case the transfer to Profit sharing and bonuses for policyholders was halted, are reversed through the Income Statement if the fair value of the investments subsequently increases. When the reversal is complete, the transfer to Profit sharing and bonuses for policyholders is resumed.

Investments classified as 'At fair value through profit or loss'
Investments classified as 'At fair value through profit or loss' are measured at fair value. Changes in fair value and exchange differences are recognised in the Income Statement. When optional dividends are taken up as shares, an amount equal to the cash dividend is recognised in the Income Statement.

Derivatives embedded in other financial instruments are separated and measured separately if they are not closely related to the host instrument. A convertible bond is separated into a bond part classified as 'Available for sale' and an equity conversion option classified as a derivative. The bond part is measured according to the valuation of a similar bond with the same characteristics. Depending on their value, derivatives are either presented as Investments (assets) or as Derivatives (liabilities). Derivatives assets and liabilities relating to the same counterparty are generally not included in the balance sheet on a net basis, as the IFRS netting requirements have not been met.

## 7. LIABILITIES RELATED TO INSURANCE CONTRACTS AND AMOUNTS CEDED TO REINSURERS

(€ MILLION)

| | 31 DECEMBER 2017 | | 31 DECEMBER 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS |
| **Non-life insurance** | | | | |
| Unearned premiums | 1,255 | 117 | 1,254 | 88 |
| Provision for unexpired risks | 43 | | 50 | |
| Outstanding claims (including IBNR) | 6,101 | 334 | 6,011 | 404 |
| Profit sharing and bonuses for policyholders | 22 | | 26 | |
| **Total Non-life insurance** | **7,421** | **451** | **7,341** | **492** |
| **Health insurance** | | | | |
| Unearned premiums | 29 | | 28 | |
| Provision for unexpired risks | 109 | | 435 | |
| Outstanding claims (including IBNR) | 4,365 | | 4,388 | 8 |
| **Total Health insurance** | **4,503** | **0** | **4,851** | **8** |
| **Life insurance** | | | | |
| Provision for life policy liabilities | 22,423 | 205 | 25,247 | 897 |
| Deferred interest surplus rebates | −23 | | −32 | |
| Profit sharing and bonuses for policyholders | 6,875 | | 7,767 | |
| Insurance liabilities where policyholders bear investment risk | 16,094 | | 16,171 | |
| **Total Life insurance** | **45,369** | **205** | **49,153** | **897** |
| **Total** | **57,293** | **656** | **61,345** | **1,397** |

The table below shows the insurance liabilities analysed by estimated time to maturity. The Life insurance and Income Protection contracts are analysed, based on the discounted cash in- and outflows related to the insurance contracts; Property & Casualty and Health insurance contracts are analysed, based on undiscounted cash flows.

## ANALYSIS BY ESTIMATED TIME TO MATURITY OF LIABILITIES RELATED TO INSURANCE CONTRACTS

(€ MILLION)

| 2017 | WITHIN 1 YEAR | 1-5 YEARS | 5-15 YEARS | OVER 15 YEARS | TOTAL |
|---|---|---|---|---|---|
| Non-life insurance | | | | | |
| Income protection | 618 | 1,247 | 993 | 256 | 3,114 |
| Property & Casualty | 1,800 | 1,800 | 658 | 49 | 4,307 |
| Health insurance | 4,015 | 488 | | | 4,503 |
| Life insurance | 1,831 | 5,459 | 15,671 | 22,408 | 45,369 |
| **Balance at 31 December** | **8,264** | **8,994** | **17,322** | **22,713** | **57,293** |

| 2016 | WITHIN 1 YEAR | 1-5 YEARS | 5-15 YEARS | OVER 15 YEARS | TOTAL |
|---|---|---|---|---|---|
| Non-life insurance | | | | | |
| Income protection | 524 | 1,118 | 1,091 | 332 | 3,065 |
| Property & Casualty | 2,066 | 1,507 | 664 | 39 | 4,276 |
| Health insurance | 4,549 | 302 | | | 4,851 |
| Life insurance | 2,032 | 5,625 | 16,134 | 25,362 | 49,153 |
| **Balance at 31 December** | **9,171** | **8,552** | **17,889** | **25,733** | **61,345** |

## NON-LIFE PORTFOLIO ANALYSIS

(€ MILLION)

| | 31 DECEMBER 2017 | | 31 DECEMBER 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | % | LIABILITIES RELATED TO INSURANCE CONTRACTS | % |
| Accident | 3,114 | 42% | 3,065 | 42% |
| Motor liability | 1,869 | 25% | 1,762 | 24% |
| Motor hull | 360 | 5% | 389 | 5% |
| Transport /aviation liability | 75 | 1% | 83 | 1% |
| Property | 958 | 13% | 973 | 13% |
| General liability | 855 | 12% | 858 | 12% |
| Legal assistance | 188 | 3% | 211 | 3% |
| Other | 2 | 0% | | 0% |
| | **7,421** | **100%** | **7,341** | **100%** |

## MOVEMENT TABLE NON-LIFE

(€ MILLION)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS |
| **PROVISION FOR UNEARNED PREMIUMS NON-LIFE** | | | | |
| Balance at 1 January [1] | 1,254 | 88 | 1,249 | 87 |
| Added during the year [1] | 3,868 | 295 | 3,787 | 264 |
| Released to the Income Statement [1] | –3,835 | –251 | –3,753 | –255 |
| Foreign currency differences | –32 | –15 | –27 | –8 |
| Changes due to reclassification | | | –2 | |
| **Balance at 31 December** | **1,255** | **117** | **1,254** | **88** |
| **PROVISION FOR UNEXPIRED RISKS NON-LIFE** | | | | |
| Balance at 1 January | 50 | | 54 | 1 |
| Added during the year | 1 | | 1 | |
| Released to the Income Statement | –8 | | –5 | –1 |
| **Balance at 31 December** | **43** | | **50** | |
| **OUTSTANDING CLAIMS (INCLUDING IBNR) NON-LIFE** | | | | |
| Balance at 1 January | 6,011 | 404 | 5,598 | 304 |
| Current period claims reported [1] | 2,737 | 121 | 2,930 | 277 |
| Change in reported claims previous periods [2] | –154 | –2 | 41 | 2 |
| **Plus claims reported** | **2,583** | **119** | **2,971** | **279** |
| Current period claims paid [1] | 1,240 | 45 | 1,422 | 108 |
| Previous period claims paid | 1,258 | 118 | 1,193 | 49 |
| **Less claims paid** | **2,498** | **163** | **2,615** | **157** |
| Foreign currency differences | –32 | –26 | –26 | –22 |
| Unwinding of discount | 65 | | 72 | |
| Effect of changes in assumptions [2 & 3] | –28 | | | |
| Changes due to reclassification | | | 11 | |
| **Balance at 31 December** | **6,101** | **334** | **6,011** | **404** |

1. *The 2016 figures have been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies.*
2. *In 2017 the items included in Effect of changes in assumptions have been reassessed. In 2016 €13 million was included in Effect of changes in assumptions, which after reassessment in 2017 is included in Change in reported claims previous periods.*
3. *Effect of changes in assumptions of €28 relates to a change in the manner in which the provision for claims handling expenses is determined, as described in Note 1F Changes in accounting estimates.*

## MOVEMENT TABLE NON-LIFE CONTINUED

(€ MILLION)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS |
| **PROFIT SHARING AND BONUSES FOR POLICYHOLDERS** | | | | |
| Balance at 1 January | 26 | | 26 | |
| Additions/disposals due to acquired/sold portfolios | | | –2 | |
| Net movements during the period | –4 | | 2 | |
| **Balance at 31 December** | **22** | | **26** | |
| | | | | |
| **TOTAL NON-LIFE** | **7,421** | **451** | **7,341** | **492** |

The tables below show the claims development table for Non-Life before and net of reinsurance.

## CLAIMS DEVELOPMENT TABLE FOR NON-LIFE

(€ MILLION)

| (BEFORE REINSURANCE) | 2017 | 2016 | 2015 [1] | 2014 [1] | 2013 [1] | 2012 | 2011 | 2010 | 2009 | 2008 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of cumulative claims:** | | | | | | | | | | | |
| At end of underwriting year | 2,737 | 2,930 | 2,594 | 2,593 | 2,780 | 2,733 | 2,594 | 2,848 | 2,825 | 2,828 | |
| One year later | | 2,909 | 2,622 | 2,532 | 2,615 | 2,482 | 2,468 | 2,633 | 2,857 | 2,827 | |
| Two years later | | | 2,658 | 2,587 | 2,634 | 2,437 | 2,443 | 2,504 | 2,650 | 2,709 | |
| Three years later | | | | 2,542 | 2,641 | 2,435 | 2,439 | 2,471 | 2,539 | 2,538 | |
| Four years later | | | | | 2,598 | 2,369 | 2,445 | 2,477 | 2,509 | 2,515 | |
| Five years later | | | | | | 2,330 | 2,413 | 2,465 | 2,530 | 2,468 | |
| Six years later | | | | | | | 2,369 | 2,447 | 2,536 | 2,481 | |
| Seven years later | | | | | | | | 2,453 | 2,516 | 2,479 | |
| Eight years later | | | | | | | | | 2,517 | 2,498 | |
| Nine years later | | | | | | | | | | 2,488 | |
| **Estimate of cumulative claims** | **2,737** | **2,909** | **2,658** | **2,542** | **2,598** | **2,330** | **2,369** | **2,453** | **2,517** | **2,488** | **25,601** |
| Cumulative payments | −1,240 | −2,040 | −1,932 | −1,935 | −2,202 | −2,019 | −2,068 | −2,193 | −2,248 | −2,252 | −20,129 |
| | **1,497** | **869** | **726** | **607** | **396** | **311** | **301** | **260** | **269** | **236** | **5,472** |
| Insurance liabilities claims prior years (<2008) | | | | | | | | | | | 1,299 |
| Effect of discounting | | | | | | | | | | | −670 |
| **Outstanding claims at 31 December 2017** | | | | | | | | | | | **6,101** |

1. *In 2017 the allocation of estimated claims and payments at year-end has been reassessed. Furthermore there has been a shift in previous years between paid claims and estimated claims. The net effect amounts to €278 million for the claim years 2015, 2014 and 2013, without the closing balance of the total claims provision being adjusted. The amounts have been adjusted accordingly in the table above.*

## CLAIMS DEVELOPMENT TABLE FOR NON-LIFE

(€ MILLION)

| (NET OF REINSURANCE) | 2017 | 2016 | 2015 [1] | 2014 [1] | 2013 [1] | 2012 | 2011 | 2010 | 2009 | 2008 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of cumulative claims:** | | | | | | | | | | | |
| At end of underwriting year | 2,616 | 2,653 | 2,477 | 2,525 | 2,677 | 2,692 | 2,524 | 2,773 | 2,736 | 2,726 | |
| One year later | | 2,696 | 2,555 | 2,468 | 2,519 | 2,433 | 2,399 | 2,572 | 2,768 | 2,726 | |
| Two years later | | | 2,602 | 2,548 | 2,540 | 2,402 | 2,374 | 2,439 | 2,571 | 2,614 | |
| Three years later | | | | 2,507 | 2,560 | 2,400 | 2,400 | 2,407 | 2,457 | 2,446 | |
| Four years later | | | | | 2,523 | 2,335 | 2,410 | 2,450 | 2,438 | 2,422 | |
| Five years later | | | | | | 2,299 | 2,372 | 2,439 | 2,505 | 2,384 | |
| Six years later | | | | | | | 2,330 | 2,372 | 2,478 | 2,368 | |
| Seven years later | | | | | | | | 2,424 | 2,493 | 2,418 | |
| Eight years later | | | | | | | | | 2,496 | 2,404 | |
| Nine years later | | | | | | | | | | 2,397 | |
| **Estimate of cumulative claims** | **2,616** | **2,696** | **2,602** | **2,507** | **2,523** | **2,299** | **2,330** | **2,424** | **2,496** | **2,397** | **24,890** |
| Cumulative payments | –1,195 | –1,882 | –1,910 | –1,929 | –2,146 | –2,013 | –2,049 | –2,168 | –2,232 | –2,166 | –19,690 |
| | **1,421** | **814** | **692** | **578** | **377** | **286** | **281** | **256** | **264** | **231** | **5,200** |
| Insurance liabilities claims prior years (<2008) | | | | | | | | | | | 1,237 |
| Effect of discounting | | | | | | | | | | | –670 |
| **Outstanding claims at 31 December 2017** | | | | | | | | | | | **5,767** |

1. *In 2017 the allocation of estimated claims and payments at year-end was reassessed. Furthermore there has been a shift in previous years between paid claims and estimated claims. The net effect amounts to €278 million for the claim years 2015, 2014 and 2013, without the closing balance of the total claims provision being adjusted. The amounts have been adjusted accordingly in the table above.*

## HEALTH PORTFOLIO ANALYSIS

(€ MILLION)

| | 31 DECEMBER 2017 | | 31 DECEMBER 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | % | LIABILITIES RELATED TO INSURANCE CONTRACTS | % |
| Basic Health insurance | 4,275 | 95.0% | 4,631 | 95.5% |
| Supplementary Health insurance | 114 | 2.5% | 123 | 2.5% |
| Other | 114 | 2.5% | 97 | 2.0% |
| | **4,503** | **100.0%** | **4,851** | **100.0%** |

## MOVEMENT TABLE HEALTH INSURANCE LIABILITIES

(€ MILLION)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS |
| **PROVISION FOR UNEARNED PREMIUMS HEALTH** | | | | |
| Balance at 1 January | 28 | | 23 | |
| | | | | |
| Added during the year | 13,636 | 3 | 13,504 | 3 |
| Released to the Income Statement | –13,635 | –3 | –13,501 | –3 |
| Changes due to reclassification | | | 2 | |
| **Balance at 31 December** | **29** | | **28** | |
| | | | | |
| **PROVISION FOR UNEXPIRED RISKS HEALTH** | | | | |
| Balance at 1 January | 435 | | 481 | |
| | | | | |
| Added during the year | 109 | | 435 | |
| Released to the Income Statement | –435 | | –481 | |
| **Balance at 31 December** | **109** | | **435** | |
| | | | | |
| **OUTSTANDING CLAIMS (INCLUDING IBNR) HEALTH** | | | | |
| Balance at 1 January | 4,388 | 8 | 5,285 | 13 |
| | | | | |
| Current period claims reported | 13,873 | 1 | 13,461 | 1 |
| Change in reported claims previous periods | –320 | –9 | –270 | –219 |
| **Plus claims reported** | **13,553** | **–8** | **13,191** | **–218** |
| | | | | |
| HKC premiums related to current period claims reported | | | | |
| HKC premiums related to change in reported claims previous periods | | 10 | | 230 |
| **HKC premiums related to claims reported** | | **10** | | **230** |
| | | | | |
| Current period claims paid | 9,768 | 1 | 9,566 | 1 |
| Previous period claims paid | 3,812 | 171 | 4,525 | 314 |
| **Less claims paid** | **13,580** | **172** | **14,091** | **315** |
| | | | | |
| HKC premiums related to previous claims paid | | –162 | | –298 |
| **Less HKC premiums related to claims paid** | | **–162** | | **–298** |
| | | | | |
| Effect of changes in assumptions | 4 | | 3 | |
| **Balance at 31 December** | **4,365** | | **4,388** | **8** |
| | | | | |
| **TOTAL HEALTH INSURANCE LIABILITIES** | **4,503** | | **4,851** | **8** |

High Cost Compensation (Hoge Kosten Compensatie, HKC) has been settled in 2017 (2016: €8 million). There are no more receivables on the Health Care Insurance Board (ZiNL) (2016: €180 million) and no more liabilities to Health Care Insurance Board (2016: €172 million).

The claims development table for Health as shown below, is presented before reinsurance only, as a claims development table after reinsurance would not show any differences.

## CLAIMS DEVELOPMENT TABLE FOR HEALTH

(€ MILLION)

| (BEFORE REINSURANCE) | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of cumulative claims:** [1] | | | | | | | | | | | |
| At end of underwriting year | 13,873 | 13,458 | 13,105 | 12,551 | 12,777 | 12,840 | 11,907 | 11,101 | 10,368 | 10,466 | |
| One year later | | 13,229 | 12,897 | 12,321 | 12,598 | 12,553 | 11,679 | 11,163 | 10,672 | 10,699 | |
| Two years later | | | 12,844 | 12,216 | 12,473 | 12,641 | 11,706 | 11,023 | 10,612 | 10,656 | |
| Three years later | | | | 12,186 | 12,541 | 12,235 | 12,370 | 10,966 | 10,614 | 10,491 | |
| Four years later | | | | | 12,556 | 12,213 | 12,370 | 10,966 | 10,604 | 10,466 | |
| Five years later | | | | | | 12,219 | 12,370 | 10,966 | 10,604 | 10,466 | |
| Six years later | | | | | | | 12,370 | 10,966 | 10,604 | 10,466 | |
| Seven years later | | | | | | | | 10,966 | 10,604 | 10,466 | |
| Eight years later | | | | | | | | | 10,604 | 10,466 | |
| Nine years later | | | | | | | | | | 10,466 | |
| **Estimate of cumulative claims** | **13,873** | **13,229** | **12,844** | **12,186** | **12,556** | **12,219** | **12,370** | **10,966** | **10,604** | **10,466** | **121,313** |
| Cumulative payments [1] | −9,768 | −13,036 | −12,796 | −12,174 | −12,549 | −12,219 | −12,370 | −10,966 | −10,604 | −10,466 | −116,948 |
| Insurance liabilities claims prior years (<2008) | | | | | | | | | | | |
| **Outstanding claims at 31 December 2017** | **4,105** | **193** | **48** | **12** | **7** | | | | | | **4,365** |

1. *In 2017 the allocation of estimated claims and payments at year-end was reassessed. Furthermore there has been a shift in previous years between paid claims and estimated claims. The net effect amounts to €140 million for the past nine claim years, without the closing balance of the total claims provision being adjusted. The amounts have been adjusted accordingly in the above table .*

## LIFE PORTFOLIO ANALYSES

(€ MILLION)

| | 31 DECEMBER 2017 | | 31 DECEMBER 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | % | LIABILITIES RELATED TO INSURANCE CONTRACTS | % |
| Insurances with guarantees regarding to investment income [1] | 28,651 | 63 | 30,911 | 63 |
| Other life insurance | 16,718 | 37 | 18,242 | 37 |
| | **45,369** | **100** | **49,153** | **100** |

1. *Includes life insurances for own account with guarantees regarding interest rate and life insurances where policyholders bear investment risks with a minimum guaranteed investment income.*

## MOVEMENT TABLE LIFE INSURANCE LIABILITIES

(€ MILLION)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS |
| **PROVISION FOR LIFE POLICY LIABILITIES** | | | | |
| Balance at 1 January | 25,247 | 897 | 25,939 | 976 |
| Benefits paid | –2,104 | –121 | –2,800 | –166 |
| Net premiums received | 1,074 | 28 | 1,469 | 68 |
| Technical result | –162 | 3 | –433 | 25 |
| Foreign currency differences | –4 | | 1 | |
| Unwinding of discount | 704 | | 1,007 | |
| Cost withdrawal | –98 | | –117 | –6 |
| Effect of changes in assumptions | 28 | | 33 | |
| Effect of fair value changes | 6 | | 120 | |
| Changes due to reclassification [1 & 2] | –2,268 | –602 | 28 | |
| **Balance at 31 December** | **22,423** | **205** | **25,247** | **897** |
| **DEFERRED INTEREST SURPLUS REBATES** | | | | |
| Balance at 1 January | –32 | | –40 | |
| Rebates granted | | | –1 | |
| Amortisation | 9 | | 9 | |
| **Balance at 31 December** | **–23** | | **–32** | |
| **PROFIT SHARING AND BONUSES FOR POLICYHOLDERS [3]** | | | | |
| Balance at 1 January | 7,767 | | 6,202 | |
| Changes due to (un)realised fair value changes of certain investments in fixed income through the Balance sheet | –223 | | 881 | |
| Changes due to (un)realised fair value changes of certain investments in fixed income and interest rate derivatives through the Income statement | –613 | | 1,083 | |
| Granted profit sharing rights [4] | –77 | | –281 | |
| Other changes | 21 | | –118 | |
| **Balance at 31 December** | **6,875** | | **7,767** | |

1. *The amount in 2017 takes into account reclassification relating to assets and liabilities at year-end 2017 held for sale (gross €-2,116 million, reinsurance €-602 million). For more information on this reclassification refer to Note 21 Assets and liabilities held for sale and divestments.*
2. *Changes due to reclassification in 2017 and 2016 also relate to changes in Insurance liabilities where policyholders bear investment risks and Investment contracts, resulting from reclassification related to changes in the assessment of the underlying risk of the contracts and resulting from contractual changes (2017: €-164 million, 2016: €28 million).*
3. *Profit sharing and bonuses for policyholders are broken down further to clarify the nature of the changes. The comparative figures have been adjusted for comparison purposes.*
4. *Part of the Granted profit sharing rights accrues to Achmea and amounts to 40bps of the average related insurance liabilities.*

## MOVEMENT TABLE LIFE INSURANCE LIABILITIES CONTINUED

(€ MILLION)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS | LIABILITIES RELATED TO INSURANCE CONTRACTS | AMOUNTS CEDED TO REINSURERS |
| | | | | |
| **INSURANCE LIABILITIES WHERE POLICYHOLDERS BEAR INVESTMENT RISKS** | | | | |
| Balance at 1 January | 16,171 | | 16,240 | |
| Benefits paid | –1,690 | | –1,349 | |
| Net premiums received | 675 | | 747 | |
| Technical result | –51 | | –123 | |
| Unwinding of discount | 41 | | 49 | |
| Cost withdrawal | –45 | | –59 | |
| Effect of fair value changes | 1,029 | | 707 | |
| Changes due to reclassification [1 & 2] | –36 | | –41 | |
| **Balance at 31 December** | **16,094** | | **16,171** | |
| | | | | |
| **TOTAL LIFE INSURANCE LIABILITIES** | **45,369** | **205** | **49,153** | **897** |

1. *The amount in 2017 takes into account reclassification relating to assets and liabilities at year-end 2017 held for sale (€-197 million). For more information on this reclassification refer to Note 21 Assets and liabilities held for sale and divestments.*
2. *Changes due to reclassification in 2017 and 2016 also relate to changes in the Provision for life policy liabilities, resulting from reclassification related to changes in the assessment of the underlying risk of the contracts and resulting from contractual changes (2017: €161 million, 2016: €-28 million).*

The Provision for life policy includes an amount of €2.5 billion (31 December 2016: €2.4 billion) related to non-participating benefits contracts, which is calculated using current discount rates. At year-end 2017 there is no provision anymore based on discount rates of projected returns of related investments (31 December 2016: €2.4 billion). This is recognised in Liabilities classified as 'Held for sale'. For more information refer to Note 21 Assets and liabilities held for sale and divestments.

As of 2016 the pension insurance organisation is also part of the 'closed book'. For the Provision for life policy liabilities (before reinsurance) and Insurance liabilities where policyholders bear investment risks, activities related to 'closed book' amounted to €20.9 billion (31 December 2016: €21.1 billion) respectively €16.1 billion (31 December 2016: €15.9 billion); benefits paid related to the 'closed book' activities amounted to €1.5billion (2016: €2.3 billion) respectively €1.7 (2016: 1.3 billion).

In previous years, an issue has arisen in the Netherlands regarding the costs included in investment insurance policies (beleggingsverzekeringen), such as the life insurance policies with unit-linked feature. It is generally alleged that the costs of some of these products are disproportionally high, that in some cases a legal basis for such costs is lacking and that the information provided to the insured regarding these costs has not been transparent which is considered an alleged misselling issue. In the past, Achmea reached agreement with certain customer interest groups in the Netherlands. The discussion related to these investment insurance policies is still continuing. In determining the insurance liabilities, these discussions are taken into account.

### KEY ESTIMATES TO DETERMINE LIABILITIES RELATED TO INSURANCE CONTRACTS

The measurement of Liabilities related to insurance contracts is an inherently uncertain process, involving assumptions for changes in legislation, social, economic and demographic trends, inflation, investment returns, policyholder behaviour, and other factors. Specifically, significant assumptions related to these aspects include interest rates, mortality and morbidity rates, trends in claims and assumptions used in the liability adequacy test. Where possible, Achmea uses market observable variables and models / techniques which are commonly used in the industry. The assumptions for non-observable market variables used are based on a combination of experience within Achmea and market benchmarks, such as those supplied by the statistics department of the Dutch Association of Insurers, the Dutch Society of Actuaries and similar bodies throughout Europe. The use of different assumptions in this evaluation could have an effect on the Liabilities related to insurance contracts and Net expenses from insurance contracts.

The data used to calibrate the Liabilities related to insurance contracts outstanding claims related to Dutch health-insurance contracts is based on historical information. The contribution for the Health Insurance Fund (including standard nominal premium) and claims level are preliminary and will probably change and shift between insurers for some years. Achmea reassesses provisions for the underwriting year on an annual basis based on the latest information on claims level, macro-neutrality and settlements with the Dutch government (equalisation fund allocation for the related underwriting year). When appropriate, Achmea has made additional provisions.

The discount rate used to determine the life policy liabilities whose valuation of cash flows is based on locked assumptions related to Dutch activities ranges between 3% and 4%. Life policy liabilities relating to Dutch activities whose cash flows are discounted using market-based interest rates are based on the Euro swap curve, including an illiquidity premium depending on the profit sharing features of the insurance contract, which is extrapolated by means of an ultimate forward rate (UFR, 4.2% at year-end 2017). The UFR is used to determine the risk-free discount rate after the last liquid point in the Euro swap market and it is based on a long-term equilibrium rate of historical data. The life policy liabilities for foreign operating companies are generally calculated based on discounting at the interest rate guaranteed for the product or in some cases based on projected returns on related investments.

Achmea tests the adequacy of the recognised insurance liabilities and related assets at each reporting date (see Accounting policies and Liabilities related to insurance contracts). The test considers current estimates of all contractual cash flows of the insurance liabilities, which are discounted for the life business and certain insurance contracts within the non-life business (disability insurance). The curve used for the adequacy test of the relevant non-life policies is based on the tariff bases: the curve used for life policies is based on the Euro Swap Curve, including an adjustment for credit risk, a country premium and an illiquidity premium, extrapolated by means of a UFR. This UFR is equal to the UFR used for the Solvency II calculation at the same reporting date (year-end 2017 4.2%).

Insurance liabilities also include the impact of minimum guarantees which are included in certain insurance contracts. The valuation of these guarantees depends on the difference between the potential minimum benefits payable and the total account balance, expected mortality and surrender rates. The determination of the potential minimum benefits payable also involves the use of assumptions on inflation, investment returns, policyholder behaviour, and mortality and morbidity trends. The use of different assumptions on these factors could have an effect on insurance liabilities and Net expenses from insurance contracts.

## ACCOUNTING POLICIES LIABILITIES RELATED TO INSURANCE CONTRACTS

**General measurement principles**

Insurance contracts are defined as contracts that transfer significant insurance risk. Insurance risk exists if a scenario exists that has commercial substance under which, based on an insured event, additional payments have to be made. Insurance risk is considered significant if the payment on occurrence of an insured event differs at least 10% from the payment if the event does not occur. Options, guarantees and derivatives embedded in an insurance contract that do not bear any insurance risk on their own and that are not closely related to the host insurance contract are separately recognised as a derivative. Options and guarantees that are closely related to the insurance contract are included in the measurement of Insurance liabilities.

For participations in underwriting pools, co-insurance or guarantee fund agreements an amount equal to the share in these agreements, generally measured based on the specific provisions in these agreements, is recognised. The information used is received from the management of these agreements.

Achmea tests the adequacy of the recognised insurance liabilities and related assets at each reporting date (related VOBA, refer to the note with regard to Intangible assets, and deferred acquisition costs, refer to the note with regard to Receivables and accruals) and more often if deemed necessary. The test considers current estimates of all contractual cash flows of the insurance liabilities, including expected cost for claim handling, guarantees and embedded options. If the test shows that the insurance liabilities are inadequate, Achmea will recognise a loss. In this, first the recognised value of business acquired will be reduced. Any remaining deficit is either compensated first by reductions of deferred acquisition costs or ultimately by increasing the related insurance liabilities.

**Profit sharing and bonuses for policyholders (Life and Non-life)**

A provision is made for any profit share that policyholders or beneficiaries are entitled to. Vested rights that have not yet been credited to policyholder accounts are included in the provision for profit sharing and bonuses for policyholders.
The provision includes amounts allocated under the relevant local statutory or contractual regulations to the account of policyholders. The provision for profit sharing and bonuses for policyholders also includes amounts arising from the valuation of certain fixed-income investments at fair value and derivatives held to mitigate the interest rate risk inherent in the related insurance liabilities. (Un-)realised gains and losses in connection with the measurement of these investments are transferred to Profit sharing and bonuses for policyholders. This part of Profit sharing and bonuses may not be negative.

**Provision for unearned premiums (Health and Non-life)**

Gross premiums attributable to income of future periods are accrued in the Provision for unearned premiums. The Provision for unearned premiums is determined in proportion to the remaining duration of the contract.

**Provision for unexpired risks (Health and Non-life)**

The Provision for unexpired risks is calculated for each insurance portfolio on the basis of estimates of future claims, costs, premium earned and proportionate investment income. For insurance policies covering a risk which increases during the duration of the policy of which premium rates are independent of age, this risk is taken into account in determining the provision.

**Outstanding claims provision including incurred but not reported claims (Health and Non-life)**

The Outstanding claims provision relates to insurance claims that have not been settled at reporting date. The provision is determined either case-by-case or statistically. The provision also includes amounts for incurred but not reported claims at reporting date. The Outstanding claims provision is based on estimated expected claims payments. Waiting periods are taken into account when determining the provision for disability insurance. An average term is taken into account for the probability of rehabilitation. For some risks no adequate statistical data are available, such as environmental and asbestos damage claims and large-scale individual claims, because some aspects of these types of claims are still evolving. Provisions for such claims have been determined following an analysis of the portfolio in which such risks occur.

In determining the provision, costs for claim handling are taken into account. No deductions are made for salvage, subrogation and other expected recoveries from third parties for reported claims. These are accounted for under non-insurance assets acquired by exercising rights to recoveries, as part of Receivables and accruals.

Expected claim payments included in the Outstanding claims provision are not discounted except for the expected claim payments under disability insurance contracts. For this type of insurance contracts the provision reflects the present value of the expected claim payments, calculated on the basis of a fixed interest rate (3%).

**Provision for life policies**

Liabilities related to insurance contracts for traditional life insurance contracts are established by the net-level premium method and based on the actuarial and economic assumptions (e.g. to morbidity -, mortality -, and interest rates). Different accounting principles are used to measure the life policy liabilities based on the accounting principles of related (financial) assets, the specific nature of the insurance portfolios, profit sharing features and embedded options.

- Liabilities related to insurance contracts measured at fair value. All assumptions used are based on actual assumptions and current market interest rates. Fair value changes are recognised in the Income Statement. The related financial investments are classified as 'At fair value through profit or loss'.

- Liabilities related tot insurance contracts whose cash flows are based on locked assumptions and are discounted using current market-based interest rates or using (projected) market return of related financial investments. Changes in the value of these insurance liabilities are recognised in the Income Statement. The related financial investments are classified as 'At fair value through profit or loss'.

- Liabilities related to insurance contracts whose cash flows are based on locked assumptions are discounted at fixed discount rates (often 3% or 4% depending on their date of inception). For the Dutch life insurance business, the fair value changes of related interest sensitive financial instruments, with the exception of savings directly linked to insurance liabilities, are recognised as Profit sharing and bonuses for policyholders.

- Liabilities related to insurance contracts whose cash flows are directly influenced by profit sharing features are adjusted through the application of shadow accounting. Unrealised fair value changes of investments (classified as 'Available for sale') backing these insurance liabilities are transferred to Total equity. The related change in the value of the insurance liabilities is also transferred to Total equity.

The provision for unearned premiums, provision for unexpired risks and provision for outstanding claims/benefits are included to the extent that these relate to the life insurance business.

**Deferred interest surplus rebates**

The deferred interest surplus rebates in the Dutch life insurance industry are netted with the provision for life policy liabilities. These rebates are granted in any year on regular or single premiums for pension and life insurance which are based on the expectation that actual investment yields will exceed the discount rate applied in the pricing of the policies. The rebates are amortised over a 10-year period on the basis of annually increasing amounts, consistent with the manner in which the interest surplus was expected to be realised.

**Insurance liabilities where policyholders bear investment risks**

Liabilities related to insurance contracts for unit-linked policies and other insurance contracts where the policyholder bears the investment risk are accounted for at the value of the associated investments. The insurance liabilities related to insurance contracts for contracts with segregated investments are generally calculated on the basis of the contractual provisions for the insurance contract. In case of a surplus of these segregated assets, the amounts are recognised as Financial liabilities - *Other liabilities*.

**Amounts ceded to reinsurers**

Reinsurance premiums ceded and reinsurance recoveries on benefits and claims incurred are deducted from the respective income and expense accounts. Prepaid reinsurance premiums represent the ceded portion of unearned premiums. Amounts recoverable from reinsurance are estimated in a manner consistent with the claim liability associated with the reinsured risk. An impairment loss is accounted for if there is objective evidence as a result of an event that Achmea will not receive all amounts due under the contract and this amount can be measured reliably. Accordingly, revenues and expenses related to reinsurance agreements are recognised consistently with the underlying risk of the business reinsured.

## 8. FINANCIAL LIABILITIES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Investment contracts | 244 | 2,613 |
| Banking customer accounts | 5,430 | 5,548 |
| Loans and borrowings | 6,959 | 6,951 |
| Other liabilities | 4,122 | 3,830 |
| **Total financial liabilities** | **16,755** | **18,942** |

### Investment contracts

Contracts with insignificant insurance risk are recognised as Investment contracts. The linked investments are presented as part of Investments backing linked liabilities.

MOVEMENT TABLE INVESTMENT CONTRACTS (€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 2,613 | 2,338 |
| Consideration received | 734 | 523 |
| Consideration paid | −572 | −325 |
| Effect of fair value changes related to financial assets | 150 | 75 |
| Changes due to reclassification [1 & 2] | −2,681 | 2 |
| **Balance at 31 December** | **244** | **2,613** |

1. *Changes due to reclassification and other movements include an amount of €2,656 million relating to reclassification of Assets and liabilities held for sale and divestments. For more information reference is made to Note 21.*
2. *Changes due to reclassification in 2017 and 2016 also relate to changes in Insurance liabilities where policyholders bear investment risks, resulting from changes in the assessment of the underlying risk.*

ANALYSIS BY CONTRACTUAL REMAINING TIME TO MATURITY (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Within 1 year | | 258 |
| 1-5 years | 92 | 830 |
| 5-15 years | 152 | 1,108 |
| Over 15 years | | 417 |
| | **244** | **2,613** |

### Banking customer accounts

The fair value of Banking customer accounts measured at amortised cost at year-end is €5,494 million (31 December 2016: €5,576 million). The fair value measurement is mainly based on inputs from observable market data.

ANALYSIS BY CONTRACTUAL REMAINING TIME TO MATURITY (INCLUDING ACCRUED INTEREST) (€ MILLION)

| | BANKING CUSTOMER ACCOUNTS | INTEREST PAYMENTS | TOTAL 31 DECEMBER 2017 | BANKING CUSTOMER ACCOUNTS | INTEREST PAYMENTS | TOTAL 31 DECEMBER 2016 |
|---|---|---|---|---|---|---|
| Less than 3 months | 2,861 | 10 | 2,871 | 2,907 | 22 | 2,929 |
| 3-12 months | 724 | 21 | 745 | 406 | 34 | 440 |
| 1-5 years | 1,044 | 102 | 1,146 | 1,440 | 130 | 1,570 |
| Over 5 years | 801 | 187 | 988 | 795 | 224 | 1,019 |
| | **5,430** | **320** | **5,750** | **5,548** | **410** | **5,958** |

### Loans and borrowings

LOANS AND BORROWINGS CLASSIFIED BY FINANCING ACTIVITY

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Secured bank loans | 1,893 | 2,072 |
| Unsecured loans | 4,480 | 4,345 |
| Subordinated loans | 506 | 506 |
| Others | 80 | 28 |
| | **6,959** | **6,951** |

The fair value of loans and borrowings measured at amortised cost at year-end is €7,173 million (31 December 2016: €7,169 million). The amortised value of these loans and borrowings is €6,955 million (31 December 2016: €6,942 million).

The nominal amount of loans measured at fair value is €4 million (31 December 2016: €9 million). The fair value also amounts to €4 million (31 December 2016: €9 million).

MOVEMENT TABLE LOANS AND BORROWINGS

(€ MILLION)

| | SECURED BANK LOANS | UNSECURED LOANS | SUBORDINATED LOANS | OTHER | TOTAL 2017 | TOTAL 2016 [1] |
|---|---|---|---|---|---|---|
| Balance at 1 January | 2,072 | 4,345 | 506 | 28 | 6,951 | 7,603 |
| Money deposited | 495 | 493 | | 117 | 1,105 | 2,361 |
| Money withdrawn | −656 | −374 | | −65 | −1,095 | −3,054 |
| Amortisation | | −1 | | | −1 | 1 |
| Foreign currency differences | | −15 | | | −15 | 2 |
| Change in value due to fair value hedge accounting | −23 | −6 | | | −29 | 38 |
| Other changes | 5 | 38 | | | 43 | |
| **Balance at 31 December** | **1,893** | **4,480** | **506** | **80** | **6,959** | **6,951** |

1. *From financial year 2017 the accrued interest is no longer included in Loans and borrowings, but will be included in Other liabilities. For comparison purposes the comparative figures have also been adjusted for an amount of €43 million.*

ANALYSIS BY CONTRACTUAL REMAINING TIME TO MATURITY

(€ MILLION)

| | LOANS AND BORROWINGS | INTEREST | TOTAL 31 DECEMBER 2017 | LOANS AND BORROWINGS | INTEREST | TOTAL 31 DECEMBER 2016 |
|---|---|---|---|---|---|---|
| Less than 3 months | 727 | 33 | 760 | 132 | 35 | 167 |
| 3-12 months | 1,090 | 25 | 1,115 | 930 | 29 | 959 |
| 1-5 years | 3,508 | 142 | 3,650 | 3,863 | 169 | 4,032 |
| Over 5 years | 1,634 | 36 | 1,670 | 2,026 | 46 | 2,072 |
| | **6,959** | **236** | **7,195** | **6,951** | **279** | **7,230** |

SECURED LOANS

The banking activities of Achmea are partly funded by loans secured by pledged mortgage receivables. With respect to this Achmea Bank N.V. issues debentures under its €10 billion Secured Debt Issuance Programme, its new €5 billion Conditional Pass Through Covered Bond Programme, and various Residential Mortgage Backed Securities. These are issued by special purpose entities controlled by Achmea Bank N.V. These debentures are issued in various base currencies. The carrying amount of these residential mortgage loans is €5 billion (31 December 2016: €5.5 billion).

In 2017 Achmea recognised repayments on Secured loans in the amount of €656 million, the main part (€600 million) concerning the repayment of DMPL X at Achmea's subsidiary Achmea Bank N.V. Achmea Bank N.V. issued €500 million covered bonds with a maturity of 7 years (maturity date is 22 November 2024). The bonds are listed on the Euronext Amsterdam.

UNSECURED LOANS AND BORROWINGS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Senior Unsecured Bond Achmea Bank N.V. | 3,301 | 3,241 |
| Commercial Paper | 257 | 208 |
| Debt instruments Achmea B.V. | 747 | 748 |
| Senior Unsecured Notes Achmea B.V. | 175 | 186 |
| | **4,480** | **4,383** |

In October 2012, Achmea Bank N.V. established an Unsecured Medium Term Note (EMTN) programme of €10 billion. At year-end 2017 the total outstanding amount is €3,3 billion, of which €652 million Private Placements (31 December 2016: €808 million).

Achmea's subsidiary Achmea Bank N.V has also set up a French commercial paper programme of €1.5 billion. With this programme Achmea Bank N.V is able to access the international money markets to further diversify its funding mix. At the end of 2017 the total outstanding amount is €257 million (31 December 2015: €208 million). The syndicated credit facility of Achmea B.V. has a limit of €750 million will mature in 2021. At year-end 2017, the committed credit lines are undrawn.

SUBORDINATED LOANS

In April 2013, Achmea B.V. issued €500 million of Subordinated Notes with a coupon of 6%. These Subordinated Notes have a maturity of 30 years (maturity date is 4 April 2043) with a first call option after 10 years. The Notes are listed on the Irish Stock Exchange in Dublin, Ireland. The subordinated loans are subordinated to all other current and future liabilities and they are all equal in rank. The average interest rate for 2017 was 6.0% (2016: 6.0%).

### Other liabilities

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Liabilities out of direct insurance: | | |
| Policyholders | 1,109 | 1,151 |
| Agents | 71 | 124 |
| Prepaid premiums | 628 | 575 |
| Obligation from received collateral in the form of cash [1] | 1,186 | 838 |
| Investment liabilities | 96 | 83 |
| Reinsurance liabilities | 38 | 77 |
| Taxes and social security premiums | 160 | 168 |
| Creditors | 302 | 304 |
| Post-employment benefits | 28 | 27 |
| Accruals and deferred income | 186 | 221 |
| Other [2] | 318 | 262 |
| | **4,122** | **3,830** |

1. *With the coming into effect of the EMIR regulations, collateral received for certain OTC derivatives has been recognised in the balance sheet for 2016. Achmea receives an amount of cash collateral depending on the current market value of the derivative. The collateral received may not be netted against the derivative. Achmea uses the cash received for investments.*
2. *From financial year 2017 the accrued interest is no longer included in Loans and borrowings, but will be included in Other liabilities. This results in an increase of €43 million. Furthermore the debtors and creditors have been reassessed, resulting in a decrease of €35 million in Other liabilities and Receivables and accruals. The net effect is an increase in Other liabilities of €8 million.*

An amount of €516 million (31 December 2016: €456 million) of the Other liabilities is expected to be settled more than twelve months after reporting date. For Other liabilities expected to be settled within twelve months after reporting date the carrying amount is a reasonable approximation of the fair value. The fair value of liabilities expected to be settled after twelve months after the reporting amounts to €495 million as at 31 December 2017 (31 December 2016: €455 million).

## FAIR VALUE OF FINANCIAL KEY (ACCOUNTING) ESTIMATES TO DETERMINE THE LIABILITIES

In the absence of an (active) market, the fair value of non-quoted financial liabilities is estimated by using present value or other valuation techniques. Reference is made to Note 9 Fair value hierarchy for a detailed description of the methods used. Valuation techniques are subjective in nature and can have a significant impact on the determination of fair values for certain financial liabilities. Valuation techniques involve various assumptions on the pricing factors. The use of different valuation techniques and assumptions could have an effect on the fair value.

## ACCOUNTING POLICIES FINANCIAL LIABILITIES

**Investment contracts**

Financial instruments which give the investor the contractual right to receive a part of the proceeds of an investment pool with no or insignificant insurance risk are recognised as Investment contracts. Investment contracts are measured at fair value with changes in fair value through the Income Statement. These contracts are designated as 'At fair value through profit or loss' because they are, together with the related investments backing these liabilities, managed as a group. The fair value of investment contracts is the higher of the fair value of the financial instruments linked to the investment contracts, the surrender value (adjusted for any surrender penalties) and the discounted maturity value (against a risk-free interest rate). The fair value for non-linked investment contracts is the higher of the discounted exit value using a risk-free interest rate or the surrender value (adjusted for surrender penalties).

**Banking customer accounts and Loans and borrowings**

Banking customer accounts are measured at amortised cost. Loans and borrowings include all loans from external parties to Achmea, financial lease liabilities and financial reinsurance liabilities. These consist of deposits from banks, secured banks loans, unsecured bank loans and subordinated loans. These liabilities are measured at amortised cost. Collateral received from borrowers as far as this is invested in the securities lending programmes is recognised as a financial liability as there is an obligation to repay the cash received as collateral. These liabilities are measured at amortised cost. As no premiums or discounts are received on the collateral, the amortised cost equals the nominal value. Fair value hedge accounting is applied to some loans when this is in accordance with the financial risk management policy. Some financial liabilities are designated as 'At fair value through profit or loss' when these liabilities are recognised due to the termination of insurance contracts and the future sale of related financial assets to reduce measurement inconsistencies.

**Other liabilities**
Other liabilities are accounted for at amortised cost.

## 9. FAIR VALUE HIERARCHY

### Fair value hierarchy and fair value measurement

This note provides an analysis of assets and liabilities that are measured subsequently to initial recognition at fair value, grouped into three levels (fair value hierarchy) based on the significance of the inputs used in making the fair value measurements. The levels are defined as follows:

- 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 assets and liabilities valued using quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities 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 non-observable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data and the non-observable inputs have a significant effect on the valuation of the assets or liability, such as investment property, venture capital investments, private equity investments, private sector loans, mortgages loans and advances which are part of the Banking credit portfolio.

Cash and cash equivalents are classified as level 1 when not subject to restrictions. Commercial paper, included within Deposits with credit institutions, is classified as level 1, due to the fact that these are traded in money markets. Other deposits with credit institutions are in general classified as level 2, as these are not traded and subject to restrictions.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING AND NON-RECURRING BASIS
AS AT 31 DECEMBER 2017

(€ MILLION)

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL 31 DECEMBER 2017 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Recurring fair value measurements** | | | | |
| Investment property | | | 1,113 | 1,113 |
| Investments | | | | |
| Equities and similar investments | 5,547 | 1,960 | 722 | 8,229 |
| Fixed income investments | 27,871 | 2,629 | 7,484 | 37,984 |
| Derivatives | 9 | 3,394 | | 3,403 |
| Other financial investments | 491 | 7,395 | | 7,886 |
| Cash and cash equivalents | 2,884 | | | 2,884 |
| **Total assets measured at fair value on a recurring basis** | **36,802** | **15,378** | **9,319** | **61,499** |
| | | | | |
| **Non-recurring fair value measurements** | | | | |
| Property for own use and equipment | | | 415 | 415 |
| Assets classified as 'held for sale' [1] | | | 5,101 | 5,101 |
| **Total assets measured at fair value on a non-recurring basis** | | | **5,516** | **5,516** |
| | | | | |
| **Liabilities** | | | | |
| **Recurring fair value measurements** | | | | |
| Financial liabilities | | | | |
| Investment contracts | | 244 | | 244 |
| Loans and borrowings | | 4 | | 4 |
| Derivatives | 1 | 752 | 17 | 770 |
| **Total liabilities measured at fair value on a recurring basis** | **1** | **1,000** | **17** | **1,018** |
| | | | | |
| **Non-recurring fair value measurements** | | | | |
| Liabilities classified as 'held for sale' [1] | | | 5,002 | 5,002 |
| **Total liabilities measured at fair value on a non-recurring basis** | | | **5,002** | **5,002** |

1. *Assets and liabilities classified as 'Held for sale' (disposal group) are measured at fair value, minus costs to sell and taking into account intercompany positions.*

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING AND NON-RECURRING BASIS
AS AT 31 DECEMBER 2016

(€ MILLION)

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL 31 DECEMBER 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Recurring fair value measurements** | | | | |
| Investment property | | 38 | 1,091 | 1,129 |
| Investments | | | | |
| Equities and similar investments [1] | 6,159 | 2,650 | 891 | 9,700 |
| Fixed income investments | 30,929 | 2,709 | 6,110 | 39,748 |
| Derivatives | 2 | 4,459 | | 4,461 |
| Investment property backing linked liabilities | | 452 | | 452 |
| Other financial investments | 394 | 7,870 | | 8,264 |
| Cash and cash equivalents [2] | 2,192 | | | 2,192 |
| **Total assets measured at fair value on a recurring basis** | **39,676** | **18,178** | **8,092** | **65,946** |
| | | | | |
| **Non-recurring fair value measurements** | | | | |
| Property for own use and equipment | | | 431 | 431 |
| **Total assets measured at fair value on a non-recurring basis** | | | **431** | **431** |
| | | | | |
| **Liabilities** | | | | |
| Financial liabilities | | | | |
| Investment contracts | | 2,613 | | 2,613 |
| Loans and borrowings | | 9 | | 9 |
| Derivatives [1] | 1 | 1,543 | 21 | 1,565 |
| **Total liabilities measured at fair value on a recurring basis** | **1** | **4,165** | **21** | **4,187** |

1. *In 2017 Equities and similar investments and Derivatives were reclassified from Level 2 to Level 3 (€309 million). For a better insight into the developments in these items the comparative figures have been adjusted accordingly.*
2. *In 2017 overnight deposits are included in Cash and cash equivalents. For a better insight into the developments in this item the comparative figure has been adjusted accordingly (€21 million).*

### Main changes in the fair value hierarchy in 2017

At each reporting date Achmea assesses the classification of assets and liabilities measured at fair value. The assessment of the classification in the fair value hierarchy requires judgement, for example the importance of (un)observable inputs used in determining the fair value or with respect to activity of the market. In case of inactive markets, judgement is required on the valuation techniques to be used in order to determine the fair value as well as the interpretation of the level of using market data. As a result, the outcome of the classification process may differ between reporting periods. Achmea's policy is to determine the level of the fair value hierarchy each reporting period and to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. In 2017 there were no significant changes in classification, except for the reclassifications referred to in the above footnote, for which the comparative figures of 2016 have been adjusted.

## MOVEMENT SCHEDULE FOR LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

### ASSETS AND LIABILITIES

(€ MILLION)

| | INVESTMENT PROPERTY INCL. INVESTMENTS BACKING LINKED LIABILITIES | EQUITIES AND SIMILAR INVESTMENTS | FIXED INCOME INVESTMENTS | ASSETS TOTAL 2017 | DERIVATIVES | LIABILITIES TOTAL 2017 |
|---|---|---|---|---|---|---|
| **Balance at 1 January** | **1,091** | **891** | **6,110** | **8,092** | **21** | **21** |
| Investments and loans granted | 5 | 33 | 1,715 | 1,753 | | |
| Divestments and disposals | −57 | −247 | −388 | −692 | | |
| Fair value changes included in Income Statement | 67 | −4 | −16 | 47 | −4 | −4 |
| Fair value changes included in Other comprehensive income | | 49 | 59 | 108 | | |
| Changes due to reclassification | 2 | | | 2 | | |
| Changes in fair value hierarchy (transfers to Level 3) | 5 | | 4 | 9 | | |
| **Balance at 31 December** | **1,113** | **722** | **7,484** | **9,319** | **17** | **17** |

### ASSETS AND LIABILITIES

(€ MILLION)

| | INVESTMENT PROPERTY INCL. INVESTMENTS BACKING LINKED LIABILITIES | EQUITIES AND SIMILAR INVESTMENTS [1] | FIXED INCOME INVESTMENTS | ASSETS TOTAL 2016 | DERIVATIVES [1] | LIABILITIES TOTAL 2016 |
|---|---|---|---|---|---|---|
| **Balance at 1 January** | **1,060** | **871** | **4,066** | **5,997** | **14** | **14** |
| Investments and loans granted | 11 | 60 | 2,241 | 2,312 | | |
| Divestments and disposals | −20 | −57 | −255 | −332 | | |
| Fair value changes included in Income Statement | 39 | −11 | −16 | 12 | 7 | 7 |
| Fair value changes included in Other comprehensive income | | 28 | 160 | 188 | | |
| Changes due to reclassification | 1 | | −86 | −85 | | |
| **Balance at 31 December** | **1,091** | **891** | **6,110** | **8,092** | **21** | **21** |

1. *In 2017 Equities and similar investments and Derivatives were reclassified from Level 2 to Level 3 (€309 million). For a better insight into the developments in these items the comparative figures have been adjusted accordingly.*

## SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 ASSET AND LIABILITIES MEASURED AT FAIR VALUE

| DESCRIPTION | FAIR VALUE AS AT 31 DECEMBER 2017 IN MILLIONS | VALUATION TECHNIQUE USED | UN-OBSERVABLE INPUT | RANGE (WEIGHTED AVERAGE) | RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE |
|---|---|---|---|---|---|
| Investment property | 1,113 | Market-rent-capitali-sation-method | Gross Initial Yield | 3.4 - 21.7 (7.5) (%) | Increase will result in a decrease in value |
| Investments | | | | | |
| Equities and similar investments | 722 | Net Asset Value [1] | N/A | N/A | N/A |
| Fixed income investments | | | | | |
| Own account | 7,245 | Discoun-ted cash flows | Total spread | 135 - 345 (bp) | An increase has no direct impact in the income statement or equity, but is transferred to the Fund for future appropriation through a direct equity adjustment |
| Banking credit portfolio | 239 | Discoun-ted cash flows | Total spread | 94-256 (bp) | An increase of 10 basis points will result in a €0.8 million lower income in the income statement |
| Derivatives | 17 | Black Scholes model | Under-lying value of the shares | N/A | An increase of 10% will result in €3 million higher income in the income statement. |

| DESCRIPTION | FAIR VALUE AS AT 31 DECEMBER 2016 IN MILLIONS | VALUATION TECHNIQUE USED | UN-OBSERVABLE INPUT | RANGE (WEIGHTED AVERAGE) | RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE |
|---|---|---|---|---|---|
| Investment property | 1,091 | Market-rent-capitali-sation-method | Gross Initial Yield | 3.6 - 25.9 (7.9) (%) | Increase will result in a decrease in value |
| Investments | | | | | |
| Equities and similar investments | 891 | Net Asset Value [1] | N/A | N/A | N/A |
| Fixed income investments | | | | | |
| Own account | 5,849 | Discoun-ted cash flow | Total spread | 143 - 403 (bp) | An increase has no direct impact in the income statement or total equity, but is transferred to the Fund for future appropriation through a direct equity adjustment |
| Banking credit portfolio | 261 | Discoun-ted cash flow | Total spread | 116 - 260 (bp) | An increase of 10 basis points will result in a €0.9 million lower income in the income statement |
| Derivatives | 21 | Black Scholes model | Underlyin g value of the shares | N/A | An increase of 10% will result in €3 million higher income in the income statement. |

1. *Where the net asset value is used in the application of models, this net asset value is determined based on the fair value valuation of the underlying assets and liabilities..*

Equities and similar investments mainly consist of private equity investment portfolio, amounting to €299 million (31 December 2016: €323 million), property funds, amounting to €204 million (31 December 2016: €4 million), and infrastructure funds, amounting to €160 million (31 December 2016: €267 million). The private equity investments have a highly diversified nature in terms of sector, geographical region and type of investment. For the main part of these investments, the fair value is determined using the Net Asset Value as reported by the fund manager or general partner and therefore, there is no significant unobservable input or combination of inputs that can be used to perform a sensitivity analysis.

### VALUATION TECHNIQUES USED AND VALUATION PROCESS WITHIN ACHMEA FOR LEVEL 2 AND 3 MEASUREMENTS.

Depending on the specific assets and liabilities Achmea has set valuation policies and procedures for determining the fair value. Below, for each type of assets or liability a summary is provided of the valuation process, a description of the technique used and the relevant inputs.

**Investment property (including backing linked liabilities)**

Investment property consists of commercial and residential property. The fair value is based on prices in an active market, adjusted, if necessary, for any difference in nature, location or condition of the specific asset. All properties are appraised each quarter. The valuations are carried out by external independent appraisers who hold recognised and relevant professional qualifications. All valuations are carried out following valuation guidelines common in the industry.

The level 2 Investment property, included within Investments backing linked liabilities, are located in Ireland. The fair value of this Investment property is determined using the income capitalisation method. According to this method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate (the market rate of return). The difference between gross and net rental income includes the same expense categories as those for the discounted cash flow (DCF) method with the exception that certain expenses are not measured over time, but included on the basis of a time weighted average, such as the average lease up costs. Under the income capitalisation method, over (above market rent) and under-rent situations, if any, are separately capitalised.

The level 3 Investment property are located in the Netherlands. The fair value of this Investment property is determined using the income capitalisation method and is tested using the DFC method. According to the income capitalisation method a property's fair value is estimated based on the normalised rental income, which is divided by the property's updated rate of return (the market rate of return). The difference between gross and net rental income includes the same expense categories as those for the DCF method with the exception that certain expenses are not allocated to the period of the cash flow, but the average costs are included in the normalised rental income based on the term of the lease.

For the DCF method the fair value of the Investment property is determined based on estimates of future cash flows using a discount rate that reflects current market assessments of the uncertainty on the amount and timing of the cash flows. Transactions of properties sold in the Netherlands cannot (easily) be compared due to the lack of public available information. For this reason, the valuation of investment property has a higher degree of uncertainty compared to a more active market situation, where comparable, current transactions are used to validate the appraisal process. The assumptions used in applying the abovementioned valuation methods are supported by the terms of any existing lease and other relevant contracts and by external evidence, such as recent and expected general economic trends and current market rents for similar properties in similar location and condition. Common costs and obligations related to investment property such as vacancies, rent-free periods, maintenance and repair as well as any obligations that restrict the feasibility of the income and proceeds on disposal of the property are taken into account in the DCF-method. Rental growth rates are based on general economic trends, taking into account specific characteristics of the property being valued. Projections for the cash flows in the DCF-method are made for at least 10 years. The discount rate used depends on both the type of property being valued (e.g. commercial and residential property) as well as the specific characteristics of the property being measured. Due to the characteristics of the inputs for both valuation methods used all Investment Property located in the Netherlands is classified as level 3.

**Investments - Equity and similar investments**

When available, Achmea uses quoted market prices in active markets to determine the fair value of its equities and similar investments. The fair values of investments held in non-quoted investment funds are determined by management after taking into consideration information provided by the fund managers. If no market prices are available, internal models are used to determine fair value.

The level 2 classified Equities and similar investments are mainly Investments backing linked liabilities, which comprise mostly investments in unit linked funds. Investments backing linked liabilities are investments related to insurance contracts where the policyholder bears investment risks. These investments are classified as 'At fair value through profit and loss'. The fair value of the investments in unit linked funds is Achmea's share in the Net Asset Value of these funds. These unit linked funds invest primarily in listed securities and therefore the Net Asset Value of the fund is derived from observable input (e.g. quoted prices in active markets for these securities).

The remaining level 2 classified Equities and similar investments comprise Commodities and Real estate funds. The fair value of Commodities, classified as 'At fair value through profit or loss', represents amounts estimated to be received from or paid to a third party in settlement of these instruments.

These instruments are valued by the broker based upon quoted prices in active markets. The fair value of Real estate funds, classified as 'Available for Sale' investments, represents the Net Asset Value of funds managed by Achmea. Achmea reviews these fair values and performs analytical procedures and trend analysis to ensure the fair values are appropriate.

The level 3 classified Equities and similar investments comprise private equity and alternative investments which are mainly classified as 'Available for Sale' investments. The private equity investment portfolio mainly consists of investments with a highly diversified nature in terms of sector, geographical region and type of investment. The alternative investment portfolio, classified as 'Available for Sale' investments, mainly consists of infrastructure related investments. The fair value of these portfolios is determined using the Net Asset Value as reported by the fund manager or general partner, which is considered to be the best proxy of fair value of the investment.

If an adjustment needs to be recorded in the reported Net Asset Value, this is reflected in the fair value. Part of the private equity investment portfolio is related to Achmea's venture capital and is classified as 'At fair value through profit or loss'. The pricing models are based on models as recommended in the International Private Equity and Venture Capital Valuation Guidelines. Achmea reviews the valuations and performs analytical procedures to ensure the fair values are appropriate.

**Investments - Fixed-income investments**

In general, the fair value of these fixed-income investments is determined by means of a net present value methodology using estimated future cash flows, taking into account current interest rates applicable to financial instruments with similar yield, credit quality and maturity characteristics.

The level 2 classified Bonds and other fixed-income investments comprise mainly the bond part of a convertible bond. The related derivative part of the instrument is presented as part of derivatives. In general, the convertible bond is listed and the value of the instrument is therefore market observable. However, for the separate bond-part this is not the case. The fair value is determined by means the valuation of a similar bond with the same characteristics or if not available using a net present value methodology using estimated future cash flows, taking into account current interest rates applicable to financial instruments with similar yield, credit quality and maturity characteristics.

The level 2 classified Loans and mortgages comprise mainly investment loans. The fair value of these investment loans is determined by means of a net present value methodology using an internally calculated yield taking into account current interest rates applicable to financial instruments with similar yield, credit quality and maturity characteristics.

The level 3 classified Loans and mortgages mainly comprise mortgage loans within the insurance business. The fair value of these mortgages is determined using pricing models based on the discounted value of estimated future cash flows using current interest rates. The interest rate used is based on rates in the consumers market adjusted for spreads for amongst others the price risk during the offering period. Part of assumptions used in determining the fair value are unobservable. The fair value derived by the pricing model is back tested with market information derived from recent market transactions for similar mortgages (where available) and/or internal prices used when issuing mortgage loans.

The level 2 classified Deposits with credit institutions comprise short-term deposits with banks with a fixed maturity. These deposits are not tradable and subject to restrictions due their fixed maturity. The fair value of these deposits is in general equal to the nominal value taking into account the time value of money were material. The level 2 classified Cash and other financial investments comprise mainly saving accounts, part of Investments backing linked liabilities. The fair value is determined by means of a net present value methodology using estimated future cash flows during the fixed interest period, taking into account current interest rates applicable to financial instruments with similar yield, credit quality and maturity characteristics.

The level 3 classified Banking credit portfolio comprises mainly private sector loans, which are classified as 'At fair value through profit or loss'. The fair value of these loans and advances is determined using pricing models based on the discounted value of estimated future cash flows using current interest rates. The interest rate used is based on rates in the consumers market adjusted for amongst others the price risk during the offering period. Some of the assumptions used in determining the fair value are unobservable. The fair value derived by the pricing model is compared with market information derived from recent market transactions for similar mortgages (where available) and/or internal prices used when issuing mortgage loans.

**Investments - Derivatives (assets and liabilities)**

The level 2 classified derivatives comprise Interest rate derivatives (including swaptions) currency derivatives and equity derivatives. Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modelling, are applied. The valuation is performed by a data vendor. The valuation techniques incorporate all factors that a market participant would consider and are based on observable market data when available. Fair values of interest rate derivatives (including swaptions), equity derivatives and currency derivatives represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using directly observed prices from exchange-traded derivatives or external pricing services or if not available using pricing models based on the net present value of estimated future cash flows. The pricing models which are used are standard industry valuation models (like Black and Scholes-model) and make use of current market data. The market data for interest rate derivatives and cross currency interest rate derivatives consist mainly of the swap curve of the related interest period and currency, where applicable adjusted for contract fees and margin (when part of the contractual cash flows of the derivative). Achmea normally mitigates counterparty default risk in derivative contracts by entering collateral agreements into the contracts where possible.

**Investments - Other financial investments**

The level 2 classified Other financial investments comprise mainly saving accounts, part of Investments backing linked liabilities. The fair value is determined by means of a net present value methodology using estimated future cash flows during the fixed interest period, taking into account current interest rates and the counterparty margin in the discount curve, based on the risk of irrecoverability of similar financial instruments issued by the party where the savings account is held.

**Property for own use**

The fair value of Property for own use is wholly based on appraisals by independent qualified appraisers. The valuation was determined by reference to both observations in the market and various calculation methods, such as the discounted cash flow method. Reflecting the economic environment and market conditions during the recent years, the frequency of property transactions has decreased. Appraisals are therefore generally based on the discounted cash flow method. This method establishes the fair value using the rental income of the property. The valuators use a market based discount rate adjusted for age, location and remaining rental contract period. Due to the lack of actual market transactions that can be used to validate this appraisal process, the valuation of Property for own use has a high degree of uncertainty. For 100% of the total fair value of Property for own use in the Netherlands an appraisal was executed during 2017.

**Financial liabilities - Investment contracts**

The level 2 classified investment contracts comprise linked and non-linked investment contracts. The fair value of linked investment contracts is the higher of the fair value of the financial instruments linked to the investment contracts, the surrender value (adjusted for any surrender penalties) and the discounted maturity value. The fair value for non-linked investment contracts is the higher of the surrender value (adjusted for surrender penalties) and discounted exit value (against a risk-free interest rate).

**Financial liabilities - Loans and borrowings**

The level 2 classified loans and borrowings comprise loans related to value transfers. The fair value of these loans is determined using pricing models based on the value of contractual future cash flows discounted using current interest rates based on the swap curve including a credit spread. Fair value changes related to Investment property and Equities and similar investment included in the Income Statement are presented as part of Realised and unrealised gains and losses; Fair value changes related to Fixed-income investments included in the Income Statement are presented as part of Investment income.

Fair value changes included in Other comprehensive income related to Equities and similar investments and Loans and mortgages are presented as part of Revaluation reserve. Changes due to reclassification are changes between Investment property and Property for own use related to changes in the use.

The table below provides an overview of all assets and liabilities that are not measured at fair value, but for which the fair value is disclosed in the notes.

(€ MILLION)

| | CARRYING AMOUNT AS AT 31 DECEMBER 2017 | | | | FAIR VALUE AS AT 31 DECEMBER 2017 |
|---|---|---|---|---|---|
| | | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL INSTRUMENTS | SIGNIFICANT OTHER OBSERVABLE INPUTS | SIGNIFICANT UNOBSERVABLE INPUTS | |
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| **Assets** | | | | | |
| Investments | | | | | |
| Fixed income investments | 13,132 | | 1,053 | 12,385 | 13,438 |
| Other financial investments | 2,068 | | 2,364 | | 2,364 |
| Receivables | 6,423 | | 6,430 | | 6,430 |
| | | | | | |
| **Liabilities** | | | | | |
| Financial liabilities | | | | | |
| Banking customer accounts | 5,430 | | 5,494 | | 5,494 |
| Loans and borrowings | 6,955 | 1,512 | 5,661 | | 7,173 |
| Other liabilities | 4,122 | | 4,097 | | 4,097 |

(€ MILLION)

| | CARRYING AMOUNT AS AT 31 DECEMBER 2016 | | | | FAIR VALUE AS AT 31 DECEMBER 2016 |
|---|---|---|---|---|---|
| | | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL INSTRUMENTS | SIGNIFICANT OTHER OBSERVABLE INPUTS | SIGNIFICANT UNOBSERVABLE INPUTS | |
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| **Assets** | | | | | |
| Investments | | | | | |
| Fixed income investments | 14,061 | | 1,175 | 13,156 | 14,331 |
| Other financial investments | 2,228 | | 2,519 | | 2,519 |
| Receivables [1] | 6,970 | | 6,561 | 422 | 6,983 |
| | | | | | |
| **Liabilities** | | | | | |
| Financial liabilities | | | | | |
| Banking customer accounts | 5,548 | | 5,576 | | 5,576 |
| Loans and borrowings [1] | 6,942 | 1,552 | 5,617 | | 7,169 |
| Other liabilities [1] | 3,830 | | 3,821 | | 3,821 |

1. *The comparative figures have been adjusted for comparison purposes. For more information refer to Note 8 Financial liabilities - Loans and borrowings and Other liabilities, and Note 17 Receivables and accruals.*

### VALUATION TECHNIQUES USED AND VALUATION PROCESS WITHIN ACHMEA FOR LEVEL 2 AND 3 MEASUREMENTS

Depending on the specific assets and liabilities, Achmea has formulated valuation policies and procedures for determining the fair value. For each type of asset or liability a summary is provided of the valuation process, a description of the technique used and the relevant inputs.

**Investments – Fixed-income investments**

The fair value of the level 2 classified loans to credit institutions is equal to the net present value of the estimated future cash flows, taking into account current interest rates applicable to financial instruments with similar yield, credit quality and maturity characteristics.

The level 3 classified Banking credit portfolio comprises mainly of private sector loans and advances. These loans are classified as 'Loans and receivables' and measured at amortised cost less accumulated impairment losses. The fair value of these loans and advances is determined based on the discounted value of estimated future cash flows using current interest rates. The interest rate used is based on rates in the consumers market adjusted for spreads for amongst others the price risk during the offering period. Some of the assumptions used in determining the fair value are unobservable.

The level 3 classified Deposits with re-insurers, as part of the fixed-income investments, comprise accounts into which premiums and expected claims payments are deposited related to a specific risk insurance program, over which an agreed upon interest rate is earned. The unobservable inputs include amongst others models used for determining incurred but not reported losses related to the reinsurance contract.

The level 2 classified Investments mainly comprise saving accounts related to life insurance policies in force linked to mortgages. The fair value is determined by means of a net present value methodology using estimated future cash flows during the fixed interest period, taking into account current interest rates and the counterparty margin in the discount curve, based on the risk of irrecoverability of similar financial instruments issued by the party where the savings account is held.

**Receivables**

Receivables are in general classified as level 2, due to the fact that the amount deducted for counterparty default risk is insignificant as compared to the fair value of the nominal cash flows of these receivables. If the amount deducted for counterparty default risk is not insignificant, these assets are classified as level 3.

The level 2 and 3 classified Receivables comprise mainly short-term amounts due related to the ordinary operating activities of Achmea. These receivables are measured at amortised cost less accumulated impairment losses.

The fair value of these receivables is determined based on discounted value of the expected cash flows, taking into accounted expected credit losses. The valuation models are based on current market data, such as the Euro Swap Curve. In addition to the Euro Swap Curve there are unobservable market inputs. The unobservable market inputs may include spreads which are embedded in the discount curve. For receivables expected to be recovered within twelve months after reporting date the carrying amount is a reasonable approximation of the fair value.

**Financial liabilities**

The fair value of the level 2 classified Banking customer accounts comprise saving accounts and deposits. The fair value is based on the discounted present value of the expected future cash outflows, using current market interest rates. The main part of the total Loans and borrowings is not measured at fair value.

The fair value of these level 2 loans is determined using pricing models based on the net present value of estimated future cash flows.The pricing models are based on current market data, such as the euro swap curve. In addition to the euro swap curve there are unobservable market inputs. The unobservable market inputs may include spreads which are embedded in the discount curve.

Other liabilities, except for liabilities to credit institutions, are classified as level 2 due to the fact that there is no active market for these financial instruments. Cash liabilities are classified as level 1. The level 2 classified Other liabilities comprise mainly short-term amounts payable related to the ordinary operating activities of Achmea. These other liabilities are measured at amortised cost. The fair value of these liabilities is determined based on discounted value of the expected cash flows. For Other liabilities expected to be settled within twelve months after reporting date the carrying amount is a reasonable approximation of the fair value.

## 10. NET EARNED PREMIUMS

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Gross premiums non-life [1] | 3,868 | 3,787 |
| Reinsurance premiums | –295 | –264 |
| Change in provision for unearned premiums and current risks (net of reinsurance) [1] | 18 | –20 |
| **Net earned premiums Non-life** | **3,591** | **3,503** |
| | | |
| Gross premiums health | 13,636 | 13,504 |
| Reinsurance premiums | 7 | 228 |
| Change in provision for unearned premiums and current risks (net of reinsurance) | 322 | 45 |
| **Net earned premiums Health** | **13,965** | **13,777** |
| | | |
| Gross premiums life | 1,846 | 2,216 |
| Reinsurance premiums | –55 | –68 |
| Change in provision for unearned premiums and current risks (net of reinsurance) | 1 | |
| **Net earned premiums Life** | **1,792** | **2,148** |
| | | |
| **Total net earned premiums** | **19,348** | **19,428** |

1. *The 2016 figures have been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies.*

### BREAKDOWN GROSS PREMIUMS TO BRANCHES

(€ MILLION)

| | 2017 | 2016 [1] |
|---|---|---|
| Non-life insurance | | |
| Accident | 696 | 686 |
| Motor liability | 779 | 705 |
| Motor hull | 727 | 753 |
| Transport/aviation liability | 52 | 59 |
| Property | 1,166 | 1,127 |
| General liability | 260 | 268 |
| Legal assistance | 184 | 185 |
| Other | 4 | 4 |
| **Gross premiums Non-life** | **3,868** | **3,787** |
| | | |
| Health | | |
| Basic health insurance | 5,170 | 4,806 |
| Contribution from Health insurance fund | 6,699 | 6,973 |
| Supplementary health insurance | 1,315 | 1,313 |
| Other health insurance | 452 | 412 |
| **Gross premiums Health** | **13,636** | **13,504** |
| | | |
| Life | | |
| Single own risk | 424 | 490 |
| Annual own risk | 745 | 979 |
| Single policies where policyholders bear investment risks | 60 | 85 |
| Annual policies where policyholders bear investment risks | 617 | 662 |
| **Gross premiums Life** | **1,846** | **2,216** |
| | | |
| **Total gross premiums** | **19,350** | **19,507** |

1. *The 2016 figures have been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies*

### ACCOUNTING POLICIES NET EARNED PREMIUMS

Gross premiums for Life insurance and disability insurance contracts are generally recognised in the Income Statement when due. When premiums are recognised, liabilities for future contract benefits are recorded, resulting in benefits and expenses being matched with the revenues and profits being recognised over the lifetime of the contracts. Gross premiums for Non-life insurance (except for disability insurance contracts) and Health insurance are recognised at the effective date of the insurance contract for the premiums to be received during the contract period. The contract period is the period during which Achmea is unable to (entirely) adjust the premiums or the insurance policy conditions for the changed risk profile of policyholders. Premiums for Non-life and Health insurance contracts are generally recognised as earned in proportion to the period of insurance coverage provided.

## 11. INVESTMENT INCOME

(€ MILLION)

| | INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS [1] | | INVESTMENTS - AVAILABLE FOR SALE | | INVESTMENTS - LOANS AND RECEIVABLES | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| Direct income from investments | | | | | | | | |
| Investments own risk | 297 | 314 | 590 | 567 | 91 | 103 | 978 | 984 |
| Investments backing linked liabilities | 314 | 332 | | | | | 314 | 332 |
| Banking credit portfolio | | | | | 427 | 492 | 427 | 492 |
| | | | | | | | | |
| Investment expenses [2] | −21 | −11 | −19 | −27 | | −2 | −40 | −40 |
| Direct operating expenses investment property | −20 | −20 | | −3 | | | −20 | −23 |
| | **570** | **615** | **571** | **537** | **518** | **593** | **1,659** | **1,745** |
| Realised and unrealised gains and losses on financial assets and derivatives | | | | | | | | |
| Investments own risk | −477 | 1,184 | 343 | 656 | | | −134 | 1,840 |
| Investments backing linked liabilities | 1,046 | 575 | | | | | 1,046 | 575 |
| Banking credit portfolio | | | | | 2 | 1 | 2 | 1 |
| | | | | | | | | |
| Impairment losses on investments | | | | | | | | |
| Investments own risk | | | −20 | −28 | | | −20 | −28 |
| | | | | | | | | |
| Foreign currency differences [3] | −82 | 13 | −40 | −271 | −197 | 145 | −319 | −113 |
| | **487** | **1,772** | **283** | **357** | **−195** | **145** | **575** | **2,275** |
| | | | | | | | | |
| **Total income from investments** | **1,057** | **2,387** | **854** | **894** | **323** | **738** | **2,234** | **4,020** |

1. *Investments at fair value through profit or loss include investment income from property investments.*
2. *From 2017 unit-linked fees are recognised in Investment expenses instead of Other expenses. The comparative figures have been adjusted accordingly (€17 million)*
3. *The Foreign currency differences are hedged for an important part by currency derivates. The positions of the currency derivatives are recognised in Investments own risk and Investments backing linked liabilities. For more information on this hedging refer to Note 29 Hedge accounting.*

Total income from the investment portfolio amounts to €2,234 million in 2017 (2016: €4,020 million). The decrease in income is mainly due to the increased interest rate, resulting in a decrease in realised and unrealised gains and losses on interest rate derivatives and fixed-income investments. The increased equity indices led to an increase in the realised and unrealised equity value change, which is most noticeable in investments backing linked activities.

An amount of €0.8 million (2016: €0.3 million) of Direct operating expenses investment property relates to property not generating any rental income in 2017.

(€ MILLION)

| | INVESTMENTS OWN RISK | | INVESTMENTS BACKING LINKED LIABILITIES | | BANKING CREDIT PORTFOLIO | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Direct income by type: | | | | | | | | |
| Dividend | 63 | 62 | 23 | 28 | | | 86 | 90 |
| Rental income from investment property | 76 | 78 | 25 | 22 | | | 101 | 100 |
| Rental income | 839 | 844 | 266 | 282 | 427 | 492 | 1,532 | 1,618 |
| **Total** | **978** | **984** | **314** | **332** | **427** | **492** | **1,719** | **1,808** |

Direct interest revenue from investments own risk classified as ‘At fair value through profit or loss’ includes revenue from derivatives amounting to €201 million (2016: €138 million).

Realised and unrealised gains and losses arising from financial assets designated at initial recognition as 'At fair value through profit or loss' amounted to €6 million (2016: €189 million) for Investments own risk, €1,014 million (2016: €584 million) for Investments backing linked liabilities and €2 million (2016: €1 million) for Banking credit portfolio.

A total of €-110 million (2016: €738 million) of the unrealised results from fair value changes is related to investments own risk which are measured using a valuation technique. These are mainly related to investment property, unlisted derivatives and equities.

The decrease of realised and unrealised gains and losses on investments own risk classified ‘At fair value through profit or loss’ is mainly due to an increase of the interest rate. The increase of realised and unrealised gains and losses on investments backing linked liabilities classified as ‘At fair value through profit or loss’ is mainly due to higher equity prices.

Impairment losses on investments related to investments classified as ‘Available for sale’ amounted to €20 million (2016: €28 million). In 2017, there were no impairment losses on investments related to investments classified as ‘Loans and receivables’ (2016: nil).

### ACCOUNTING POLICIES INVESTMENT INCOME

The accounting policies for investment income are closely related to the accounting principles for investments. See Note 6 Investments for further explanation.

## 12. NET EXPENSES FROM INSURANCE CONTRACTS

(€ MILLION)

| | 2017 GROSS | 2017 REINSURANCE | 2016 GROSS | 2016 REINSURANCE |
|---|---|---|---|---|
| **Non Life** | | | | |
| Claims paid [1] | 2,498 | 163 | 2,615 | 157 |
| Changes in insurance liabilities own risk | 131 | −36 | 439 | 127 |
| Claim handling expenses | 270 | | 223 | |
| Recoveries | −198 | | −217 | |
| Other changes due to granted profit sharing rights [2] | 2 | | 5 | |
| | **2,703** | **127** | **3,065** | **284** |
| **Health** | | | | |
| Claims paid | 13,580 | 172 | 14,091 | 315 |
| Changes in insurance liabilities own risk | −23 | −180 | −897 | −533 |
| Claim handling expenses | 122 | | 136 | |
| Recoveries | −33 | | −29 | |
| | **13,646** | **−8** | **13,301** | **−218** |
| **Life** | | | | |
| Benefits paid own risk | 2,183 | 125 | 2,800 | 166 |
| Benefits paid for insurances where policyholders bear investment risks | 1,663 | | 1,349 | |
| Changes in insurance liabilities own risk | −817 | −183 | −677 | −87 |
| Changes in insurance liabilities where policyholders bear investment risks | 112 | | −57 | |
| | **3,141** | **−58** | **3,415** | **79** |
| **Profit sharing and bonuses for policyholders** | | | | |
| Amortisation interest surplus rebates | 9 | | 9 | |
| Benefits policyholders [2] | 21 | | 86 | |
| Changes to provision for Profit sharing and bonuses for policyholders due to (un)realised gainses and losses on certain investments in fixed income securities through balance [3] | 83 | | 458 | |
| Changes to provision for Profit sharing and bonuses for policyholders due to (un)realised gainses and losses on certain investments in fixed income securities and deratives through income statement [3] | −613 | | 1,083 | |
| Changes to provision for Profit sharing and bonuses for policyholders due to granted profit sharing rights and other changes [2 & 3] | −77 | | −281 | |
| | **−577** | | **1,355** | |
| **Total net expenses from insurance contracts** | **18,913** | **61** | **21,136** | **145** |

1. *The 2016 figures have been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies.*
2. *In 2016 an amount of €8 million was included in Changes to provision for Profit sharing and bonuses for policyholders, while this amount should have been included in Benefits policyholders. Therefore the comparative figures have been adjusted. Of the adjustment €3 million relates to Life - Benefits policyholders, and €5 million relates to Non Life - Other changes due to granted profit sharing rights.*
3. *Profit sharing and bonuses for policyholders are further broken down to explain the nature of the changes to the provision for profit sharing and bonuses for policyholders. For comparison purposes the comparative figures have been adjusted accordingly.*

The value development of interest rate derivatives used to hedge the interest rate risk of the insurance liabilities is included in Profit sharing and bonuses for policyholders. This relates to the liabilities of the Dutch insurance business of which the cash flows are based on and discounted based on locked assumptions. The decrease in value of the interest rate derivatives, following the interest-rate movements in 2017, results in a gain in the Income Statement. In 2016 the interest rates showed a decreasing trend.

## OTHER NOTES

### *OTHER STATEMENT OF FINANCIAL POSITION*

### 13. INTANGIBLE ASSETS

(€ MILLION)

| | GOODWILL | SOFTWARE [1] | BRAND NAME | VALUE OF BUSINESS ACQUIRED | DISTRIBUTION NETWORKS | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at 1 January | 1,297 | 293 | 134 | 738 | 309 | 2,771 | 2,807 |
| Internally developed | | 5 | | | | 5 | 3 |
| Sale, disposals and decommissioning | | −3 | | | | −3 | −12 |
| Purchases and acquisitions | | 11 | | | | 11 | 9 |
| Changes due to reclassification and other movements [2] | | −32 | | | | −32 | −3 |
| Foreign currency differences | | −1 | | | −19 | −20 | −33 |
| **Balance at 31 December** | **1,297** | **273** | **134** | **738** | **290** | **2,732** | **2,771** |
| **Amortisation and impairment losses** | | | | | | | |
| Balance at 1 January | 645 | 233 | 126 | 727 | 215 | 1,946 | 1,837 |
| Sale, disposals and decommissioning | | −1 | | | | −1 | −10 |
| Amortisation charge for the year | | 22 | 1 | 4 | 10 | 37 | 40 |
| Impairment loss recognised in income statement | | | | | | | 94 |
| Changes due to reclassification and other movements [2] | | −31 | | | | −31 | −5 |
| Foreign currency differences | | | | | −11 | −11 | −10 |
| **Balance at 31 December** | **645** | **223** | **127** | **731** | **214** | **1,940** | **1,946** |
| **Carrying amount** | | | | | | | |
| At 1 January | 652 | 60 | 8 | 11 | 94 | 825 | 970 |
| **At 31 December** | **652** | **50** | **7** | **7** | **76** | **792** | **825** |

1. *In the component Software an amount of €15 million (31 December 2016: €17 million) is included for internally developed software.*
2. *Changes due to reclassification and other movements includes an amount of €4 million relating to reclassification of Assets and liabilities held for sale and divestments. For more information reference is made to Note 21.*

An amount of €752 million (31 December 2016: €784 million) of the Intangible assets is expected to be recovered more than twelve months after the reporting date. The foreign currency differences in 2017 on software of €-1 million and on distribution networks of €8 million relate to the cash generating unit Eureko Turkey.

#### GOODWILL BY CASH GENERATING UNIT

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Non-life Netherlands | 617 | 617 |
| Independer | 35 | 35 |
| | **652** | **652** |

At year-end 2017 goodwill is fully related to Achmea's Dutch operations. For the cash generating unit Non-life Netherlands, Achmea uses a Dividend Discount Model (DDM) to calculate the recoverable amount. The cash flow projections for the first three years are based on the budget approved by Achmea's Executive Board. After these three years the terminal value is determined by applying a perpetual growth rate, i.e. the average long-term growth rate, to the perpetual dividend. Achmea uses the 'Cost of Equity' to discount the projected cash flows. For the cash generating unit Independer, Achmea calculates the recoverable amount using the Discounted Cash Flow (DCF) model. The cash flow projections for the first three years are based on the budget approved by Achmea's Executive Board. After these three years the terminal value is determined by applying a perpetual growth rate to the perpetual free cash flow. Achmea uses the 'Cost of Equity' to discount the projected cash flows.

The most sensitive key assumptions in calculating the value-in-use in the yearly impairment test are:

| 2017 | NON-LIFE NETHERLANDS | INDEPENDER |
|---|---|---|
| Average annual premium/sales growth rate | 3.3% | 2.4% |
| Average claims ratio [1] | 68.6% | n.a. |
| Average expense ratio [2] | 26.7% | 76.0% |
| Terminal value growth | 0.5% | 0.5% |
| Discount rate | 8.3% | 7.4% |

| 2016 | NON-LIFE NETHERLANDS | INDEPENDER |
|---|---|---|
| Average annual premium/sales growth rate | 1.4% | 2.4% |
| Average claims ratio [1] | 68.2% | n.a. |
| Average expense ratio [2] | 26.9% | 76.0% |
| Terminal value growth | 0.5% | 0.5% |
| Discount rate | 8.5% | 7.6% |

1. *The average claims ratio of Non-life is adjusted for the technical interest (impact -2.1%). In order to be able to make a consistent comparison, the claims ratio of 2016 for Non-life is also adjusted for the technical interest (impact-2.4%).*
2. *The average expense ratio also includes, in addition to costs related to staff, IT, housing and acquisition also holding costs.*

Where possible, the assumptions are calibrated using external sources. The discount rates are determined on the advice of an external party and are based on a so-called CAPM model (Capital Asset Pricing Model). This methodology is based on a risk-free rate plus a risk premium. This risk premium is based on the 'market risk premium' (return on equity investments above risk-free rate) times the beta that represents the specific risk profile of the cash generating unit. If applicable the risk-free rate and market risk premium are adjusted for country specific risks. The terminal value growth, being the long-term average growth rate, is on a gross basis (not adjusted for inflation) and reflects expected industry averages. Achmea has performed a sensitivity analysis on its most sensitive assumptions used to calculate the value-in-use.

The surplus, being the positive difference between the recoverable amount and carrying amount, for Non-life Netherlands amounts to €602 million (2016: €1,037 million). The recoverable amount for the cash generating unit Non-life Netherlands is sensitive for negative deviations within major assumptions.

## EFFECTS OF CHANGE IN ASSUMPTIONS NON-LIFE

(€ MILLION)

| 2017 | CHANGE OF RATIO WITH | Δ SURPLUS |
|---|---|---|
| Average annual premium growth rate | −0.5% | −39 |
| Average claims ratio | 0.5% | −215 |
| Average expense ratio | 0.5% | −221 |
| Terminal value growth | −0.5% | −123 |
| Discount rate | 0.5% | −198 |

The surplus, being the positive difference between the recoverable amount and carrying amount, for Independer amounts to €163 million (2016: €162 million). The recoverable amount for this cash generating unit is sensitive for negative deviations within major assumptions.

## EFFECTS OF CHANGE IN ASSUMPTIONS INDEPENDER

(€ MILLION)

| 2017 | CHANGE OF RATIO WITH | Δ SURPLUS |
|---|---|---|
| Average annual revenue growth rate | −0.5% | −5 |
| Average expense ratio | 0.5% | −4 |
| Terminal value growth | −0.5% | −17 |
| Discount rate | 0.5% | −19 |

### KEY ASSUMPTIONS IN IMPAIRMENT TESTING OF INTANGIBLE ASSETS

In testing for impairment of intangible assets, the carrying amount is compared with the recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Determining the value in use is an area involving management judgement, requiring assessment as to whether the carrying amount of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the net future cash flows, assumptions are required to be made in respect of uncertain elements like timing and amount of projected cash flows and development of future discount rates.

### ACCOUNTING POLICIES INTANGIBLE ASSETS

Hereafter, the specific accounting principles for each major class of Intangible assets are given. Based on management expectations, Achmea estimates whether the duration of use is limited (usually no more than twenty years) or indefinite. Assets with a limited useful life are depreciated straight line after initial recognition unless another method is more appropriate (adjusted for impairments, if applicable). Assets with indefinite useful lives are tested annually for impairment. Expenses for internally generated goodwill, brand names and research expenses are included in the Profit and Loss Account as expenses when they occur.

**Software**

Externally acquired and internally developed software is recognised at cost (including borrowing cost incurred). The maximum useful life of software is five years, or up to ten years when related to insurance policy systems. Software that is an integral part of a computer or a computer-controlled tool and in which that tool or computer does not work without the software (e.g. operating system software), is classified as equipment.

**Brand name**

Purchased brand name are recognised as an intangible asset. The initial measurement of a brand name is based on the application of the 'relief of royalty method', with the use of market observable variables and when not available management expectations that are presumed to be representative of assumptions market participants would use.

**Value of business acquired**

Upon acquisition of a portfolio of (insurance) contracts, Achmea recognises the value of the acquired insurance portfolios (VOBA, "Value Of Business Acquired") as intangible asset. The first valuation of VOBA is determined as the difference between the fair value of 'current' (insurance) contracts in the acquired business activities based on current estimates and assumptions at the time of the business combination and the obligation valued in accordance with the accounting principles of Achmea.

**Distribution networks**

When Achmea enters into a business combination it recognises distribution networks as an intangible asset. The initial measurement of this intangible asset is based on the application of the 'multi-period excess earnings method', with the use of market observable variables and management expectations. The valuation techniques used are commonly applied within the industry.

**Other intangible assets**

Other intangible assets acquired by Achmea are stated at cost less accumulated amortisation and impairment losses.

**Goodwill**

Goodwill arising on a business combination represents the excess of the consideration transferred to acquire the business over the fair value of the net identifiable assets, liabilities and contingent liabilities acquired at acquisition date. Goodwill is stated at cost less accumulated impairment losses. Recognised goodwill is subject to an impairment test at least annually. Achmea has allocated the acquired goodwill due to business combinations to cash generating units (CGUs) that are expected to benefit from the business combination. This is done on the basis of synergies expected to be realised by the combination. Goodwill is monitored at business unit level, being an aggregation of products or group of products with the same risk characteristics and at which level risks are managed and capital is allocated. Any excess of the carrying amount of the domain over its recoverable amount will firstly be allocated to goodwill. Impairment tests at CGU level are performed at a fixed time every year and more frequently if triggering events occur. If an impairment loss occurs, it will be allocated to the relevant CGU. An impairment recognised for goodwill is not subject to reversal in a subsequent period.

**Impairment**

At each reporting date, Achmea assesses whether an indication of an impairment exists for intangible assets with a finite useful economic life. Various indicators are used, such as whether the intangible asset is abandoned, readily obtainable in the market, or the cost to maintain the intangible asset is significantly higher than expected. An impairment on Intangible assets is recognised as Other expenses in the Income Statement. In addition, Achmea assesses at each reporting date whether there is any indication that an impairment loss recognised in a prior period for intangible assets may no longer exist or may have decreased. Achmea considers the various indicators, such as: whether the asset's market value has increased significantly during the period; whether significant changes (technological, market, economic or legal environment) with a favourable effect on Achmea have taken place during the period; whether market interest rates have decreased and are likely to affect the discount rate used in calculating value in use and increase recoverable amount materially. If this is the case, the carrying amount of the intangible asset is increased to its recoverable amount. An increase in the carrying amount of the asset due to the reversal of the impairment may not exceed the carrying amount if no impairment loss would have been recognised in the prior period. A reversal of an impairment on Intangible assets is recognised as Other expenses in the Income Statement.

## 14. ASSOCIATES AND JOINT VENTURES

(€ MILLION)

| NAME OF THE COMPANY | COUNTRY | DESCRIPTION OF BUSINESS | DATE OF ACQUISITION | % OWNERSHIP 2017 | NET ASSET VALUE 2017 | BOOK VALUE 31 DECEMBER 2017 | BOOK VALUE 31 DECEMBER 2016 |
|---|---|---|---|---|---|---|---|
| Garanti Emeklilik ve Hayat A.S. | Turkey | Life insurance | 2007 | 15.00% | 70 | 71 | 73 |
| Sprint Invest B.V. | The Nether-lands | Investment entity | 1996 | 50.00% | 0 | 0 | 56 |
| Other | | | | | | 13 | 16 |
| | | | | | | **84** | **145** |

Although Achmea holds less than 20% of the shares of Garanti Emeklilik ve Hayat A.S., Achmea exercises significant influence by virtue of its strategic interest, close co-operation with Eureko Sigorta and the contractual right to appoint an Executive Board member. The assets held in the associate Sprint Invest B.V. mainly consisted of a stake in Q-park. This stake was sold in 2017 and the proceeds of the sale were paid out to the shareholders of Sprint Invest B.V. in the form of dividend. Achmea received €63 million in dividend. The net asset value decreased from €56 million to €0 million. The book value of the associates and joint ventures is determined based on the (IFRS) financial statements for the same financial year of those entities, where available. If not available, Achmea bases the book value on preliminary, unaudited figures received from the associate or joint venture. Achmea has established that, in the past, there were no material differences between those preliminary, unaudited figures and the (IFRS) financial statements of the associate or joint venture concerned.

## 15. PROPERTY FOR OWN USE AND EQUIPMENT

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Property for own use | | |
| In development | | |
| In use | 285 | 292 |
| Equipment | | |
| Software | 12 | 11 |
| Hardware | 13 | 14 |
| Office furniture | 23 | 26 |
| Other | 82 | 88 |
| | **415** | **431** |

### KEY ASSUMPTIONS TO DETERMINE THE FAIR VALUE OF PROPERTY FOR OWN USE

Various assumptions should be made and techniques applied in valuing property whereby these assumptions and techniques, may have significant consequences for the valuation. The methods used to determine the revalued amount for Property for own use and fair value of Investment property are described in Note 9 Fair value hierarchy. The assumptions used in applying some of these methods are supported by the terms of any existing lease and other relevant contracts and by external evidence such as recent and expected general economic trends, current market rents for similar properties in the same region and condition. Components of assets and related liabilities are classified as 'Held for sale' when it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use.

### ACCOUNTING POLICIES PROPERTY FOR OWN USE AND EQUIPMENT

**Property for own use**

Property for own use is measured at the revalued amount, being its fair value at the date of the revaluation less any (subsequent) accumulated depreciation and (subsequent) accumulated impairment losses. Property for own use that is under construction or in development is stated at cost until its fair value can be reliably determined. Changes in the carrying amount resulting from revaluations of Property for own use are recorded in the Revaluation reserve, part of Total equity net of deferred taxes. A decrease in the carrying amount due to revaluation is recognised in the Revaluation reserve, part of Total equity, to the extent of any credit balance existing in the revaluation reserve in respect of that asset and for the remaining part in the Income Statement. A revaluation decrease will be reversed through the Income Statement in subsequent years if the revalued amount is higher than the carrying amount, but not higher than the cost minus accumulated depreciation. When Property for own use is derecognised, revaluations included in the Revaluation reserve will be transferred directly to Retained earnings and not through the Income Statement. If Property for own use comprises major components with a different useful life, they are accounted for as separate items.

Depreciation on Property for own use is charged to the Income Statement on a straight-line basis over the estimated useful economic life, generally not exceeding fifty years. The depreciation method and useful economic life are reviewed annually and adjusted if circumstances or expectations have changed significantly. Land is not depreciated. When Property for own use or its separate items accounted for is revalued, the cumulative depreciation is eliminated against the gross carrying amount of that item of Property for own use.

**Equipment**

Equipment is measured at cost (including borrowing costs incurred) less accumulated depreciation and impairment losses. If equipment comprises major components with a different useful life these are accounted for as separate items. Depreciation is charged to the Income Statement on a straight-line basis. The estimated useful life is: operating software three to five years, hardware three to four years, office furniture (including components) three to six years and other equipment three to six years. The depreciation method and useful life of equipment is reviewed annually and altered prospectively if circumstances or expectations have changed significantly.

## 16. DEFERRED TAX ASSETS AND LIABILITIES

The movements in deferred tax assets and liabilities during the fiscal year can be specified as follows:

(€MILLION)

| | BALANCE AT 1 JANUARY 2017 | RECOGNISED IN INCOME | RECOGNISED IN EQUITY | BALANCE AT 31 DECEMBER 2017 |
|---|---|---|---|---|
| Intangible assets | −23 | 3 | 2 | −18 |
| Property for own use and equipment | 2 | 1 | −1 | 2 |
| Investments | −1,340 | 236 | −37 | −1,141 |
| Receivables and accruals | 4 | −2 | | 2 |
| Liabilities related to insurance contracts | 2,030 | −232 | −1 | 1,797 |
| Other provisions | 12 | −9 | 7 | 10 |
| Amortisation | 39 | −5 | | 34 |
| Financial liabilities | −14 | 15 | −3 | −2 |
| Loss carry-forwards | 19 | −4 | | 15 |
| | **729** | **3** | **−33** | **699** |
| **Comprising:** | | | | |
| Deferred tax assets | | | | 712 |
| Deferred tax liabilities | | | | 13 |

(€MILLION)

| | BALANCE AT 1 JANUARY 2016 | RECOGNISED IN INCOME | RECOGNISED IN EQUITY | BALANCE AT 31 DECEMBER 2016 |
|---|---|---|---|---|
| Intangible assets | −28 | 3 | 2 | −23 |
| Property for own use and equipment | 12 | −8 | −2 | 2 |
| Investments | −971 | −345 | −24 | −1,340 |
| Receivables and accruals | | 4 | | 4 |
| Liabilities related to insurance contracts | 1,739 | 291 | | 2,030 |
| Other provisions | 9 | 17 | −14 | 12 |
| Amortisation | 36 | 3 | | 39 |
| Financial liabilities | −8 | −6 | | −14 |
| Loss carry-forwards | 13 | 6 | | 19 |
| | **802** | **−35** | **−38** | **729** |
| **Comprising:** | | | | |
| Deferred tax assets | | | | 739 |
| Deferred tax liabilities | | | | 10 |

The tax rates used in calculating deferred tax assets and liabilities differ per jurisdiction, and in both 2017 and 2016 these tax rates ranged from 10% to 36%.

An amount of €699 million (2016: €729 million) of the Deferred tax assets and liabilities is expected to be recovered more than twelve months after reporting date.

Deferred tax assets amounting to €36 million (2016: €34 million), have not been recognised in respect of taxable losses of previous years. For these losses it is not probable that future taxable profits will be available, against which the temporary difference can be utilised. The unrecognised deferred tax assets do not expire under current tax legislation.

### KEY ASSUMPTIONS AND ESTIMATES TO DETERMINE THE DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forwards of unused tax losses and carry forwards of unused tax credits when, in the judgement of management, it is likely that Achmea will receive the tax benefits. A change in judgement could have a substantial effect on value of the deferred tax asset. In determining the tax position, Achmea has taken into account its estimate of the associated future expenses. Furthermore, management considers tax planning strategies to increase the likelihood that the tax assets will be realised.

### ACCOUNTING POLICIES DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is provided for using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of these assets and liabilities. The amount of deferred tax provided for is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 17. RECEIVABLES AND ACCRUALS

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Deferred acquisition costs [1] | 64 | 154 |
| Receivables from direct insurance [1] | 1,196 | 1,390 |
| Receivables from indirect insurance [1] | 111 | 89 |
| Receivables on reinsurance [1] | 7 | 46 |
| Investment receivables | 49 | 43 |
| Contribution from Dutch Health insurance fund | 2,233 | 2,319 |
| Prepayments to Dutch hospitals | 1,104 | 1,267 |
| Payments related to Dutch short-term mental care (GGZ) | 346 | 316 |
| Other prepayments and accrued income [1] | 428 | 486 |
| Undue payments healthcare providers | 605 | 563 |
| Non-insurance assets acquired by exercising rights to recoveries | 109 | 99 |
| Other | 235 | 352 |
| **Balance at 31 December** | **6,487** | **7,124** |

1. *In 2017 several items were reassessed, for comparison purposes the 2016 figures have been adjusted accordingly. Receivables and accruals decreased by €35 million in 2016 as a result.*

An amount of €2,359 million (31 December 2016: €2,335 million) of the Receivables and accruals is expected to be recovered after twelve months after reporting date. For receivables expected to be recovered within twelve months after reporting date, the carrying amount is a reasonable approximation of the fair value. The fair value of receivables expected to be recovered after twelve months after the reporting date amounts to €2,359 million as at 31 December 2017 (31 December 2016: €2,342 million). Impairment losses recognised in 2017 related to Receivables and accruals amounted to €25 million (31 December 2016: €18 million) and are included in Other expenses. With regard to the intended sale of Friends First Life Insurance Company D.A.C. an amount of €143 million has been reclassified from Receivables and accruals to Assets and liabilities held for sale and divestments (Note 21).

### KEY ASSUMPTIONS AND ESTIMATES RECEIVABLES AND ACCRUALS - HEALTH SEGMENT

The private health insurance system that is in force in the Netherlands consists of two parts: basic health insurance and supplementary health insurance. Coverage within basic health insurance is heavily determined by law and influenced by political processes. The basic health system (inherently) comprises uncertainties, due to the calculation methods applied. A system of risk mitigating features is in force in the Netherlands to reduce the uncertainties that are raised by the system. The measurement of receivables regarding the Health Insurance Fund is an inherently uncertain process, involving assumptions for national healthcare costs and allocation of healthcare costs to budget parameters. For more details regarding the uncertainties and the risk mitigating factors in health insurance, a reference is made to Note 2 Capital and risk management. Any change in the assumptions could have an impact on the settlement with the Dutch government (Health Insurance Fund).

### KEY ASSUMPTIONS AND ESTIMATES RECEIVABLES AND ACCRUALS – DEFERRED ACQUISITION COSTS

These are detailed in the note on key assumptions and estimates of Liabilities related to insurance contracts.

### ACCOUNTING POLICIES RECEIVABLES AND ACCRUALS

Receivables and accruals are measured at amortised cost, which usually equals the face value, adjusted for accumulated impairment losses.

Acquisition expenses directly or indirectly related to the sale of insurance contracts not measured at fair value are deferred to the extent that they are deemed recoverable from future revenues. Deferred acquisition costs are subject to recoverability testing at the time of policy issue and included in the liability adequacy test of insurance liabilities at the end of each reporting period. Any irrecoverability of Deferred acquisition costs as a result of liability adequacy testing is recognised as an impairment loss and included in Operating expenses. Deferred acquisition costs are amortised over the lifetime of the related contracts.

## 18. CASH AND CASH EQUIVALENTS

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Cash and bank balances [1] | 2,860 | 2,049 |
| Call deposits | 24 | 143 |
| **Balance at 31 December** | **2,884** | **2,192** |

4. *From financial year 2017 overnight deposits are no longer included in Fixed income investments, but will be included in Cash and cash equivalents. For comparison purposes the comparative figures have also been adjusted by €21 million.*

Cash and cash equivalents subject to restrictions amounted to €96 million (31 December 2016: €73 million). The restrictions are related to the minimum reserve to be maintained at De Nederlandsche Bank N.V. of €45 million (31 December 2016: €46 million) and to collateral for the benefit of policyholders of €51 million (31 December 2016: €27 million).

### ACCOUNTING POLICIES CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, bank balances and call deposits and are measured at fair value.

## 19. EQUITY

The movements in Equity attributable to holders of equity instruments of the company are specified in the Consolidated Statement of Changes in Total equity.

### SHARE CAPITAL

| | NUMBER OF ORDINARY SHARES | NOMINAL VALUE ORDINARY SHARES | NUMBER OF PREFERENCE SHARES | NOMINAL VALUE PREFERENCE SHARES | NUMBER OF A SHARES | NOMINAL VALUE A SHARES |
|---|---|---|---|---|---|---|
| | (PAR VALUE € 1 PER SHARE) | (€ MILLION) | (PAR VALUE € 1 PER SHARE) | (€ MILLION) | (PAR VALUE € 1 PER SHARE) | (€ MILLION) |
| Authorised | 2,103,943,009 | 2,104 | 60,000,000 | 60 | 1 | |
| | | | | | | |
| Shares issued 1 January 2016 | 410,820,173 | 411 | 23,904,060 | 24 | 1 | |
| **Shares issued 31 December 2016** | **410,820,173** | **411** | **23,904,060** | **24** | **1** | |
| | | | | | | |
| Shares issued 1 January 2017 | 410,820,173 | 411 | 23,904,060 | 24 | 1 | |
| **Shares issued 31 December 2017** [1] | **410,820,173** | **411** | **23,904,060** | **24** | **1** | |

1. *All issued shares are fully paid up.*

### Share premium

The Consolidated Statement of Changes in Total equity includes €11,357 million Share capital/premium. This amount includes €10,923 million share premium paid by the shareholders. The paid-in premium related to preferred shares amounts to €266 million, the other share premium accrues to the holders of ordinary shares.

### Share rights, preferences and restrictions

Each share confers the right to one vote at Achmea's general meeting. Stichting Administratiekantoor Achmea is the holder of the A share. Special rights adhere to the A share. Many decisions of the general meeting of Achmea B.V. can only be made after approval of the holder of the A share. The general meeting decides whether or not to pay dividends to the holders of preference and ordinary shares.

The holders of preference shares are entitled to receive dividends when declared. Dividends paid are 3.7% per year on the share capital and share premium paid for those shares. If the Supervisory Board agrees, the Executive Board can annually increase the above mentioned percentage, established in February 2014, by a maximum of 1.8%. Terms on the percentage will be reviewed every ten years. The next review will take place before 1 January 2024.

All preference shares in the share capital of Achmea B.V. have been issued to Achmea Tussenholding B.V. The shares in the share capital of Achmea Tussenholding B.V. are certified through Stichting Administratiekantoor Achmea Tussenholding and issued to a number of institutional investors. The 11,486,592 certificates held by Achmea B.V., amounting to €45 million, are presented as Own shares within Total equity.

An overview of the shareholders of Achmea as at 31 December 2017 is presented in Other Information.

### Own shares

In addition to the before mentioned certificates held by Achmea B.V., Achmea B.V. also holds 10,335,282 ordinary shares issued by herself (amounting to €190 million), which are presented as Own shares within Total equity. There are no voting rights attached to these shares and no dividend is to be paid out.

### Legal reserves

A legal reserve must be set up for the non-distributable profits related to associates and joint ventures, recognised internally developed software and Health subsidiaries that are subject to regulatory requirements and that according to the law may not distribute any profits to their shareholders.

An amount of €632 million (31 December 2016: €627 million) of Total equity contributed by subsidiaries at year-end 2017 is subject to, claims under provisions in the articles of association of a number of subsidiaries. Stipulating that, in the event of liquidation, the equity of these companies must be used for the benefit of public health. As far as this amount is not included in the revaluation reserve, it has been included in the legal reserves. Amounts presented within the legal reserves cannot be distributed to shareholders.

### Revaluation reserve

Based on the accounting principles used by Achmea, a revaluation reserve is formed. Furthermore, based on Dutch regulations, Achmea should form a legal reserve for all positive unrealised fair value changes for assets that are not quoted on active markets and for which the unrealised fair value changes are included in the income statement (for example investment property and certain other financial instrument with level 3 fair value measurements). This reserve is formed by transferring the required amounts from Retained earnings to the Revaluation reserve. Due to negative fair value movements of these assets in 2017, an amount of €7 million (2016: €9 million) is reallocated from the Revaluation reserve to the Retained earnings.

Part of the Revaluation reserve is related to property for own use. The revaluation surplus for property for own use amounted to €35 million in 2017 (2016: €31 million). The majority of the remainder of the revaluation reserve is related to available for sale investments.

The Revaluation reserve contains an amount of €367 million (31 December 2016: €412 million) relating to unrealised losses net of deferred taxes on assets carried at fair value. In determining the non-distributable revaluation reserve under Dutch regulations these losses cannot be deducted. Consequently, in addition to the amount as included under the revaluation reserve, an amount of €367 million (31 December 2016: €412 million) cannot be distributed to shareholders.

### Exchange difference reserve

Assets and liabilities of foreign subsidiaries, with a functional currency other than the euro, are translated into euros at the exchange rates at reporting date. The income and expenses of such subsidiaries are translated at the weighted average exchange rates for the reporting period. Translation differences arising from the application of reporting date exchange rates to the opening balance of the net assets and goodwill of such subsidiaries and to the foreign exchange results for the reporting period are recognised in the Exchange difference reserve. Amounts presented within the Exchange difference reserve cannot be distributed to shareholders.

### Hedging reserve

The amounts presented within the Hedging reserve cannot be distributed to shareholders. In determining the non-distributable amounts under Dutch regulations these amounts cannot be distributed. Consequently, in relation to the Hedging reserve an amount of €7 million (2016: €7 million) cannot be distributed to shareholders.

### Other reserves

Results within the Dutch Health Insurance business are reported as non-taxable results, based on the current tax laws. The tax exemption is applicable as far as these results are not distributed. When results are partly or fully distributed, the annual results of the Dutch Health Insurance business will no longer be exempted from corporation tax. The annual results will then be taxable against a tax rate of 25%.

Retained earnings contain an amount of €-196 million relating to defined benefit plans (31 December 2016: €-198 million). Changes in measurement of qualifying investments that cover defined benefit obligations and related liabilities concerning Achmea's defined benefit schemes are included in Other comprehensive income.

The appropriation of results is presented in the Company Financial Statements of Achmea B.V. for 2017, Note 22 Proposal for appropriation of result.

### Other equity instruments

Coupon payments on Other equity instruments are determined by Achmea and subject to the limitations described in the prospectus. The coupon payments will be charged to Retained earnings, part of Total equity. The tax related to the coupon payments of the appropriation of results is also included within Retained earnings and amounted in 2017 to €17 million (2016: €17 million).

### ACCOUNTING POLICIES TOTAL EQUITY

Achmea B.V. shares held by the company (own shares) are accounted for by a reduction within Total equity at the moment of purchase by Achmea or its subsidiaries on the basis of the purchase price paid. Any results upon the subsequent sale of such treasury shares are recognised directly within Total equity. Any Non-controlling interest related to subsidiaries is presented as a separate component within Total equity and is equal to Non-controlling interest in the subsidiary's equity based on Achmea's accounting principles.

## 20. OTHER PROVISIONS

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Post-employment benefits | 886 | 960 |
| Other provisions | 225 | 374 |
| **Balance at 31 December** | **1,111** | **1,334** |

### POST-EMPLOYMENT BENEFITS

(€ MILLION)

| 31 DECEMBER 2017 | THE NETHERLANDS | OTHER COUNTRIES | TOTAL |
|---|---|---|---|
| Present value of defined benefit obligation | 879 | 7 | 886 |
| Fair value of total investments backing defined benefit obligation | −940 | | −940 |
| Fair value of non-qualifying investments backing defined benefit obligation | 940 | | 940 |
| **Unfunded status** | **879** | **7** | **886** |
| Effect of asset ceiling | | | |
| **Net defined benefit liability** | **879** | **7** | **886** |

(€ MILLION)

| 31 DECEMBER 2016 | THE NETHERLANDS | OTHER COUNTRIES | TOTAL |
|---|---|---|---|
| Present value of defined benefit obligation | 1,007 | 112 | 1,119 |
| Fair value of total investments backing defined benefit obligation | −1,069 | −78 | −1,147 |
| Fair value of non-qualifying investments backing defined benefit obligation | 988 | | 988 |
| **Unfunded status** | **926** | **34** | **960** |
| Effect of asset ceiling | | | |
| **Net defined benefit liability** | **926** | **34** | **960** |

Achmea has a pension scheme for the major part of its employees. The pension scheme executed by Stichting Pensioenfonds Achmea, applicable to the major part of the 12,600 employees in the Netherlands, is a so-called Collective Defined Contribution (CDC) scheme. The obligation of Achmea related to the pension scheme is limited to payment of the agreed premium for the current year of service. In 2017 contributions paid to the CDC scheme amounted to €261 million (2016: €270 million). The contribution is determined as the actuarially required contribution for the acquired pension rights in that year, taking into account current interest rates.

Achmea's defined benefit obligation is mainly related to the accrued rights of a number of (former) employees under former defined benefit plans. These defined benefit plans were maintained in The Netherlands, and for a limited amount in Greece. Benefits related to medical costs are not included in these plans.

The accrued rights of a number of (former) employees under former defined benefit schemes in the Netherlands have been insured with Achmea Pensioen- en Levensverzekeringen N.V. and so Achmea continues to hold the financial and actuarial risks. The investments related to the insurance contracts are accounted for as Investments (and do not qualify as Investments backing defined benefit obligation).

The other scheme in the Netherlands was the pension scheme Stichting Bedrijfstakpensioenfonds Zorgverzekeraars (SBZ). As a consequence of an amendment in the terms and conditions of this pension scheme, it was reclassified from a defined benefit scheme to a defined contribution scheme in 2017. Pensions for the Irish employees are provided by the Friends First Group Retirement and Death Benefits Scheme and were reclassified to Liabilities classified as 'Held for sale'.

## MOVEMENT TABLE POST-EMPLOYMENT BENEFITS

(€ MILLION)

| | DEFINED BENEFIT OBLIGATION | FAIR VALUE OF INVESTMENTS BACKING DEFINED BENEFIT OBLIGATION | EFFECT OF ASSET CEILING | **NET DEFINED BENEFIT LIABILITY 2017** | NET DEFINED BENEFIT LIABILITY 2016 |
|---|---|---|---|---|---|
| Balance at 1 January | 1,119 | −159 | | 960 | 891 |
| Current service costs | 1 | | | 1 | 6 |
| Net interest expense on net defined benefit liability | 18 | −1 | | 17 | 19 |
| | | | | | |
| **Remeasurement of net defined benefit liability** | | | | | |
| Return on plan assets, excluding amounts included in net interest expense | | −2 | | −2 | −7 |
| New pension plan in this years' valuation (effect of change of pension age) | | | | | −1 |
| Actuarial gains and losses arising from changes in demographic assumptions | | | | | 3 |
| Actuarial gains and losses arising from changes in financial assumptions | −5 | | | −5 | 90 |
| Experience gains and losses | −4 | | | −4 | −5 |
| Net expense in recognized in income statement Curtailment & settlements | −107 | 81 | | −26 | |
| | | | | | |
| **Contributions paid** | | | | | |
| Employees | | | | | |
| Achmea group companies | | −2 | | −2 | −7 |
| | | | | | |
| **Benefits paid by the plan** | | | | | |
| Benefit payments | −33 | 1 | | −32 | −29 |
| Changes due to reclassification [1] | −103 | 82 | | −21 | |
| | | | | | |
| **Balance at 31 December** | **886** | | | **886** | **960** |

1. *For more information on Changes due to reclassification references is made to Note 21 Assets and liabilities held for sale and divestments.*

The reclassification of the SBZ scheme, characterised under IFRS as a pension scheme amendment, results in a release of the related post-employment benefits of €25.6 million. The same amount is recognised as profit in the Income Statement under Operating expenses. The release is based on the post-employment benefits at year-end 2016. In the table above the release has been processed under Net expense in recognized in income statement Curtailment & settlements.

The post-employment benefits have not been recalculated on the reclassification date, based on the limited volatility in the post-employment benefits for the past three years and the limited change in the discount curve used to calculate the benefits between 31 December 2016 and the reclassification date.

## SIGNIFICANT ACTUARIAL ASSUMPTIONS AT REPORTING DATE (EXPRESSED AS WEIGHTED AVERAGE ASSUMPTIONS)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | THE NETHERLANDS | OTHER COUNTRIES | THE NETHERLANDS | OTHER COUNTRIES |
| Discount rate | 1.70 | 0.81 | 1.80 | 0.61-2.10 |
| Future salary increases [1] | | 1.50 | 2.00 | 1.68 |
| Future pension increases [1] | | | 1.20 | |
| Future pension increases for in-payment benefits | 0.60 | | 0.50 | |
| Rates of employee turnover [1] | | 3.25 | 2.90 | 3.25 |

1. *In the Netherlands there are no more active members of a defined benefit scheme. Therefore these actuarial assumptions are no longer presented.*

The weighted average duration of the Defined Benefit Obligation is 15 years (2016: 18 years). The maturity of the expected undiscounted cash flows relating to the Defined benefit obligation is less than ten years for an amount of €344 million (31 December 2016: €361 million).

## OTHER PROVISIONS

(€ MILLION)

| 2017 | RESTRUCTURING | LEGAL CLAIMS | ONEROUS CONTRACTS | EMPLOYEE BENEFITS (EXCLUDING POST-EMPLOYMENT BENEFITS) | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| Balance at 1 January | 149 | 35 | 80 | 39 | 71 | 374 |
| Additions | 22 | 3 | 13 | 4 | 6 | 48 |
| Usage | -97 | -9 | -29 | -3 | -21 | -159 |
| Released | -20 | | -10 | -2 | -2 | -34 |
| Changes due to reclassification | | -2 | | 1 | -3 | -4 |
| **Balance at 31 December** | **54** | **27** | **54** | **39** | **51** | **225** |
| | | | | | | |
| Current | 54 | 10 | 5 | 4 | 30 | 103 |
| Non-current | | 17 | 49 | 35 | 21 | 122 |
| **Balance at 31 December** | **54** | **27** | **54** | **39** | **51** | **225** |

(€ MILLION)

| 2016 | RESTRUCTURING | LEGAL CLAIMS | ONEROUS CONTRACTS | EMPLOYEE BENEFITS (EXCLUDING POST-EMPLOYMENT BENEFITS) | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| Balance at 1 January | 166 | 57 | 26 | 37 | 48 | 334 |
| Additions | 93 | 14 | 65 | 6 | 29 | 207 |
| Usage | -108 | -28 | -7 | -2 | -4 | -149 |
| Released | | -7 | -4 | -2 | -3 | -16 |
| Changes due to reclassification | -2 | -1 | | | 1 | -2 |
| **Balance at 31 December** | **149** | **35** | **80** | **39** | **71** | **374** |
| | | | | | | |
| Current | 89 | 5 | 18 | 1 | 59 | 172 |
| Non-current | 60 | 30 | 62 | 38 | 12 | 202 |
| **Balance at 31 December** | **149** | **35** | **80** | **39** | **71** | **374** |

### Restructuring

In the context of reorganisation programmes announced earlier, a provision was formed amounting to €54 million at (31 December 2016: €149 million). The most important assumptions used in determining this restructuring provision relate to the average salary, the reassignment period and the probability of a reassignment to another position within Achmea or elsewhere.

### Legal claims

Legal claims include liabilities related to legal claims and possible compensations in relation to insurance and non-insurance activities of Achmea. Due to the nature of these liabilities, the expected maturity is uncertain, but most claims are expected to have a maturity of more than twelve months after the balance sheet date. The value of legal claims is determined based on management judgement, external professional assessment and experience. In the Income Statement, the expenses related to this provision are presented net of the amount recognised for reimbursement. The total amount charged to legal claims in 2017 has a small impact on the net result.

### Onerous contracts

Onerous contracts include liabilities related to rented unused office premises and IT-related contracts. They also include provisions for insufficient fees from service contracts. These liabilities have different expected settlement dates, but the main part is expected to have a maturity of more than twelve months after the balance sheet date. The value of Onerous contracts is determined, based on contractual agreements, taking into account any economic benefits expected to be received under the contract.

### Employee benefits (excluding post-employee benefits)

Employee benefits provisions include employee benefits payable after more than twelve months after the balance sheet date, including provisions for long-service benefits. These liabilities have different expected settlement dates, but the main part is expected to have a maturity of more than twelve months after the balance sheet date. The value of Employee benefits provisions is determined, based on management judgement, external professional assessment and experience.

### Other

Other provisions consist of liabilities related to the business activities and various other minor liabilities. These liabilities have different expected settlement dates, but the main part is expected to have a maturity of less than twelve months after the balance sheet date. The value of Other provisions is determined based on management judgement, external professional assessment and experience.

#### KEY ASSUMPTIONS AND ESTIMATES OTHER PROVISIONS

**Post-employment benefits**

The determination of the defined benefit plan liability is based on actuarial models and calculations using the projected unit credit method. Inherent in these actuarial models are assumptions for discount rates, rates of increase in future salary and benefit levels, mortality rates, expected healthcare costs and consumer price index. The assumptions are based on available market data and are updated annually. The rate used to discount the defined benefit obligation is determined by reference to market yields on high quality corporate bonds (AA rating or better). Achmea applies the Towers Watson Rate: Link curve. Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each country. To determine the defined benefit obligation the projection table AG2016, including fund-specific mortality experience, has been applied in the Netherlands. The actuarial assumptions may differ from the actual results due to changes in market conditions, economic trends, mortality rates, and other assumptions. Any changes in these assumptions could have an impact on the valuation of defined benefit plans.

**Other provisions**

The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

## ACCOUNTING POLICIES OTHER PROVISIONS

**Post-employment benefits**

Contributions payable to defined contribution pension plans are recognised as an expense in the Income Statement when incurred. The net obligation in respect of defined benefit pension plans is calculated separately for each plan, using the 'projected unit credit method'. In accordance with this method, the future benefits that employees have earned in return for their service in the current period and prior periods are estimated. The rates used for salary developments, discounting and other adjustments reflect the specific country conditions. The liability is discounted to determine the present value. Subsequently, the fair value of plan assets is deducted in order to calculate the Net defined benefit liability/asset. Current service cost and net interest on the Net defined benefit liability/asset based on assumptions at the beginning of the reporting period are included in the consolidated Income Statement. Remeasurements of the net defined benefit liability are included in the Consolidated statement of comprehensive income. In calculating the Net defined benefit liability future employee contributions are included.

A. plan amendment or occurrence of the curtailment; and

B. when it recognises related service cost or termination benefits.

Achmea recognises a gain or loss on settlement of a defined benefit plan when the settlement occurs. The present value of defined benefit assets at reporting date is recognised to the amount of the economic benefit that will be available to Achmea in the form of refund from the plan or reductions in future contributions. When Achmea is not unconditionally entitled to the surplus within the pension plan, the surplus is not recognised as a receivable on the Statement of Financial Position.

**Other provisions**

Other provisions are recognised when a legal or constructive obligation, which can be reliably estimated, exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the provision is to be used over a period longer than one year, expected cash flows are discounted. A provision for restructuring is recognised when management has approved a detailed and formal restructuring plan, and the restructuring was either commenced or has been announced to the parties concerned prior to reporting date. Costs relating to the ongoing activities of Achmea are not provided for. Achmea's net obligation in respect of other long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current period and prior periods. The obligation is calculated using the 'projected unit credit method' and is discounted to its present value. The fair value of related assets is deducted.

## 21. ASSETS AND LIABILITIES HELD FOR SALE AND DIVESTMENTS

### Friends First Life Insurance Company D.A.C.

On 13 November 2017 Achmea reached agreement on the sale of its shareholding in Friends First Life Insurance Company D.A.C., a pensions, life and non-life insurance company. Friends First Life Insurance Company D.A.C. is a 100% subsidiary of Achmea Group and is reported in the segment International. The proposed transaction is subject to the approval of the relevant regulatory and competition authorities. The transaction is expected to be completed in the second quarter of 2018. The reclassification of the assets and liabilities has a negative impact on the result of €39 million, which is recognised in 'Other expenses'.

As of 31 October 2017, the assets and liabilities of Friends First Life Insurance Company D.A.C. have been reclassified to 'Assets and liabilities held for sale and divestments'. The table below gives an overview of the amounts reclassified as of 31 October 2017 and the value of these assets and liabilities as at 31 December 2017.

ASSETS AND LIABILITIES HELD FOR SALE AND DIVESTMENTS (€ MILLION)

| | 31 OCTOBER 2017 | 31 DECEMBER 2017 |
|---|---|---|
| | | |
| Intangible assets | 4 | 4 |
| Property for own use and equipment | 4 | 4 |
| Investment property | 23 | 22 |
| Investments | 4,345 | 4,401 |
| Deferred tax assets | 4 | 3 |
| Income tax receivable | 2 | 2 |
| Amounts ceded to reinsurers | 602 | 513 |
| Receivables and accruals | 143 | 96 |
| Cash and cash equivalents | 58 | 56 |
| **Total assets held for sale and divestments** | **5,185** | **5,101** |
| | | |
| Liabilities related to insurance contracts | 2,313 | 2,201 |
| Other provisions | 21 | 21 |
| Financial liabilities | 2,699 | 2,780 |
| **Total liabilities held for sale and divestments** | **5,033** | **5,002** |

### Winnock B.V.

On 1 July 2016 Achmea reached an agreement on the sale of its shares in Winnock B.V., a company offering reintegration services. The transaction was completed in the first half of 2017. Winnock B.V. was a 100% subsidiary of Achmea Services N.V. and is reported in the segment Other activities. At 31 December 2016 the assets and liabilities of Winnock B.V. were recognised as 'Assets and liabilities held for sale'. After completion of the transaction in the first half of 2017 the assets and liabilities of Winnock B.V. are no longer included in the balance sheet. The provisional sale proceeds of €2.5 million are recognised in Other income. The final proceeds of the sale depend on the results of Winnock B.V. in 2017 and 2018.

### Staalbankiers N.V.

On 8 August 2016 Achmea reached an agreement on the sale of the private banking activities of Staalbankiers N.V., including the sale of the asset management activities, customer accounts as well as the brand name. Staalbankiers N.V., named Staal Beheer N.V. since September 2017, is a 100% subsidiary of Achmea B.V. and is reported in the segment Other activities. The name change follows the termination of the banking activities and the associated banking licence. In 2017 the transaction was finalised. The final proceeds of the sale, which depended on the value of the transferred assets under management, amounts to €12.3 million, of which €7.8 million is recognised in Other income in 2017.

### Partial transfer service activities sectoral pension funds Syntrus Achmea Pensioenbeheer N.V.

At the end of 2016, Syntrus Achmea Pensioenbeheer N.V. (part of the segment Retirement Services Netherlands) announced that it would be phasing out services to sectoral pension funds within two years. In 2017 the collective transfer of a part of these activities to Centric was agreed upon and on 12 July 2017 Syntrus Achmea Pensioenbeheer N.V. and Centric concluded the purchase agreement. Under this agreement the contractual relationships with the relevant pension funds have been taken over by Centric as of 1 September 2017. As part of the transaction it has been agreed that Syntrus Achmea Pensioenbeheer N.V. will compensate part of the investments Centric has to make. The expenses of €11 million related to the partial transfer of the service activities to Centric are recognised in Other expenses of 2017.

#### ACCOUNTING POLICIES ASSETS AND LIABILITIES HELD FOR SALE AND DIVESTMENTS

Assets or components of assets and related liabilities are classified as 'Held for sale' when it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A sale of an asset or a group of assets is highly probable if:

- Achmea is committed to a plan to sell these assets and has an active programme to locate a buyer;
- The assets are actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- The sale is expected to qualify for recognition as a completed sale within one year from the date of classification as 'Held for sale'.

Assets and liabilities classified as 'Held for sale' are measured at the lower of their carrying amount or fair value less costs to sell and are presented separately in the Statement of Financial Position.

If a loss occurs when classifying assets and liabilities as 'Held for sale', this loss is recognised in Other expenses in the Income Statement.

*OTHER INCOME STATEMENT*

## 22. OTHER INCOME

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Commission income | 2 | 18 |
| Fee income from trust and other fiduciary activities [1] | 298 | 322 |
| Income from service contracts | 109 | 108 |
| Net foreign currency differences | 3 | 4 |
| Other income | 62 | 55 |
| | **474** | **507** |

1. *The comparative figures have been adjusted by €24 million for comparative purposes because the presentation of part of the investment income has changed (netting and reclassification).*

Other income includes an amount of €11 million relating to the sale of self-developed customer files. In addition, an amount of €8 million was included with respect to the settlement of the sale of Staalbankiers, see Note 21 Assets and liabilities held for sale and divestments (2016: €4 million).

### OTHER INCOME

There are two categories of other income to be distinguished. First, revenue from a one-off performance that is accounted for in the period in which the performance is delivered. Secondly, revenues from continuous service over a period. If the result of such transaction can be estimated reliably, the proceeds relating to that transaction are accounted for in proportion to the performance performed. The result of a transaction can be estimated reliably when the size of the returns can be measured reliably, the economic benefits are likely to flow to Achmea, the degree of completion of the transaction at the end of the fiscal year can be reliably measured and the transaction costs and transaction completion costs can be measured reliably. If the result of a transaction involving continuous services cannot be estimated reliably, only returns are accounted for the amount of costs recovered ("zero profit method"). Revenues are valued at the fair value of the consideration received or on which entitlement is obtained.

Revenue is accounted for on the basis of progress, with progress being dependent on the nature of the agreement. If an agreement mainly relates to the provision of services, revenue is accounted for to the extent that the services are delivered to a certain date as a percentage of the total services to be provided. If the service includes a certain amount of transactions within a specific period, revenue is linearly accounted for.

For the accountability of Net foreign currency differences, see chapter 1.H. Accounting Framework.

## 23. INTEREST EXPENSES AND SIMILAR EXPENSES

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Interest expenses: | | |
| Deposits | 2 | 9 |
| Instruments entrusted | 73 | 82 |
| Debt securities issued | 74 | 95 |
| Derivatives liabilities held for risk management | 118 | 140 |
| Other interest expenses | 79 | 70 |
| Loans and borrowings | | 4 |
| Impairment of financial instruments | −7 | 11 |
| Other fee and commission expenses | | 1 |
| | **339** | **412** |

## 24. OPERATING EXPENSES

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Salaries | 859 | 925 |
| Social security charges | 86 | 88 |
| Pensions | 229 | 261 |
| Other | 360 | 446 |
| **Staff costs** | **1,534** | **1,720** |
| | | |
| Depreciation Property for own use and equipment | 41 | 44 |
| General expenses [1] | 561 | 682 |
| **Gross operating expenses** | **2,136** | **2,446** |
| | | |
| Commissions paid and accrued [1] | 580 | 658 |
| Reinsurance profit sharing and commission | −21 | −27 |
| | **2,695** | **3,077** |
| | | |
| Less: allocated Claims handling expenses [1] | 445 | 425 |
| Less: allocated Investment expenses | 2 | 3 |
| | **2,248** | **2,649** |

1. *In 2017 the recognition of the expenses of an asset manager has been reassessed, resulting in an increase in Operating expenses of €6 million for 2016. In addition there has been a reclassification within Operating expenses, resulting in an increase in General expenses and the allocation to Claims handling expenses. This has no impact on the total Operating expenses. The 2016 figures have been adjusted for comparison purposes.*

Operating expenses that meet the definition of Claims handling expenses respectively Investment expenses are presented as part of Net expenses from insurance contracts respectively Investment income.

The number of internal employees mentioned below only includes employees with which Achmea has an employment contract. A FTE is based on a labour week of 36 hours.

### NUMBER OF EMPLOYEES (AT THE END OF THE YEAR, BASED ON FTE)

| | ACHMEA NETHERLANDS | EUREKO SIGORTA | UNION POISTOVNA | INTERAMERICAN GREECE | OTHER | TOTAL 2017 | TOTAL 2016 [1] |
|---|---|---|---|---|---|---|---|
| Internal FTE's | 11,894 | 623 | 549 | 1,149 | 367 | **14,582** | 15,715 |
| External FTE's | 2,590 | 30 | 44 | 160 | 24 | **2,848** | 2,561 |

2. *From 2017 FTEs are calculated based on 36 hours (2016: 38 hours), the comparative figures have been adjusted accordingly.*

Included in General expenses are expenses related to the audit firm performing the audit of the annual accounts of Achmea B.V. and its subsidiaries which are summarised in the table below.

### EXPENSES RELATED TO THE AUDIT:

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Audit financial statements | 6 | 6 |
| Other audit services | 2 | 1 |
| | 8 | 7 |

As from 2011 PricewaterhouseCoopers Accountants N.V. is appointed as independent auditor of Achmea. The amounts included in the table under ‘Audit annual accounts’ are based on expenses related to the audit of the financial statements of the related financial year, whether or not the services by the independent auditor and the audit firm have already been provided during that financial year. The expenses include VAT.

The other audit services performed by the independent auditor are:

*Statutory audit assignments*
Audit of other financial statements and audit of the regulatory reports under the Financial Supervision Act (Wft).

*Non-statutory assignments*
Audit of internal control procedures; audit of the recognition of fees and subsidies; audit of external reporting ZvW and WLZ for the regulators; audit of QRTs under group supervision; specifically agreed services for third parties; audit of prospectuses and comfort letters; assurance services with regard to data conversion; audit of a separate financial statement or audit of a specific element, account or item of a financial statement; assurance assignments other than assignments to audit or review historical financial information; assurance assignments with regard to the annual report; assurance assignments relating to cost price models.

Expenses related to audit firms other than PricewaterhouseCoopers Accountants N.V. are as follows: other audit services €2 million (2016: €1 million), other non-audit services €8 million (2016: €10 million) mainly relating to advisory and consulting services

## 25. OTHER EXPENSES

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Amortisation charges on intangible assets | 38 | 40 |
| Impairment losses on intangible assets | | 93 |
| Impairment losses on receivables | 25 | 18 |
| Impairment losses on Assets held for sale | 39 | |
| Other expenses [1] | 53 | 86 |
| | **155** | **237** |

1. *From 2017 unit-linked fees are recognised in Investment expenses instead of Other expenses (€17 million). In addition the accounting policy with regard to underwriting has been changed, see Note 1E under Changes in accounting policies (€5 million). The comparative figures have been adjusted to provide a better insight in the comparative figures.*

As a result of the proposed sale of Friends First Life Insurance Company D.A.C. a negative result of €39 million has been recognised, see also Note 21 Assets and liabilities held for sale and divestments. Other expenses include an amount of €12 million related to additions to Other provisions (2016: €38 million), in particular relating to legal disputes and onerous contracts, €3 million related to donations (2016: €2 million), and €1 million related to foreign exchange results (2016: €9 million). At the end of 2016 the goodwill relating to the cash generating unit Eureko Turkey was fully impaired for an amount of €93 million.

## 26. INCOME TAX EXPENSES

### RECONCILIATION OF EFFECTIVE TAX AMOUNT

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Result before tax [1] | 321 | −414 |
| | | |
| Dutch corporation tax rate | 25.0% | 25.0% |
| Income tax using the Dutch corporation tax rate [2] | 80 | −105 |
| | | |
| Tax effect on: | | |
| Non-deductible expenses | −7 | 19 |
| Tax exempt revenues | 37 | 50 |
| Participation exemption | 4 | 1 |
| Non-deductible losses | 10 | 6 |
| Other | −4 | −4 |
| Under/(over) provided in prior years | −15 | −2 |
| **Effective tax amount** [1] | **105** | **−35** |

1. *The 2016 Result before tax has been adjusted by €4 million to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies. This has an impact of €1 million on the Effective tax amount.*
2. *A negative amount is an income tax benefit.*

The effective tax rate in 2017 amounts to 32,7% (2016: -8,6%).

### SPECIFICATION OF THE CURRENT AND THE DEFERRED INCOME TAX

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| **Current income tax** | | |
| Current year | 123 | −68 |
| Under/(over) provided in prior years | −15 | −2 |
| | **108** | **−70** |
| **Deferred income tax** | | |
| Origination and reversal of timing differences | −3 | 35 |
| | **−3** | **35** |
| | | |
| **Total income tax expense in Income Statement** | **105** | **−35** |

## OVERVIEW INCOME TAX EXPENSES ACHMEA 2017 BY GROSS PREMIUMS PER BUSINESS LINE

(€ MILLION)

| | GROSS EARNED PREMIUMS 2017 | GROSS EARNED PREMIUMS 2016 | RESULT BEFORE TAX 2017 | RESULT BEFORE TAX 2016 | INCOME TAX EXPENSES 2017 | INCOME TAX EXPENSES 2016 |
|---|---|---|---|---|---|---|
| **Dutch taxable activities per segment** | | | | | | |
| Non-life Netherlands | 3,290 | 3,191 | 177 | −185 | 37 | −62 |
| Pension & Life Netherlands | 1,569 | 1,794 | 342 | 285 | 74 | 48 |
| Retirement Services Netherlands | | | 1 | −18 | 2 | −2 |
| International activities | 1,206 | 1,192 | −23 | −68 | −3 | 27 |
| Other activities | 255 | 360 | −48 | −232 | −5 | −46 |
| | **6,320** | **6,537** | **449** | **−218** | **105** | **−35** |
| **Dutch non-taxable activities per segment** | | | | | | |
| Health Netherlands [1] | 13,184 | 13,092 | −128 | −196 | | |
| Intersegment eliminations | −154 | −122 | | | | |
| **Total Dutch activities** | **19,350** | **19,507** | **321** | **−414** | **105** | **−35** |
| | | | | | | |
| **International activities** | | | | | | |
| Turkey | 335 | 368 | 8 | 23 | | 5 |
| Slovakia | 385 | 348 | 11 | 2 | 1 | 1 |
| Greece | 318 | 310 | 28 | 5 | −2 | 10 |
| Ireland | 151 | 154 | 1 | −3 | | 2 |
| Other | 17 | 12 | −32 | −95 | | 6 |
| Impairment losses | | | −39 | | −2 | 3 |
| **Total International activities** | **1,206** | **1,192** | **−23** | **−68** | **−3** | **27** |

1. *The healthcare companies of Achmea are exempt from income tax (Article 5(1)(e) of the Dutch Corporate Income Tax Act 1969). Achmea meets the requirement that profits can only be used for public health institutes.*

### ACCOUNTING POLICIES INCOME TAX EXPENSES

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised in Total equity, in which case these items are recognised in Total equity net of taxes. Expected tax receivables or payables are based on the taxable profit or loss for the year using tax rates enacted or substantially enacted at reporting date, and any adjustment to income tax receivable or payable in respect of previous years. In the measurement of the current income tax position, uncertainties regarding collectability have been taken into account.

## 27. NET OTHER COMPREHENSIVE INCOME

(€ MILLION)

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | OTHER COMPREHEN-SIVE INCOME BEFORE TAX | INCOME TAX EXPENSE | NET OTHER COMPREHEN-SIVE INCOME | OTHER COMPREHEN-SIVE INCOME BEFORE TAX | INCOME TAX EXPENSE | NET OTHER COMPREHEN-SIVE INCOME |
| Remeasurements of net defined benefit liability | −26 | 7 | −19 | 40 | −14 | 26 |
| Unrealised gains and losses on property for own use | 5 | −1 | 4 | 7 | −2 | 5 |
| Currency translation differences (including realisations) on subsidiaries, goodwill, associates and joint ventures | −43 | 2 | −41 | −51 | | −51 |
| Unrealised gains and losses on financial instruments 'Available for sale' | 40 | 7 | 47 | 1,188 | −287 | 901 |
| Share in other comprehensive income of Associates and joint ventures | 4 | | 4 | 2 | | 2 |
| Withdrawal from / addition to provision for Profit sharing and bonuses for policyholders due to unrealized investment income | 223 | −56 | 167 | −881 | 220 | −661 |
| Reclassification to the Income Statement as Profit sharing and bonuses for policyholders from investment income | 83 | −21 | 62 | 458 | −115 | 343 |
| Gains and losses on financial instruments 'Available for sale' reclassified to the Income Statement on disposal | −286 | 66 | −220 | −634 | 155 | −479 |
| Impairment charges on financial instruments 'Available for sale' reclassified to the Income Statement on disposal | 20 | −4 | 16 | 28 | −5 | 23 |
| **Total other comprehensive income** | **20** | **0** | **20** | **157** | **−48** | **109** |

## 28. EARNINGS PER SHARE

(€ MILLION)

| | CONTINUING OPERATIONS | TOTAL 2017 | CONTINUING OPERATIONS | TOTAL 2016 [1] |
|---|---|---|---|---|
| Net result | 215 | 215 | −380 | −380 |
| Dividends on non-redeemable cumulative preference shares | −17 | −17 | −17 | −17 |
| Coupon payments on other equity instruments | −68 | −68 | −68 | −68 |
| Tax on coupon payments on other equity instruments | 17 | 17 | 17 | 17 |
| **Net result attributable to ordinary shareholders** | **147** | **147** | **−448** | **−448** |

1. *The 2016 Net result has been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies. The comparative figures have been adjusted accordingly.*

### WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

| | 2017 | 2016 |
|---|---|---|
| Issued ordinary shares at 1 January | 400,484,892 | 400,484,892 |
| **Weighted average number of ordinary shares** | **400,484,892** | **400,484,892** |

Earnings per share are calculated as the quotient of Net result attributable to ordinary shareholders and the weighted average number of ordinary shares. The diluted earnings per share equal the earnings per share from continuing operations.

### EARNINGS PER SHARE

| | 2017 | 2016 [1] |
|---|---|---|
| Earnings per share continuing operations | 0.37 | −1.12 |
| **Basic earnings per share** | **0.37** | **−1.12** |

1. *The 2016 Net result has been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies. The comparative figures have been adjusted accordingly.*

OTHER NOTES

## 29. HEDGE ACCOUNTING

Achmea applies fair value hedge accounting for the interest rate risk related to banking activities. The fair value of the interest rate derivatives of the banking activities designated as hedging instrument for the purpose of hedge accounting as at 31 December 2017 amounted to €458 million (31 December 2016: €570 million). Fair value hedge accounting implies that the fair value movements from the hedging instrument and the fair value movements from the hedged item that are attributable to the hedging risk are recognised in the Income statement. The interest rate derivatives of the banking activities consist of interest rate derivatives as hedging instruments related to the Banking credit portfolio, as well as interest rate derivatives as hedging instruments for financing operations.

The fair value of the derivatives designated as hedging instruments related to the Banking credit portfolio amounts to €481 million at year-end 2017 (31 December 2016: €635 million). In accordance with hedge accounting policies, Achmea determines the hedge relationship each month. The change in fair value of the Banking credit portfolio that is designated as the hedged item is recognised as part of the Banking credit portfolio and is subsequently amortised to profit or loss over the remaining life of the hedging instrument. The change in fair value of the derivatives designated as hedging instruments related to financing operations of the banking activities amounts to €23 million at year-end 2017 (31 December 2016: €65 million). In accordance with hedge accounting policies, Achmea determines the hedge relationship for the life of the hedging instrument. The change in fair value of the financing operations that are designated as the hedged items is recognised as part of the Financial liabilities and is subsequently amortised to profit or loss over the remaining life of the hedging instrument.

The results on hedge accounting for the banking activities are as follows:

### RESULTS ON HEDGE ACCOUNTING

(€ MILLION)

| | GAINS | LOSSES | TOTAL 2017 | TOTAL 2016 |
|---|---|---|---|---|
| Fair value changes of the hedged item attributable to the hedged risk | 84 | −197 | −113 | -61 |
| Fair value changes of the related derivatives (including discontinuation) | 208 | −90 | 118 | 64 |
| Fair value changes of the hedging instrument - ineffective portion | 292 | −287 | 5 | 3 |

Currency derivatives are used as hedging instruments. The fair value of the currency derivatives designated as hedging instrument for the purpose of hedge accounting as at 31 December 2017 amounted to €12 million (31 December 2016: €-24 million). The fair value of foreign exchange contracts varies with the foreign exchange rate which corresponds with the fair value changes related to foreign currency differences of an investment in a foreign currency. The net result on hedge accounting is €4 million (2016: €14 million). This result consists of fair value changes of the hedged item attributable to the hedged risk of €106 million (2016:€-22 million) and fair value changes of the related derivatives of €-102 million (2016: €36 million).

### ACCOUNTING POLICIES HEDGE ACCOUNTING

Achmea applies fair value hedge accounting for its banking and treasury operations and certain investment portfolios. When Achmea applies fair value hedge accounting, a fair value adjustment is recognised in the Income Statement that reflects the changes in the fair value of the hedged items attributable to the hedged risk. Achmea assesses the effectiveness of the hedge relationship at each reporting date. The hedge relationship is discontinued when the effectiveness is not within the 80%-125% range or when the hedge is terminated or revoked. Achmea starts amortising the related fair value adjustment over the remaining duration of the hedged item when the hedge relationship is discontinued. When Achmea applies cash flow hedge accounting or applies hedge accounting for a net investment in a foreign operation, the fair value changes of the hedging instruments net of taxes are, for the effective part of the hedge relationship, recognised in the Hedging reserve, part of Total equity. Fair value changes due to ineffective parts of the hedge relationship are recognised in the Income Statement. Amounts accumulated in Total equity are recycled through the Income Statement in the periods in which the hedged item affects Net result.

## 30. OPERATING LEASES

The future rental commitments linked to operational lease contracts are as follows:

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Less than one year [1] | 21 | 3 |
| Between one and five years | 123 | 32 |
| More than five years | 79 | 209 |
| **Balance at 31 December** | **223** | **244** |

1. *To reflect the reassessment of a lease contract in 2017 the comparative figures have been adjusted accordingly (€7 million).*

In 2017, €2.0 million is recognised as an expense in the Income Statement in respect of operating leases (2016: €3.1 million). The income from subleases is €1.9 million in 2017 (2016: €1.5 million).

## 31. CONTINGENCIES

### Legal procedures

Achmea B.V. and companies forming part of Achmea are involved in lawsuits and arbitration proceedings. These proceedings relate to claims instituted by and against these companies arising from ordinary operations and mergers, including the activities carried out in their capacity as insurer, credit provider, service provider, employer, investor and tax payer. Although it is not possible to predict or define the outcomes of pending or imminent legal proceedings, the Executive Board believes that it is unlikely that the outcomes of the actions will have a material, negative impact on the financial position of Achmea B.V.

CONTINGENT LIABILITIES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Guarantees [1] | 243 | 255 |
| Other commitments | | 2 |
| **Balance at 31 December** | **243** | **257** |

1. *In 2017 some contracts have been reclassified. These contracts were recognised in Contingent liabilities but are contractual commitments. The comparative figures have been adjusted by €31 million. In addition, certain secured contracts are included for the first time in 2017, but also applied in 2016. Therefore the 2016 figures have been adjusted by €148 million. Also in 2016 a liability of €20 million was included, which is not quantifiable. The comparative figures have been adjusted for this. The total adjustment to the comparative figures amounts to €97 million.*

The Netherlands-based insurance companies of Achmea provided the ‘Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V.’ with guarantees to a maximum of €44 million (2016: €44 million). Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V. is a company in which the participating insurance companies pool the claims and risks related to terrorism.

Achmea B.V. has provided Vereniging Achmea and Rabobank with an indemnity for amounts imposed by the Australian supervisor related to the activities of the Australian branch of Achmea Schadeverzekeringen N.V. in case the Australian supervisor will impose on Vereniging Achmea and Rabobank as shareholder of the ultimate parent of Achmea Schadeverzekeringen N.V. additional obligations and responsibilities relating to these Australian activities. No material losses are expected in respect of this indemnity. Due to its nature, this indemnity is not to be quantified.

UNRECOGNIZED CONTRACTUAL COMMITMENTS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Commitments related to investments [1] | 667 | 995 |
| **Balance at 31 December** | **667** | **995** |

1. *In 2017 some contracts have been reclassified. These contracts were recognised in Contingent liabilities but are contractual commitments. The comparative figures have been adjusted by €31 million.*

At year-end 2017 Achmea has contractual liabilities in connection with credit facilities for customers, that are part of the building account agreements. If the clients meet the conditions, Achmea is obliged to provide credits in the amount of €107 million (2016: €100 million).

Achmea provides mortgage loans for its own account and for the account and risk of its clients (pension funds). In this capacity Achmea has commitments arising from offers for mortgage loans. If the clients accept the offers Achmea is obliged to provide mortgage loans in the amount of €421 million (2016: €748 million). This commitment is offset by a received guarantee of €109 million (2016: 157 million).

### Contingencies related to shares subject to a put option agreement

Pursuant to certain put option agreements, several shareholders of Achmea B.V. have the right to sell their shares on market-based conditions during a certain timeframe to third parties which are not related to Achmea B.V. When an option is exercised, Achmea B.V. has the subsequent right to purchase these shares or to enter into a derivative transaction with the purchasing third party. Pursuant to this transaction Achmea B.V. will pay the purchaser an upfront premium equal to the settlement amount due by the purchaser to the selling shareholder under the related option. During the life of the derivative transaction, which has no fixed maturity, Achmea B.V. will receive all dividends distributed to the third party in return for a fixed fee. Upon unwinding of the derivative transaction, Achmea B.V. will receive from the purchaser the upfront premium paid adjusted for part of the change in value of the Achmea B.V. shares held by the third party during the life of the derivative transaction.

NUMBER OF OUTSTANDING OPTIONS

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Schweizerische Mobiliar Holding AG | 2,769,246 | 2,769,246 |
| Gothaer Allgemeine Versicherung AG | 1,849,108 | 1,849,108 |
| Gothaer Finanz Holding AG | 2,206,482 | 2,206,482 |
| **Total** | **6,824,836** | **6,824,836** |

### Contingent assets

### Conflict between the Slovak Government and Achmea B.V.

In contradiction of an agreement to encourage investments between the Slovak Republic and The Netherlands, the Slovak government has enforced a ban on the distribution of profit on Slovak health insurers, including Achmea's Slovak subsidiary Union Zdravotná Poist'ovna A.S., in the period between 2007 and August 2011.

Achmea sought compensation for the incurred loss and statutory interest paid through an international arbitration tribunal. In December 2012 the arbitration tribunal decided in favour of Achmea. Under this decision the Slovak Government is required to compensate Achmea for damages incurred and the statutory interest paid. The compensation amounted to approximately €25 million.

The Slovak Government has publicly stated that it will not pay the amounts awarded to Achmea and has submitted the arbitration verdict for annulment to a German Court. In the first court hearing, the annulment request of the Slovak Republic has been rejected. The Slovak Government has appealed against this judgment to the Bundes Gerichtshof in Karlsruhe. The Bundes Gerichtshof raised some legal issues with the European Court of Justice. Based on the ruling of the European Court of Justice, which is expected in the first half of 2018, the Bundes Gerichtshof will deliver its judgment. Because of the compounding statutory interest, Achmea's claim now amounts to approximately €30 million. In view of the position of the Slovak Government, Achmea does not consider the receivable amount to be sufficiently certain to recognise it as an asset.

## 32. CREDIT QUALITY FINANCIAL ASSETS

The table below provides an overview of the credit quality of the financial investments based on (external) rating information. It also shows for which part of the financial investments no (external) rating is available.

### EXTERNAL CREDIT RATING ASSETS

(€ MILLION)

| 31 DECEMBER 2017 | AAA SOVEREIGN | AAA | AA | A | BBB | BELOW BBB | NOT RATED | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Investments | | | | | | | | |
| Fixed income investments [1] | 10,307 | 3,418 | 6,030 | 5,845 | 5,517 | 581 | 19,418 | 51,116 |
| Derivatives | | 7 | 153 | 2,513 | 450 | 10 | 270 | 3,403 |
| Other financial investments [2] | 8 | 3 | 9,463 | 456 | 13 | 5 | 6 | 9,954 |
| Amounts ceded to reinsurers | | 1 | 292 | 97 | 8 | 16 | 242 | 656 |
| Receivables | | 1,998 | 11 | 42 | 4 | 20 | 4,348 | 6,423 |
| Cash and cash equivalents | | 891 | 550 | 1,369 | 17 | 32 | 25 | 2,884 |

1. *Loans and mortgages without a rating relate to NHG mortgages (mortgages with National Mortgage Guarantee) for an amount of €6,156 million.*
2. *Other financial investments with an AA rating relate to saving accounts linked to life insurance contracts, for which the interest revenue is based on the interest rate that the policyholder pays on his mortgage loan. For an overview of other investments reference is made to Note 6.*

The table above does not include the assets held for sale at year-end 2017 (see Note 21). The assets forming part of the assets and liabilities held for sale are exposed to the creditworthiness risk of the party acquiring these assets and liabilities. Upon transfer Achmea will receive a fee for this from the acquiring party. The credit rating of the acquiring party at year-end 2017 is AA. The credit ratings of the underlying assets at year-end 2017 are as follows: rating AAA Sovereign €404 million, rating AAA €15 million, rating AA €650 million, rating A €1,406 million, rating BBB €391 million, below BBB €48 million, not rated €31 million.

### EXTERNAL CREDIT RATING ASSETS

(€ MILLION)

| 31 DECEMBER 2016 | AAA SOVEREIGN | AAA | AA | A | BBB | BELOW BBB | NOT RATED | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Investments | | | | | | | | |
| Fixed income investments [1] | 13,371 | 3,494 | 6,819 | 5,550 | 5,175 | 651 | 18,728 | 53,788 |
| Derivatives | | | 34 | 188 | 239 | 94 | 3,906 | 4,461 |
| Other financial investments [2] | | 9 | 9,741 | 538 | 16 | 68 | 120 | 10,492 |
| Amounts ceded to reinsurers | | 9 | 383 | 752 | 8 | 3 | 242 | 1,397 |
| Receivables [3] | | 2,105 | 12 | 11 | 4 | 20 | 4,818 | 6,970 |
| Cash and cash equivalents | | 660 | 287 | 1,064 | 26 | 22 | 133 | 2,192 |

1. *Loans and mortgages without a rating relate to NHG mortgages (mortgages with National Mortgage Guarantee) for an amount of €4,959 million.*
2. *Other financial investments with an AA rating relate to saving accounts linked to life insurance contracts, for which the interest revenue is based on the interest rate that the policyholder pays on his mortgage loan. For an overview of other investments reference is made to Note 6.*
3. *For comparison purposes the comparative figures for Receivables have been adjusted and from 2017 overnight deposits are no longer included in Investments, but in Cash and cash equivalents.*

The following table provides an overview of the carrying amounts of financial assets that are past due or impaired.

## FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED

(€ MILLION)

| | PAST DUE BUT NOT IMPAIRED | | | | IMPAIRED ASSETS |
|---|---|---|---|---|---|
| **31 DECEMBER 2017** | 0-3 MONTHS | 3 MONTHS – 1 YEAR | MORE THAN ONE YEAR PAST DUE | AMOUNT OVERDUE | CARRYING AMOUNT AFTER IMPAIRMENT |
| Investments | | | | | |
| Fixed income investments | 1 | | | 1 | 171 |
| Receivables and accruals | 28 | 4 | 494 | 526 | 251 |
| | | | | | |
| 31 DECEMBER 2016 | | | | | |
| Investments | | | | | |
| Fixed income investments | 1 | | 1 | 2 | 130 |
| Receivables and accruals | 20 | 5 | 692 | 717 | 303 |

The table below provides an overview of asset and liabilities subject to offsetting, enforceable Master Netting Agreements and similar agreements.

## FINANCIAL ASSETS AND LIABILITIES SUBJECT TO OFFSETTING, ENFORCABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

(€ MILLION)

| **31 DECEMBER 2017** | GROSS AMOUNTS OF RECOGNISED FINANCIAL ASSETS | GROSS AMOUNTS OF RECOGNISED FINANCIAL LIABILITIES | NET AMOUNTS OF FINANCIAL ASSETS/ LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION | **BALANCE OF THE FINANCIAL ASSETS AND LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION** | FINANCIAL INSTRUMENTS RECEIVED | CASH COLLATERAL RECEIVED (EXCLUDING SURPLUS COLLATERAL) | **NET AMOUNT** |
|---|---|---|---|---|---|---|---|
| Derivatives assets | 3,276 | | 3,276 | | | | |
| Derivatives liabilities | | 729 | 729 | | | | |
| | | | | 2,547 | 1,870 | 425 | 252 |
| Cash and cash equivalents [1] | 10,496 | 9,512 | 984 | 984 | | | 984 |
| | | | | | | | |
| 31 DECEMBER 2016 | | | | | | | |
| Derivatives assets | 3,932 | | 3,932 | | | | |
| Derivatives liabilities | | 1,513 | 1,513 | | | | |
| | | | | 2,419 | 643 | 1,447 | 329 |
| Cash and cash equivalents | 9,386 | 8,194 | 1,192 | 1,192 | 0 | 0 | 1,192 |

1. *The table above does not include the assets and liabilities held for sale at year-end 2017 (see Note 21). These assets and liabilities include derivatives assets amounting to nil and derivatives liabilities amounting to nil at year-end 2017. Cash and cash equivalents assets amount to €71 million and cash and cash equivalents liabilities amount to €15 million at year-end 2017.*

## 33. TRANSFER OF FINANCIAL ASSETS AND SECURITIES

Achmea transfers financial assets when it transfers the contractual rights to receive cash flows from the financial asset. In addition, Achmea transfers financial assets when it retains the aforementioned contractual rights, but enters into a contractual obligation to pay the received cash flows to one or more third parties. Achmea distinguishes the following transactions in the context of the transfer of rights (assets and securities):

- transferred financial assets not fully derecognised in the event of securities lending. With these transactions Achmea transfers the legal ownership (but not the beneficial ownership) of assets and receives collateral in the form of cash or cash equivalents or other investments. The transferred assets are still recognised in the Statement of Financial Position;
- transferred financial assets which are fully derecognised and over which Achmea no longer has control (regular sale); and
- received or provided collateral in the event of securities lending, pledged mortgage receivables when raising loans for the banking business and received or provided collateral in the event of derivative transactions. Received collateral in the form of cash or cash equivalents is recognised in the Statement of Financial Position with simultaneous recognition of a repayment obligation in the Statement of Financial Position. Received collateral in the form of cash or cash equivalents is normally invested in designated high quality, liquid investments. Provided collateral in the form of cash or cash equivalents is no longer recognised in the Statement of Financial Position. For the right to receive the collateral back a receivable is recognised in the Statement of Financial Position. Received collateral in the form of investments is not recognised in the Statement of Financial Position, provided collateral in the form of investments are still recognised in the Statement of Financial Position.

The following notes provide further information on the transferred financial assets not or not (fully) derecognised and on collateral received or provided as security.

### SECURITIES LENDING ACTIVITIES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Carrying amount of transferred financial assets in the balance sheet | 3,565 | 968 |
| Fair value of non-cash collateral received not in the balance sheet | 3,786 | 1,045 |
| **Net exposure** | **−221** | **−77** |

Achmea lends bonds and receives a fee for this (also called securities lending). The process of securities lending is facilitated by a lending agent, who receives a fee for its intermediary services between Achmea and the borrower. Securities lending involves transfer of the legal ownership to the borrower, whereas the beneficial ownership remains with Achmea. The securities lent are therefore still recognised in the Statement of Financial Position.

As security for performance of the obligation to return the borrowed securities, the borrower provides collateral in the form of other high quality liquid securities. The value of the collateral is determined daily. The collateral may consists of bonds or shares. Legal ownership of this collateral is transferred to Achmea, but beneficial ownership remains with the borrower. Therefore the collateral is not recognised in the Statement of Financial Position. The value of the collateral is 2-7% higher (so-called haircut) than the value of the securities lent. For collateral in the form of shares Achmea requires a higher haircut, given the higher volatility of shares. If a borrower fails to return the securities lent, the lending agent will liquidate the collateral and subsequently purchase the same securities as lent by Achmea and return these to Achmea. Any losses are not for the account of Achmea. If the lending agent is unable to return the same securities, Achmea will receive the market value of the securities lent in cash. The received collateral is not freely disposable and may not serve as collateral in other transactions.

### LOANS PART OF BANKING CREDIT PORTFOLIO PLEGDED BY MORTGAGES

(€ MILLION)

| | CARRYING AMOUNT | CARRYING AMOUNT | FAIR VALUE | FAIR VALUE |
|---|---|---|---|---|
| | 31 DECEMBER 2017 | 31 DECEMBER 2016 | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
| Loans secured by mortgages | 11,770 | 12,577 | 11,798 | 12,773 |
| Secured loans part of Loans and borrowings | 1,893 | 2,077 | 1,838 | 2,009 |
| **Net position as at 31 December** | **9,877** | **10,500** | **9,960** | **10,764** |

To finance the loans raised for its banking activities, Achmea has issued several funding instrument, secured by pledged mortgage receivables part of the investments of the banking business. Due to these pledges part of the mortgage receivables is not freely disposable. These pledges can be analysed as follows:

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Pledge by means of trust arrangements | 211 | 230 |
| Third-party pledge | 1,857 | 1,291 |
| Pledge by means of securitisation | 2,912 | 3,931 |
| | **4,980** | **5,452** |

As part of the pledges by means of trust arrangements, Achmea Bank (a fully owned subsidiary of Achmea) periodically pledges mortgage receivables to a Trustee as security for designated liabilities. In the event of default by Achmea Bank, investors can recover the debt from the pledged mortgage receivables.

Third-party pledges on loans are set up by means of covered bond programme, in which Achmea Bank acts as originator and issuer under the programme. The payment of the principal of interest on the bonds issued is guaranteed by a bankruptcy remote 'Special Purpose Vehicle' (SPV). The guarantee provided by this SPV is supported by mortgage receivables, pledged by Achmea Bank to the SPV. The outstanding amount of these transferred mortgage receivables will at all times be at least 33.3% higher than the bonds issued under the programme. In the event of default by Achmea Bank, an investor has recourse on the bank and the underlying mortgage portfolio.

Achmea Bank uses securitisation as a funding source. In all these securitisation 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. The maximum loss for Achmea on the transferred assets and liabilities amounted to €750 million as at 31 December 2017 (31 December 2016: €873 million) and has been determined based on the notes of the SPV's which are held by Achmea and the Deferred Purchase Price (excess margin).

In the event of collateral these arrangements are recorded in so-called ISDA Credit Support Annex agreements. These also stipulate the conditions – the so-called 'default events' – under which the party may use the cash collateral to reduce possible losses. Transfer of the collateral takes place by 'transfer of title', meaning the legal ownership is transferred to Achmea. The economic benefits, such as interest income, do not transfer to the receiver of the collateral.

In most cases the received collateral consists of liquid investments, mostly liquid assets such as government bonds and cash or cash equivalents.

### RECEIVED OR COLLAPSED COLLATERAL INVESTMENTS IN THE CONTEXT OF DERIVATIVE TRANSACTIONS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Net position of assets and liabilities derivatives | 2,554 | 2,516 |
| Covered by securities in collateral | 1,515 | 1,879 |
| Liquid funds received in collateral | 1,650 | 1,395 |
| Net position | –611 | –758 |

Bilateral arrangements regarding collateral to be received or provided have been agreed with Achmea's counterparties. The collateral to be received or provided is based on the derivatives assets and liabilities combined of the relevant counterparty. The net position of assets and liabilities for derivatives under these bilateral arrangements must be fully covered by collateral for each individual counterparty.

In some cases derivative positions are cleared centrally. In those cases, in addition to the initial margin, the collateral to be provided depends on the combined position of derivatives assets and liabilities at the relevant clearing agent. The total value of the collateral held also includes collateral deposited for cleared derivatives positions, a so-called initial margin, of €336 million. The net position of derivatives assets and liabilities cleared centrally must be fully covered by collateral for each individual counterparty.

## 34. INTERESTS IN SUBSIDIARIES

Set out below are Achmea's principal subsidiaries as at 31 December 2017. These are subsidiaries which are wholly owned, directly or indirectly, unless stated otherwise, and are involved in insurance or reinsurance business, banking services, asset management or services related to these activities. The included Dutch subsidiaries are medium or large entities. For the foreign subsidiaries the parent company is included and if there is no parent company all subsidiaries are included. The voting power in these subsidiaries held by Achmea is equal to the shareholding. The country of incorporation or registration is also their principal place of business. The principal subsidiaries of Achmea B.V. are listed by geographical segment.

| | CORPERATE SEAT | % OF OWNERSHIP INTEREST HELD BY THE GROUP |
|---|---|---|
| THE NETHERLANDS | | |
| Achmea Bank N.V. | The Hague | 100% |
| Achmea Interne Diensten N.V. | Utrecht | 100% |
| Achmea Investment Management B.V. | Zeist | 100% |
| Achmea Pensioen- en Levensverzekeringen N.V. | Apeldoorn | 100% |
| Achmea Reinsurance Company N.V. | Tilburg | 100% |
| Achmea Schadeverzekeringen N.V. | Apeldoorn | 100% |
| Achmea Zorgverzekeringen N.V. | Zeist | 100% |
| Independer.nl N.V. | Hilversum | 100% |
| Inshared Holding B.V. | Hoevelaken | 100% |
| N.V. Hagelunie | The Hague | 100% |
| Syntrus Achmea Pensioenbeheer N.V. | Amsterdam | 100% |
| Syntrus Achmea Real Estate & Finance B.V. | Amsterdam | 100% |
| GREECE | | |
| Interamerican Hellenic Life Insurance Company S.A. | Athens | 99,89% |
| IRELAND | | |
| Friends First Holdings D.A.C. | Dublin | 100% |
| TURKEY | | |
| Eureko Sigorta A.S. | Istanbul | 100% |
| SLOVAKIA | | |
| Union Poist'ovna A.S. | Bratislava | 99,97% |
| Union Zdravotná Poist'ovna A.S. | Bratislava | 100% |

The full list of participations as set forth in Sections 379 and 414 of Book 2 of the Dutch Civil Code has been filed with the Trade Register of the Chamber of Commerce.

### Consolidated structured entities

Achmea Bank N.V. (a subsidiary of Achmea B.V.) uses securitisation as a funding source. In all these securitisation 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. The names of these SPVs are Dutch Mortgage Portfolio Loans XI B.V. (DMPL XI), Dutch Mortgage Portfolio Loans XII B.V. (DMPL XII), Securitised Guaranteed Mortgage Loans II B.V. (SGML II), Dutch Residential Mortgage Portfolio I B.V. (DRMP I), Dutch Residential Mortgage Portfolio II B.V. (DRMP II).

All these SPV's are controlled by Achmea and are therefore consolidated, in accordance with IFRS. Reference is made to Note 6 Investments - Banking credit portfolio and Note 33 Transfer of financial assets and securities for more information about these consolidated structured entities.

### Significant restrictions related to subsidiaries

Certain of Achmea's subsidiaries, principally insurance and banking companies, are subject to restrictions on the amounts of funds they may distribute in the form of cash dividends or otherwise to their parent companies.

Total equity contributed by a number of subsidiaries was subject to regulations and restrictions contained in the statutes. At year-end 2017 this amounted to €632 million (31 December 2016: €627 million) of Total equity. These subsidiaries may also not, pursuant to restrictions under the law and the articles of association, cease their activities.

In Ireland, Investments backing linked liabilities amounting to €2.9 billion (31 December 2016: €2.6 billion) are ring-fenced, i.e. are financially separated.

## 35. RELATED PARTY TRANSACTIONS

### Nature of related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions (e.g. subsidiary). Achmea has various types of ordinary transactions (particularly in the area of insurance, banking and asset management), in the normal course of business, with related companies and parties.

Achmea also considers its defined benefit pension plan (Stichting Pensioenfonds Achmea) as a related party. Members of the Executive and Supervisory Board and their close family members are also considered related parties to Achmea.

In addition, related party transactions comprise transactions with associates, joint ventures, key management personnel and close family members of related parties. The transactions with those parties are not considered material to Achmea, either individually or in the aggregate. A list of Achmea's principal subsidiaries is presented in Note 34, Interests in subsidiaries.

Achmea could enter into economic transactions with entities controlled by its Executive Board and Supervisory Board members or their close family members. There were no such transactions or related parties in 2017 and 2016.

### Remuneration of the Executive Board

The members of the Executive Board are directors of Achmea B.V., holding key management positions at Group level.

The remuneration of the Executive Board is related to the content and responsibilities of their respective positions. The various positions are weighted on aspects such as impact and nature of the responsibilities of the position, complexity of the managerial context in which they operate and the necessary knowledge, experience and competencies.

Besides an fixed salary, the remuneration package of an Executive Board member includes elements of variable remuneration. The Supervisory Boards decides, on the advice of the Remuneration Committee, on the granting of awards of variable remuneration in the year after the performance. The granting of awards of variable remuneration in any specific year therefore applies to previous performance years. Half of the variable remuneration is deferred for five years. These awards of variable remuneration are included as part of the Other long-term employee benefits. In addition to their salaries, the members of the Executive Board have a pension scheme. As of 1 January 2014, the conditions of the pension scheme for the board members have been aligned with the scheme for personnel residing under the collective labour agreement (CAO personnel). With effect from 1 January 2015 the pension scheme for the Executive Board members is executed by Stichting Pensioenfonds Achmea. Now both the conditions and the execution of the scheme are aligned with the scheme for CAO personnel. The rights accrued up to and including 31 December 2014 remain in the insured pension plan of Achmea Pensioen- en Levensverzekeringen N.V. In addition to the accrual, the indexation on the rights accrued up to and including 31 December 2014 is with effect from 1 January 2015 also carried out by Stichting Pensioenfonds Achmea. Annually an amount is paid to Stichting Pensioenfonds Achmea to purchase indexation on the accrued rights.

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD FOR THE FINANCIAL YEAR (€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | 5.05 | 5.15 |
| Post-employment benefits | 2.39 | 2.09 |
| Other long-term employee benefits | 0 | 0.31 |
| Termination benefits | 0 | 0 |
| **Total** | **7.44** | **7.55** |

A total amount of €7.44 million was recognised in the reporting period 2017 for Executive Board remuneration (2016: €7.55 million). This total amount pertains to the performance year 2017, except the variable remuneration. The variable remuneration pertains to the amounts awarded in a financial year with regard to the previous financial year or performance year, because when the financial statements for the previous financial year were adopted it was not yet decided whether variable remuneration would be awarded for that performance year. When the Financial Statements 2017 were adopted, it was not yet decided to award a variable remuneration for the performance year 2017. For the performance year 2016 no variable remuneration was awarded to the members of the Executive Board. In 2016 an amount of €0.62 million was recognised for variable remuneration pertaining to performance year 2015.

Below is an overview of the remuneration of the members of the Executive Board for performance year 2017. The variable remuneration is presented in the performance year. This can differ from the year in which the expense is recognised, because the award of the variable remuneration can take place after adoption of the Financial Statements. This overview includes an aggregate comparison with 2016.

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD FOR THE CURRENT PERFORMANCE YEAR

| **Active board members as at 31 December 2017**[1] | ANNUAL SALARY (SHORT-TERM EMPLOYEE BENEFITS)[2] | VARIABLE REMUNERATION AWARDED (OTHER SHORT-TERM EMPLOYEE BENEFITS) | VARIABLE REMUNERATIO N AWARDED (OTHER LONG-TERM EMPLOYEE BENEFITS) | POST-EMPLOYMENT BENEFITS (CAP €103,317)[3] | CONTRIBUTION NET POST-EMPLOYMENT BENEFITS (OVER €103,317)[3] | WAGE BENEFIT (OVER €103,317)[3] | TOTAL |
|---|---|---|---|---|---|---|---|
| W.A.J. (Willem) van Duin, Chairman | 1.01 | t.b.d. | t.b.d. | 0.05 | 0.25 | 0.22 | 1.53 |
| R. (Roelof) Konterman, Vice-chairman | 0.88 | t.b.d. | t.b.d. | 0.05 | 0.25 | 0.19 | 1.37 |
| M.A.N. (Michel) Lamie, (as from 1/4/2017 as CFO) | 0.74 | t.b.d. | t.b.d. | 0.04 | 0.14 | 0.12 | 1.04 |
| R. (Robert) Otto | 0.75 | t.b.d. | t.b.d. | 0.04 | 0.12 | 0.12 | 1.03 |
| B.E.M. (Bianca) Tetteroo | 0.74 | t.b.d. | t.b.d. | 0.04 | 0.13 | 0.15 | 1.06 |
| H. (Henk) Timmer, CRO | 0.74 | t.b.d. | t.b.d. | 0.05 | 0.17 | 0.15 | 1.11 |
| **Total remuneration active board members as per 31 December 2017** | **4.86** | **t.b.d.** | **t.b.d.** | **0.27** | **1.06** | **0.95** | **7.14** |
| | | | | | | | |
| **Former member Executive board** | | | | | | | |
| H. ( Huub) Arendse, CFO (untill 1/4/2017) | 0.19 | t.b.d. | t.b.d. | 0.03 | 0.04 | 0.04 | 0.30 |
| | | | | | | | |
| **Total 2017** | **5.05** | t.b.d. | t.b.d. | **0.30** | **1.10** | **0.99** | **7.44** |
| **Total 2016** | **4,84** | **0** | **0** | **0,26** | **0.97** | **0,86** | **6,93** |
| Average number of active and former Executive Board members 2017: 6.25 | | | | | | | |
| Average number of active and former Executive Board members 2016: 6.0 | | | | | | | |

1. *All active board members were employed throughout 2017.*
2. *The definition of 'annual salary' has been modified in 2017 to include the benefit of private use of a lease car. The comparative figures have been adjusted in accordance with this definition.*
3. *The post-employment benefits have as elements: the expense for the accrual of the maximum pensionable salary €103,317 (this is the fiscal cap 2017; 2016 €101,519), and the gross contribution to the net post-employment benefits over the fiscal cap based on the age-related 3% DC scale and the wage benefit over the fiscal cap. See the notes to post-employment benefits below.*

### General

On 1 January 2017 Mr Lamie joined the Executive Board, on 1 April 2017 he assumed the positon of CFO. Mr Arendse retired from the Executive Board of Achmea B.V. on 1 April 2017.

### Annual salary

The annual salary of the Executive Board is the fixed all-in salary on an annual basis including holiday allowance. On 1 January 2017 the salary was raised as collectively agreed by 1%. Insofar as applicable the benefit of private use of a lease car is also included.

### Variable remuneration awarded

When the Financial Statements 2017 were adopted, it was not yet decided to award a variable remuneration for the performance year 2017. Should this be awarded, then this shall be included in the Remuneration Report 2017 that will be published in May 2018. This variable remuneration would be recognised in the Financial Statements 2018. For the performance year 2016 no variable remuneration was awarded to the Executive Board, so the variable remuneration recognised in the Financial Statements 2017 for the performance year 2016 is nil.

### Post-employment benefits

The pension scheme applicable to CAO personnel and senior managers/directors also applies to the Executive Board. This is a CDC financed pension scheme aimed at career average salary, with among others the following characteristics at year-end 2017:

- Maximum pensionable salary €103,317

- Accrual 1.875% per year
- State pension offset €13,310
- Retirement age: first day of the month in which the age of 67 is reached
- Dependants' pension
- Non-contributory continuation of the pension scheme in the event of partial or full incapacity for work
- Conditional indexation
- Employee contribution standard 3.25% of the pensionable earnings

#### Post-employment benefits over the fiscal cap (2017: €103,317)

For employees with an income over the fiscal cap arrangements have been made as of 1 January 2015 (in the CAO) for alternative pension accrual. This also applies to the Executive Board. With the pension scheme of Achmea the interest risk related to future pension accrual lies with the employer. When changing to a CDC scheme in 2014 Achmea decided not to buy off the risk with a lump sum. The amount of the employer contribution is determined annually based on arrangements agreed in the CAO for alternative pension accrual above the fiscal cap.

It was arranged that the contribution of the employer before 1 January 2015 for pension accruals over the fiscal cap would be deployed for that pension accrual in an alternative way, without affecting costs. In practice the employer contribution is converted into a contribution to the net post-employment benefits and the remainder is made available as a wage benefit. This remaining amount fluctuates depending on the interest rate level at 31 December.

The contribution for participation in the net pension scheme over €103,317 can be contributed to a net pension scheme. The employer offers the opportunity to participate in a net pension scheme of Achmea Pensioen- en Levensverzekeringen N.V. The remainder for post-employment benefits over €103,317 is paid as a gross wage benefit.

#### Termination benefits

Regarding to 2017 and 2016 no termination benefits were awarded related to termination of the labour contract.

#### Claw back

In 2017, there were no adjustments or claw back of remuneration from former years with regard to members of the Executive Board, nor were there any in 2016.

#### Loans

Members of the Executive Board have loans outstanding with the banking operations of Achmea. The loans amount to €1.3 million (2016: €1.5 million). The weighted interest rate of these loans is 3.1% (2016: 3.1%). The loans are mortgage loans. In 2017 €0.23 million has been repaid (2016: €0.14 million). The loans are presented as part of the Investments - Banking credit portfolio.

#### Directors' liability

Achmea has taken out directors' liability insurance for Executive Board and Supervisory Board members of Achmea B.V. and its subsidiaries. Some board members are also indemnified against financial loss based on third-party claims, under certain conditions, insofar as this loss exceeds the insured cover.

### Remuneration of supervisory board members

The table below gives an overview of the remuneration of the Supervisory Board members of Achmea B.V. in 2017.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD PER YEAR[1] (€ MILLION)

| | |
|---|---|
| **Supervisory Board members as at 31 December 2017:** | |
| A.W. (Aad) Veenman, Chairman | **0.20** |
| A.J.A.M. (Antoon) Vermeer, Vice-chairman | 0.13 |
| P.H.M. (Petri) Hofsté | **0.14** |
| S.T. (Joke) van Lonkhuijzen-Hoekstra | 0.08 |
| M. (Mijntje) Lückerath-Rovers | **0.10** |
| A.C.W. (Lineke) Sneller | 0.11 |
| W.H. (Wim) de Weijer | 0.09 |
| R.Th. (Roel) Wijmenga | 0.15 |
| **Total 2017** | **1.00** |
| **Total 2016** | **1.13** |

1. *Excluding VAT and expenses, including remunerations for committee memberships and supervisory board memberships at group companies.*

In 2017 the composition of the Supervisory Board remained unchanged. Members of the Supervisory Board have no loans outstanding with the banking operations of Achmea at year-end 2017 and 2016.

### Rabobank

For its operations, Achmea uses various regular banking services of the Rabobank Group. All services and transactions with Rabobank are in an orderly transaction and based on regular market rates.

### Distribution channel

Local Rabobank offices are a major distribution channel for Achmea's Dutch insurance products. Achmea has paid commissions of €227 million to local Rabobank offices during 2017 (2016: €226 million) for insurance policies sold through them. Affiliated members ('aangesloten leden') of the Rabobank are granted a 10% discount on the basic health insurance premiums and a discount of 21% for premiums for the supplementary health insurance.

### Facility services

Achmea in The Netherlands obtains among others ICT services from Rabobank Group. For these services Achmea paid fees in 2017 amounting to €4.1 million (2016: €4.1 million).

### Insurance services delivered to Rabobank

Rabobank has insured several risks with Achmea, including a group Health insurance contract with Zilveren Kruis. The premiums relating to this insurance coverage for 2017 are €68 million (2016: €69 million).

### Balances and Commitments as of 31 December 2017 with Rabobank Group

Balances with Rabobank Group comprise commodity notes related shares, savings accounts that are backing liabilities for policyholders, bank accounts (see Note 6) and a credit facility that is reported as Loans and borrowings (see Note 8).

### Vereniging Achmea

Vereniging Achmea is the association of member-policyholders of Achmea and its objective is ensuring the continuity of Achmea. Vereniging Achmea makes use of personnel and office space of Achmea. This is charged on at cost. For this reason, at year-end 2017 Achmea has a receivable in the amount of €0.5 million (2016: €0.2 million) on Vereniging Achmea. Vereniging Achmea provided deposits to Achmea B.V. This concerns two term deposits with expiry date 4 April 2018 and an interest rate of 0.05%. At year-end 2017 the total amount of deposits is €22 million (31 December 2016: €18 million). Other transactions with Vereniging Achmea are related to its relation with Achmea as shareholder and are explained in Note 19 Equity.

### Stichting Pensioenfonds Achmea

Stichting Pensioenfonds Achmea (SPA, Achmea Pension fund Foundation) executes the pension plan for employees covered by the collective labour agreement of Achmea and for employees with whom participation in the SPA pension scheme has been agreed in their employment agreement. For most of the employees in the Netherlands, the pension scheme entails a defined contribution plan. In 2017, contributions made by Achmea relating to this defined contribution plan amounted to €261 million (2016: €270 million). For more information regarding the pension schemes executed by Stichting Pensioenfonds Achmea, reference is made to Note 20 Other provisions – Post-employment benefits. Achmea performs administrative and asset management services for Stichting Pensioenfonds Achmea. In 2017 it received €8.9 million (2016: €8.2 million) in fees for these services.

### Stichting Achmea Foundation

Achmea has committed to an indefinite obligation to apply 0.5% of its net profit to fund Stichting Achmea Foundation. After determination of the result for 2016, the contributions on the 2016 result amounted to €0 million in 2017 (2016: €1.9 million). Stichting Achmea Foundation employs these funds to finance projects around the world for sustainable improvement of economic and/or social environment of groups where help is needed in society. Stichting Achmea Foundation makes use of personnel and office space of Achmea. This is charged on at cost. At year-end 2017 Achmea has a receivable on Stichting Achmea Foundation in the amount of €0.1 million (2016: €0.1 million).

### Foundations de Friesland

De Friesland Zorgverzekeraar carries out various administrative management tasks for the foundations related to De Friesland Zorgverzekeraar. For these services €0.2 million (2016 €0.2 million) in fees was received in 2017.

## AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Zeist, 15 March 2018

**The Executive Board**
W.A.J. (Willem) van Duin, Chairman
R. (Roelof) Konterman, Vice-chairman
M.A.N. (Michel) Lamie, CFO
R. (Robert) Otto
B.E.M. (Bianca) Tetteroo
H. (Henk) Timmer, CRO

**The Supervisory Board**
A.W. (Aad) Veenman, Chairman
A.J.A.M. (Antoon) Vermeer, Vice-chairman
J. (Jan) van den Berg
P.H.M. (Petri) Hofsté
S.T. (Joke) van Lonkhuijzen-Hoekstra
M. (Mijntje) Lückerath-Rovers
A.C.W. (Lineke) Sneller
W.H. (Wim) de Weijer
R.Th. (Roel) Wijmenga

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## BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

### BALANCE SHEET (BEFORE APPROPRIATION OF RESULT)

(€ MILLION)

| | NOTES | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 3 | 644 | 644 |
| Financial fixed assets | 4 | 10,474 | 10,498 |
| Deferred tax assets | 5 | 46 | 57 |
| **Total fixed assets** | | **11,164** | **11,199** |
| | | | |
| Receivables | 6 | 249 | 237 |
| Cash and cash equivalents | 7 | 232 | 33 |
| **Total current assets** | | **481** | **270** |
| | | | |
| **Total assets** | | **11,645** | **11,469** |
| | | | |
| **Shareholders' equity** | | | |
| Issued share capital | | 434 | 434 |
| Share premium | | 10,923 | 10,923 |
| | | **11,357** | **11,357** |
| Own shares | | –235 | –235 |
| Legal reserve | | 696 | 687 |
| Revaluation reserve | | 934 | 829 |
| Exchange difference reserve | | –363 | –322 |
| Hedging reserve | | –7 | –7 |
| Retained earnings | | –4,006 | –3,505 |
| Result for the year | | 215 | –380 |
| | | **8,591** | **8,424** |
| Other equity instruments | | 1,350 | 1,350 |
| **Equity attributable to holders of equity instruments of the company** | 8 | **9,941** | **9,774** |
| | | | |
| **Liabilities** | | | |
| Other provisions | 9 | 17 | 21 |
| Long-term liabilities | 10 | 1,485 | 1,521 |
| Short-term liabilities | 11 | 186 | 130 |
| Derivatives | 12 | 16 | 23 |
| **Total liabilities** | | **1,704** | **1,695** |
| | | | |
| **Total equity and liabilities** | | **11,645** | **11,469** |

## PROFIT AND LOSS ACCOUNT

(€ MILLION)

| | NOTES | 2017 | 2016 |
|---|---|---|---|
| Other operating income | | | 1 |
| Revenue from receivables included in fixed assets and similar income | 15 | 75 | 78 |
| Value changes in receivables included in fixed assets and securities | | 3 | 5 |
| Income from associates and joint ventures | | 7 | 10 |
| **Total income** | | **85** | **94** |
| | | | |
| Interest expenses and similar expenses | 16 | 52 | 52 |
| Other expenses | 17 | 43 | 169 |
| **Total expenses** | | **95** | **221** |
| | | | |
| **Result before tax** | | **–10** | **–127** |
| Income tax [1] | 18 | –8 | –14 |
| Results of subsidiaries and associates [1 & 2] | | 217 | –267 |
| **Net result** | | **215** | **–380** |

1. *With effect from 2017 the amortisation charge on Intangible assets related to subsidiaries is classified as Results of subsidiaries and associates. For comparison purposes the comparative figures have been adjusted accordingly (€-17 million and €3 million Income tax).*
2. *Furthermore the comparative figures have been adjusted to reflect a change in accounting policy, for more information refer to the Accounting policies (€3 million).*

# Notes to the company financial statements

## 1. ACCOUNTING POLICIES

### General

Concerning the Company cash flow statement of Achmea B.V., the exemption as defined in the Guidelines of the Dutch Council for Annual Reporting (RJ) Section 360.106 was used.

The legally required list of participations as set forth in Sections 379 and 414 of Book 2 of the Dutch Civil Code has been registered with the Trade Register of the Chamber of Commerce.

### Principles for the measurement of assets and liabilities and the determination of the result

Achmea B.V. makes use of the option provided in Section 362, Paragraph 8, Book 2 of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of Net result applied in the Company Financial Statements of Achmea B.V. are the same as those applied in the Consolidated Financial Statements. By making use of this option the Equity attributable to holders of equity instruments is the same in the Consolidated Financial Statements and the Company Financial Statements. Investments in subsidiaries are recognised at net asset value with goodwill, if any, recorded under intangible assets. The Company Financial Statements have been prepared in accordance with Book 2, Title 9 of the Dutch Civil Code. Reference is made to Note 1 Accounting policies and the accounting policy for the specific balance sheet items in the Consolidated Financial Statements for a description of the accounting principles used.

### Change in accounting policy

Within one of the subsidiaries of Achmea B.V. the method for determining the income, expenses and result from underwriting by authorised agents has been changed. The effect of this change in accounting policy on the comparative figures 2016 for Results of subsidiaries and associates is €3 million. For a more detailed description of the change in accounting policy reference is made to Note 1.E Amendments related to accounting policies, prior period corrections and changes in presentation in the Consolidated Financial Statements.

All amounts listed in the Company Financial Statements are in millions of euros, unless stated otherwise.

## 2. DISCONTINUED OPERATIONS

In 2017 no direct subsidiaries of Achmea B.V. have been sold. For other developments regarding both direct and indirect subsidiaries reference is made to Note 21 Assets and liabilities held for sale and divestments in the Consolidated Financial Statements.

## 3. INTANGIBLE ASSETS

(€ MILLION)

| | GOODWILL | TOTAL 2017 [1] | TOTAL 2016 [1] |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 January | 1,271 | 1,271 | 1,285 |
| | | | |
| Foreign currency differences | | | −14 |
| **Balance at 31 December** | **1,271** | **1,271** | **1,271** |
| | | | |
| **Amortisation and impairment losses** | | | |
| Balance at 1 January | 627 | 627 | 534 |
| | | | |
| Amortisation charge for the year | | | |
| Impairment loss | | | 93 |
| Foreign currency differences | | | |
| **Balance at 31 December** | **627** | **627** | **627** |
| | | | |
| **Carrying amount** | | | |
| At 1 January | 644 | 644 | 751 |
| **At 31 December** | **644** | **644** | **644** |

1. *With effect from 2017 the Intangible assets regarding Subsidiaries (excluding Goodwill) are presented in note Financial fixed assets, Subsidiaries. For comparative purposes the comparative figures have been adjusted.*

For more detailed information reference is made to Note 13 Intangible assets in the Consolidated Financial Statements.

## 4. FINANCIAL FIXED ASSETS

(€ MILLION)

| | SUBSIDIARIES [1] | ASSOCIATES AND JOINT VENTURES | EQUITIES AND SIMILAR INVESTMENTS | BONDS | DERIVATIVES [2] | LOANS | TOTAL 2017 | TOTAL 2016 [1] |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January** | **10,208** | **74** | **3** | | **22** | **191** | **10,498** | **11,118** |
| | | | | | | | | |
| Acquisitions | | | | | | | | 11 |
| Investments and loans granted | 67 | | | 197 | | | 264 | 327 |
| Sales and disposals | | | –2 | | 2 | –185 | –185 | –686 |
| Annual results | 217 | 7 | | | | | 224 | –257 |
| Fair value changes | 82 | | –1 | | –22 | | 59 | 125 |
| Dividend received | –327 | | | | | | –327 | –110 |
| Foreign currency differences | –32 | –10 | | | | –3 | –45 | –40 |
| Accrued interest | | | | 1 | | –1 | | |
| Unrecognised actuarial gains and losses on employee benefits | –19 | | | | | | –19 | 12 |
| Changes due to reclassification | | | | | | | | 18 |
| Other changes | 5 | | | | | | 5 | –20 |
| **Balance at 31 December** | **10,201** | **71** | | **198** | **2** | **2** | **10,474** | **10,498** |

1. *With effect from 2017, the valuation of a subsidiary is adjusted for a loan of Achmea B.V to this subsidiary amounting to €24 million. In 2016 this loan was included in the Receivables from Subsidiaries. For comparative purposes the comparative figures have been adjusted. On balance, the valuation of this subsidiary is nil (2016: nil).*
*From 2017, Intangible assets with regard to Subsidiaries (excluding Goodwill) and the related Deferred tax liability are recognised in the balance sheet item Financial fixed assets, Subsidiaries. For comparison purposes the comparative figures have been adjusted accordingly (€112 million and €-24 million).*
2. *With effect from 2017, the derivative assets and derivatives liabilities are disclosed separately in the balance sheet under Financial fixed assets and Derivatives. For comparative purposes, the comparative figures have been adjusted accordingly (€23 million).*

Equities and similar investments, Bonds and Derivatives are measured at fair value. The fair value of those investments based on quotes in an active market (listed) amounts to €198 million (31 December 2016: €2 million). The purchase price as per 31 December 2016 of Equities and similar investments, Bonds and Derivatives amounts to €198 million (31 December 2016: €1 million).

In the Profit and loss account Value changes in receivables included in fixed assets and securities includes €-3 million (2016: €2 million) exchange rate differences relating to financial fixed assets.

## 5. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following items:

(€ MILLION)

| | BALANCE AT 1 JANUARY 2017 | RECOGNISED IN PROFIT AND LOSS ACCOUNT | RECOGNISED IN EQUITY | BALANCE AT 31 DECEMBER 2017 | BALANCE AT 1 JANUARY 2016 | RECOGNISED IN PROFIT AND LOSS ACCOUNT | RECOGNISED IN EQUITY | BALANCE AT 31 DECEMBER 2016 [1] |
|---|---|---|---|---|---|---|---|---|
| Other liabilities | 20 | −4 | | 16 | 29 | −9 | | 20 |
| Amortisation | 37 | −7 | | 30 | 35 | 2 | | 37 |
| | **57** | **−11** | | **46** | **64** | **−7** | | **57** |

1. *With effect from 2017 Deferred tax assets of Intangible assets with regard to Subsidiaries are accounted for in note Financial fixed assets, Subsidiaries. For comparative purposes the comparative figures have been adjusted (€-24 million).*

Achmea B.V. and the majority of its Dutch subsidiaries together form a fiscal unity for corporate income tax and VAT. As a consequence the company is liable for all deferred and current liabilities relating to corporate income tax and VAT. There are no deferred tax receivables or liabilities with regard to taxable losses of previous years (31 December 2016: nil).

## 6. RECEIVABLES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Subsidiaries [1] | 120 | 106 |
| Income tax receivables | 127 | 128 |
| Other receivables | 2 | 3 |
| | **249** | **237** |

1. *With effect from 2017, the valuation of a subsidiary is adjusted for a loan of Achmea B.V to this subsidiary amounting to €24 million. In 2016 this loan was included in the Receivables from Subsidiaries. For comparative purposes the comparative figures have been adjusted. On balance, the valuation of this subsidiary is nil (2016: nil).*

In line with 2016, Receivables are expected to mature within one year after reporting date

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise bank balances and short term deposits. Cash and cash equivalents are not subject to any restrictions.

## 8. EQUITY ATTRIBUTABLE TO HOLDERS OF EQUITY INSTRUMENTS OF THE COMPANY

### STATEMENT OF CHANGES IN TOTAL EQUITY

(€ MILLION)

| | SHARE CAPITAL | OWN SHARES | LEGAL RESERVES | REVALUATION RESERVE | EXCHANGE DIFFERENCE RESERVE | HEDGING RESERVE | RETAINED EARNINGS | RESULT FOR THE YEAR | OTHER EQUITY INSTRUMENTS | TOTAL EQUITY [1] |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance 1 January 2016** | **11,357** | **−235** | **672** | **686** | **−271** | **−7** | **−3,672** | **380** | **1,350** | **10,260** |
| Net other comprehensive income | | | | 134 | −51 | | 26 | | | 109 |
| Net result | | | | | | | | −380 | | −380 |
| **Comprehensive income** | | | | **134** | **−51** | | **26** | **−380** | | **−271** |
| Appropriations to reserves | | | 15 | 9 | | | 356 | −380 | | |
| Dividends and coupon payments | | | | | | | −215 | | | −215 |
| **Balance 31 December 2016** | **11,357** | **−235** | **687** | **829** | **−322** | **−7** | **−3,505** | **−380** | **1,350** | **9,774** |
| Net other comprehensive income | | | | 80 | −41 | | −19 | | | 20 |
| Net result | | | | | | | | 215 | | 215 |
| **Comprehensive income** | | | | **80** | **−41** | | **−19** | **215** | | **235** |
| Appropriations to reserves | | | 9 | 25 | | | −414 | 380 | | |
| Dividends and coupon payments | | | | | | | −68 | | | −68 |
| **Balance 31 December 2017** | **11,357** | **−235** | **696** | **934** | **−363** | **−7** | **−4,006** | **215** | **1,350** | **9,941** |

1. *Total equity relates to Equity attributable to holders of equity instruments of the company.*

Reference is made to Note 19 Equity attributable to holders of equity instruments of the company in the Consolidated Financial Statements for more information.

## 9. OTHER PROVISIONS

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 21 | 41 |
| Additions | | 9 |
| Usage | −5 | −24 |
| Released | 1 | −5 |
| **Balance at 31 December** | **17** | **21** |

Other provisions mainly relate to legal cases. In line with 2016 Other provisions are of a long-term nature.

## 10. LONG-TERM LIABILITIES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Loans and borrowings | 1,485 | 1,521 |
| | **1,485** | **1,521** |

The fair value of long-term liabilities measured at amortised cost at year-end is €1,512 million (31 December 2016: €1,552 million).

In April 2013, Achmea B.V. issued €500 million worth of subordinated loans with a 6% coupon. These subordinated loans have a duration of 30 years (maturity date is 4 April 2043), with a first call option after ten years. The Notes are listed on the Irish Stock Exchange in Dublin, Ireland.

In November 2013, Achmea B.V. completed the issuance of €750 million (transaction costs are included in the carrying amount) of Senior Unsecured Notes. The Notes have a maturity of 7 years (maturity date is 19 November 2020). The coupon on the Notes equals 2.5%. The Notes are listed on the Irish Stock Exchange, Dublin, Ireland.

In May 2013, Achmea B.V. completed the issuance of CHF200 million (€195 million) of Senior Unsecured Notes with a coupon of 1.5%. These Notes have a maturity of 6 years (maturity date is 19 June 2019). The Notes are listed on SIX Swiss exchange.

The syndicated credit facility of Achmea B.V. has a maximum size of €750 million which will mature in 2021. At year-end 2017, the committed credit lines were undrawn.

Achmea B.V. provided financial guarantees towards a 100% subsidiary related to a transfer of two loans and mortgages portfolios between this subsidiary and another 100% subsidiary. These financial guarantees will indemnify the subsidiary for specific risks, including credit risk and specific legal risks related to these portfolios, to a total maximum of €350 million. These financial guarantees are measured at fair value.

In the Profit and loss account, under Value changes in receivables included in fixed assets, an amount of €15 million (2016: €4 million) is accounted for as foreign currency differences relating to long-term liabilities.

## 11. SHORT-TERM LIABILITIES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Subsidiaries | 143 | 90 |
| Other | 43 | 40 |
| | **186** | **130** |

The fair value of Short term liabilities measured at amortised cost at year-end is €186 million (31 December 2016: €130 million).

In line with 2016, Short-term liabilities are expected to mature within one year after reporting date.

## 12. DERIVATES

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 23 | 28 |
| | | |
| Fair value changes | –7 | –5 |
| **Balance at 31 December** | **16** | **23** |

## 13. RELATED PARTY TRANSACTIONS

For an overview of transactions with affiliates, please refer to Note 35 Related party transactions in the Consolidated Financial Statements.

## 14. CONTINGENCIES

### Judicial proceedings

Achmea B.V. and the companies that are part of Achmea Group are involved in judicial and arbitration proceedings. These procedures relate to claims filed by and against these companies, arising from regular business activities, including the activities carried out in the capacity of insurer, lender, service provider, employer, investor and taxpayer. Although it is not possible to predict or determine the outcome of current or forthcoming legal proceedings, the Board of Directors is of the opinion that it is unlikely that the outcome of the procedures will have a material negative effect on the financial position of Achmea B.V.

### Contingent liabilities

Achmea B.V. has issued guarantees on behalf of subsidiaries that relate to the activities of these subsidiaries, carried out in their capacity as insurer, credit provider, service provider, employer, investor and tax payer.

Achmea B.V. issued guarantees as mentioned in Section 403 of Book 2 of the Dutch Civil Code, in respect of two investment companies within the group. In addition, Achmea B.V. has given guarantees that the liquidity and solvency of three subsidiaries will be sufficient to continue their operations.

Achmea B.V. also issued guarantees, as part of specific tenders for non-life insurance contracts for local Dutch governments, related to the fulfilment of the obligations resulting from these contracts in case of non-performance by the non-life insurance group company.

Achmea B.V. has provided Vereniging Achmea and Rabobank with an indemnity for amounts imposed by the Australian supervisor related to the activities of the Australian branch of Achmea Schadeverzekeringen N.V. in case the Australian supervisor will impose on Vereniging Achmea and Rabobank as shareholder of the ultimate parent of Achmea Schadeverzekeringen N.V. additional obligations and responsibilities relating to these Australian activities. No material losses are expected in respect of this indemnity. Due to its nature, this indemnity is not to be quantified.

In the table below an overview is given of all the contingent liabilities provided by Achmea B.V. on behalf of its subsidiaries. No material losses are expected in respect of these guarantees and indemnities

CONTINGENT LIABILITIES (€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Guarantees | 322 | 311 |
| **Balance at 31 December** | **322** | **311** |

*1. In 2017 the Guarantees as at 31 December 2016 have been reassessed, resulting in an adjustment of €77 million.*

### Contingent assets

#### Conflict between the Slovak Government and Achmea B.V.

In contradiction of an agreement to encourage investments between the Slovak Republic and The Netherlands, the Slovak government has enforced a ban on the distribution of profit on Slovak health insurers, including Achmea's Slovak subsidiary Union Zdravotná Poist'ovna A.S., in the period between 2007 and August 2011.

Due to this enforcement Achmea temporarily ceased its operations in its Slovak subsidiary during this period. Achmea sought compensation for the incurred loss and statutory interest paid through an international arbitration tribunal. In December 2012 the arbitration tribunal decided in favour of Achmea. Under this decision The Slovak Government is required to compensate Achmea for damages incurred and the statutory interest paid. The compensation amounted to approximately €25 million.

The Slovak Government has publicly stated that it will not pay the amounts awarded to Achmea and has submitted the arbitration verdict for annulment to a German Court. In the first court hearing, the annulment request of the Slovak Republic has been rejected. The Slovak Government has appealed against this judgment to the Bundes Gerichtshof in Karlsruhe. The Bundes Gerichtshof raised some legal questions with the European Court of Justice. Based on the ruling of the European Court of Justice, which is expected in the second half of 2018, the Bundes Gerichtshof will deliver its judgment. Because of the continuing statutory interest, Achmea's claim now amounts to approximately €30 million. In view of the above, Achmea does not consider the receivable amount to be sufficiently certain to recognise it as an asset.

## 15. REVENUE FROM RECEIVABLES INCLUDED IN FIXED ASSETS AND SIMILAR INCOME

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Compensation for interest and financing charges for subsidiaries [1] | 74 | 74 |
| Other interest income | 1 | 4 |
| | **75** | **78** |

1. *With effect from 2017, the compensation for interest and financing charges for subsidiaries are classified under the Revenue from receivables included in fixed assets and similar income. This compensation was classified under the Other expenses in 2016. For comparative purposes, the comparative figures for this have also been adjusted (€74 million).*

## 16. INTEREST EXPENSES AND SIMILAR EXPENSES

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Interest expenses loans and borrowings | 52 | 52 |
| | **52** | **52** |

## 17. OTHER EXPENSES

(€ MILLION)

| | 2017 | 2016 [1] |
|---|---|---|
| Impairment results intangibles | | 93 |
| General expenses [1] | 113 | 139 |
| | **113** | **232** |
| Charges general expenses to subsidiaries [1] | –70 | –63 |
| | **43** | **169** |

1. *With effect from 2017, the compensation for interest and financing charges for subsidiaries are classified under the Revenue from receivables included in fixed assets and similar income. This compensation was classified under the Other expenses in 2016. For comparative purposes, the comparative figures for this have also been adjusted (€-74 million).*
*With effect from 2017 the amortisation charge on Intangible assets related to subsidiaries is classified as Results of subsidiaries and associates. For comparison purposes the comparative figures have been adjusted accordingly (€17 million).*

The Impairment results intangibles in 2016 include the impairment of Eureko Turkey. In Other expenses no amount is included relating to group companies (2016: €3 million).

## 18. INCOME TAX

### RECONCILIATION OF EFFECTIVE TAX AMOUNT

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Result before tax [1] | –10 | –127 |
| | | |
| Dutch corporation tax rate | 25% | 25% |
| Income tax using the Dutch corporation tax rate [2] | –3 | –32 |
| | | |
| Tax effect on: | | |
| Non-deductible expenses | –4 | 20 |
| Participation exemption | –1 | |
| Other | | –2 |
| **Effective tax amount** [1] | **–8** | **–14** |

1. *With effect from 2017 the amortisation charge on Intangible assets related to subsidiaries is classified as Results of subsidiaries and associates. For comparison purposes the comparative figures have been adjusted accordingly (€-17 million and €3 million Income tax).*
2. *A negative amount is a gain in the Income Tax.*

The effective tax rate in 2017 amounts to 43.7% (2016: 10.6%).

### SPECIFICATION OF THE CURRENT AND THE DEFERRED INCOME TAX

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| **Current income tax** | | |
| Current year | –18 | –21 |
| Over/(under) provided in prior years | –1 | |
| | **–19** | **–21** |
| **Deferred income tax** | | |
| Origination and reversal of timing differences | 11 | 7 |
| | **11** | **7** |
| | | |
| **Total income tax expense in Income Statement** | **–8** | **–14** |

## 19. STATUTORY DOMICILE

Achmea B.V. has its registered office in Zeist, the Netherlands, with its principal place of business at Handelsweg 2 in Zeist, and is registered at the Chamber of Commerce under number 33235189.

## 20. NUMBER OF EMPLOYEES

Other than the Executive Board members, Achmea B.V. did not employ any personnel in either 2017 or 2016.

## 21. SUBSEQUENT EVENTS

On 9 February 2018 the Executive Board, mandated by the General Meeting, repurchased Achmea ordinary shares for a preliminary purchase price of €96 million. The final purchase price of the repurchased shares, as well as the final number of repurchased shares, will be determined in the first quarter of 2018. The Executive Board has been granted a mandate to repurchase shares up to an amount of €100 million. This amount is deducted from Solvency II eligible own funds as at 31 December 2017.

## 22. PROPOSAL FOR APPROPRIATION OF RESULT

For the provisions of the articles of association relating to the appropriation of result reference is made to Other information.

### TOTAL NET RESULT IS PROPOSED TO BE DISTRIBUTED AS FOLLOWS:

(€ MILLION)

| | 2017 |
|---|---|
| Net result attributable to holders of equity instruments of the company | 215 |
| | |
| Coupon payments on other equity instruments | −68 |
| Tax on coupon payments on other equity instruments | 17 |
| | **164** |
| **To be distributed as follows: [1]** | |
| Dividend on preference shares | 17 |
| Proposed final dividend on ordinary shares | 124 |
| Addition to retained earnings | 23 |
| | **164** |

1. *In the General Meeting of Shareholders of 17 April 2018 it will be proposed to amend the dividend policy effective 2018 to 45% of the Net result excluding the result of the Health segment (and after deduction of coupon payments on other equity instruments). For the appropriation of the 2017 result a proposal will be made in line with this proposed amendment to the dividend policy. Therefore the proposal for appropriation of result will deviate from the current dividend policy (45% of the Net result, including the result of the Health segment).*

The resolution of the General Meeting on the dividend proposal is subject to the condition precedent that the Executive Board, based on the prescribed distribution test, has concluded that the dividend distribution is not contrary to prudential financial management. The distribution test will be performed immediately after the resolution has been passed at the General Meeting and will be repeated at the time of payment of the dividend.

## AUTHORISATION OF THE COMPANY FINANCIAL STATEMENTS

Zeist, 15 March 2018

**The Executive Board**

W.A.J. (Willem) van Duin, Chairman
R. (Roelof) Konterman, Vice-chairman
M.A.N. (Michel) Lamie, CFO
R. (Robert) Otto
B.E.M. (Bianca) Tetteroo
H. (Henk) Timmer, CRO

**The Supervisory Board**

A.W. (Aad) Veenman, Chairman
A.J.A.M. (Antoon) Vermeer, Vice-chairman
J. (Jan) van den Berg
P.H.M. (Petri) Hofsté
S.T. (Joke) van Lonkhuijzen-Hoekstra
M. (Mijntje) Lückerath-Rovers
A.C.W. (Lineke) Sneller
W.H. (Wim) de Weijer
R.Th. (Roel) Wijmenga

# Other information

# Trustee reports other equity instruments

EUR 600,000,000 6 per cent Capital Securities ("the Securities"), ISIN Code NL0000168714, issued by Achmea B.V. (“the Issuer").

Pursuant to article 17 of the trust deed executed on 5 October 2006, the undersigned hereby reports on its work during the year ended 31 December 2017.

The Securities are perpetual securities and have no fixed redemption date. The Securities bear interest as is specified in the relevant Final Terms. Such interest subject to Conditions 2(b)(i), 2(b)(ii), 4(a), 4(b) and 6(d) will be payable in arrears on each Coupon Payment Date as indicated in the relevant Final Terms.

Subject to Condition 2(b)(i) or 2(b)(ii) the Issuer may redeem all, but not some only, of the Securities on each Coupon Payment Date.

In the year 2017 the interest on the Securities was paid in accordance with the Conditions and the relevant Final terms.

Amsterdam, 26 January 2018

Amsterdamsch Trustee's Kantoor B.V.

# Requirements under the articles of association for appropriation of results

The Articles of Association of Achmea B.V. contain the following provisions regarding appropriation of results.

The result will be appropriated pursuant to Article 34 and the provisions of this article can be summarised as follows:

- The profit shall be at the disposal of the General Meeting.
- Profit may only be distributed to shareholders and other persons entitled to distributable profits to the extent that its equity exceeds the total amount of its issued share capital and the reserves to be maintained pursuant to the law. The distribution of profit must be approved by the Executive Board. The latter will only withhold its approval if it is aware that, or should reasonably be able to anticipate that, the company, upon payment, will not be able to continue paying its due and payable debts.
- If the General Meeting decides on the distribution of dividends, first of all, if possible, a dividend equal to 3.7% of the nominal amount shall be paid to preference shareholders plus the share premium paid-up upon issue.
- Subject to the approval of the Supervisory Board, the Executive Board shall be authorised to increase the above mentioned percentage determined in February 2014 each year with a maximum of 1.8%.
- If no dividend in cash is distributed, a dividend in the form of preference shares can be resolved upon instead.
- If the General Meeting decides on the distribution of dividend and dividend on preference shares has not been paid in previous years, cash dividends shall first be paid to preference shareholders on these previous years, before any distribution can take place on other shares.

# Shareholders of Achmea B.V. at 31 december 2017

## SHAREHOLDERS OF ACHMEA B.V. AT 31 DECEMBER 2017

| COMPANY | COUNTRY | NUMBER OF SHARES | SHARE % (ORDINARY) | SHARE % (INCL. PRES) |
|---|---|---|---|---|
| Vereniging Achmea directly and via Stichting Administratie-Kantoor Achmea | The Netherlands | 261,537,249 | 65.30% | 61.63% |
| Coöperatieve Rabobank U.A. | The Netherlands | 116,993,237 | 29.21% | 27.57% |
| Fundo de Pensões de Grupo Banco Comercial Português | Portugal | 11,077,699 | 2.77% | 2.61% |
| Stichting Beheer Aandelen Achmea | The Netherlands | 3,665,253 | 0.92% | 0.86% |
| Gothaer Allgemeine Versicherung AG | Germany | 2,072,055 | 0.52% | 0.49% |
| Gothaer Finanz Holding AG | Germany | 2,370,153 | 0.59% | 0.56% |
| Schweizerische Mobiliar Holding AG | Switzerland | 2,769,246 | 0.69% | 0.65% |
| **Total ordinary shares** | | **400,484,892** | **100.00%** | |
| | | | | |
| Achmea Tussenholding B.V. (preference shares) | The Netherlands | 23,904,060 | | 5.63% |
| | | | | |
| **Total ordinary shares and preference shares** | | **424,388,952** | | **100.00%** |

Stichting Administratiekantoor Achmea is, amongst others, holder of the only A share issued by Achmea B.V. There are special rights entitled to the A share. Significant decisions of Achmea B.V.'s General Meeting can only be made with the approval of the holder of the A share. The Board members of Stichting Administratiekantoor Achmea are I.C. Mullink-van den Broek, E.M.H. Hirsch Ballin and C.W. van der Waaij.

# Statement of the Executive Board of Achmea B.V.

## STATEMENT OF THE EXECUTIVE BOARD OF ACHMEA B.V.

The Executive Board of Achmea B.V. is responsible for the preparation of the Annual Report 2017, including the Consolidated Financial Statements 2017 and the Company Financial Statements 2017 of Achmea B.V. The Consolidated Financial Statements 2017 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union effective at 31 December 2017. The Company Financial Statements 2017 and the Executive Board Report are prepared in accordance with Book 2, Part 9 of the Dutch Civil Code, and the Financial Supervision Act part 5.1A. The Executive Board reviewed the Achmea B.V. Consolidated and Company Financial Statements on 7 March 2018 and granted permission for submission to the Supervisory Board.

The Executive Board of Achmea B.V. declares that, to the best of its knowledge, the Achmea B.V. Consolidated and Company Financial Statements 2017 give a true and fair view of the assets, liabilities, financial position and profit or loss of Achmea B.V. and that the information contained herein has no omissions likely to modify significantly the scope of any statements made.

The Executive Board of Achmea B.V. also declares that the Executive Board Report 2017 gives a true and fair view of the situation as at 31 December 2017, the development and performance during 2017 and describes the principal risks of the businesses of the Group. The Achmea B.V. Consolidated Financial Statements 2017 and Company Financial Statements 2017 will be submitted to the Annual General Meeting for approval on 17 April 2018.

Zeist, 15 March 2018

The Executive Board

W.A.J. (Willem) van Duin, Chairman
R. (Roelof) Konterman, Vice-chairman
M.A.N. (Michel) Lamie, CFO
R. (Robert) Otto
B.E.M. (Bianca) Tetteroo
H. (Henk) Timmer, CRO

# Independent auditor's report

To: the general meeting and Supervisory Board of Achmea B.V.

## REPORT ON THE FINANCIAL STATEMENTS 2017

### Our opinion

In our opinion:

- the consolidated financial statements of Achmea B.V. give a true and fair view of the financial position of Achmea B.V. as at 31 December 2017 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the company financial statements of Achmea B.V. give a true and fair view of the financial position of Achmea B.V. as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### What we have audited

We have audited the accompanying financial statements 2017 of Achmea B.V., Zeist ('the Company'). The financial statements include the consolidated financial statements of Achmea B.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the following statements for 2017: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in total equity and the consolidated statement of cash flows; and
- the notes, comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2017;
- the company profit and loss account for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

### The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of Achmea B.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the 'Wet toezicht accountantsorganisaties'(Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

## Our audit approach

### Overview and context

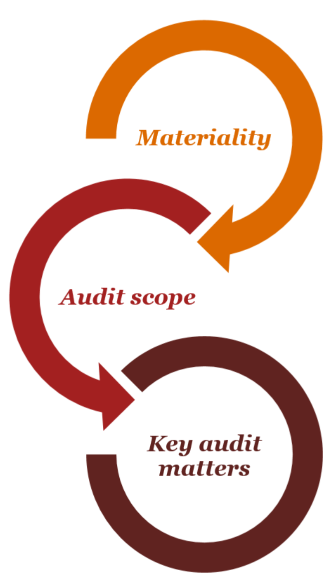
Achmea B.V. is a company heading a group of entities that operate in the non-life, health, income-protection and life insurance business, banking and asset management and retirement services. The financial information of this group is included in the consolidated financial statements of Achmea B.V. The group is comprised of several components and therefore we considered our group audit scope and approach as set out in the section ‘The scope of our group audit’. As part of designing our audit, we determined materiality and identified and assessed the risks of material misstatement in the financial statements. We, in particular, considered the areas where important management judgements are made, as these assume future events and other assumptions that are inherently uncertain. In the notes to the financial statement line items the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. The significant estimation uncertainties are considered to be an element of the key audit matters.

Because the business operations and financial processes of the group are highly automated, the IT General Controls (‘ITGC’) are particularly important in our audit, but not considered to be a key audit matter. We therefore addressed in our audit the continued proper operations of policies and procedures that are used to manage the IT activities that were relevant for our audit.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of banking and insurance operations. We therefore included specialists in the areas of valuation (such as real estate, financial instruments, insurance liabilities), IT and taxes in our team.

The outline of our audit approach was as follows:




*Materiality*

- Overall materiality: € 46 million

*Audit scope*

- We conducted audit work on the financial information of 17 components in the Netherlands and abroad. We performed additional audit procedures on 5 other parts of the group.
- Meetings were held with the responsible auditors and financial directors of all significant operations. We verified that the procedures performed on the significant operations, supporting our group audit, are adequate.
- Audit coverage: 99% of consolidated income and 99% of consolidated total assets.

*Key audit matters*

- Disclosures on the capital position based on Solvency II regulations.
- Assets and liabilities measured at fair value for which no listed price in an active market is available and valued using market information and significant unobservable input.
- Uncertainty in the valuation of the tax position.
- Uncertainties in the valuation of assets and liabilities arising from insurance contracts.

### Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section ‘Our responsibilities for the audit of the financial statements’.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

| | |
|---|---|
| *Overall group materiality* | € 46 million (2016: € 46 million). |
| *Basis for determining materiality* | We used our professional judgment to determine overall materiality. As a basis for our judgment we used 1% of the required capital of the group as projected during the planning of the audit. The required capital is determined based on Solvency II requirements that are applicable to the insurance activities (also refer to note 2 of the financial statements).<br><br>We reassessed the materiality level based on the financial outcome as at 31 December 2017. The reassessment did not lead to a revision of the determined level. |
| *Rationale for benchmark applied* | The capital position is a generally accepted auditing benchmark. Based on our analysis of the common information needs of users of the financial statements we considered this as most relevant. As the sensitivity is the largest for the required capital, we believe that the required capital is an important metric for the financial position and performance of the group. In determining the percentage we have taken into account to set up the audit of the Solvency II group information in such a way that an undetected difference in the Solvency Capital Requirement (SCR) ratio is 5%-points at maximum. The materiality level applied represents less than 0.5% of the equity of the group and less than 0.05% of the balance sheet total. The profit before tax, because its level relative to the business volume and balance sheet, is considered to be a less suitable benchmark for determining materiality. |
| *Component materiality* | To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €1.5 million and €30 million. |

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above €2.3 million (2016: €2.3 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## The scope of our group audit

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component auditor.

The group audit primarily focussed on the significant components. Seventeen components (one of these outside the Netherlands) were subject to audits of their complete financial information. Seven components because these are considered individually financially significant to the group, the other ten components as they include a significant or higher risk of material misstatement. The classification ‘financially significant’ is based on quantitative criteria (>5% of the balance sheet total of the group and/or > 10% of the profit before tax of the group).

Additionally, five components were selected for audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements. We made use of other PwC auditors for the audit of these components.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

| | |
|---|---|
| *Income* | 99% |
| *Total assets* | 99% |
| *Profit before tax* | 97% |

The coverage percentages are determined based on the financial information of components covered by an auditor’s report from the auditor of the component or those components that were subject to specified audit procedures. This means that in case of intermediate holding companies or other sub-consolidations the consolidated financial information is used to determine the coverage. In determining the above percentages the five components that are included in the scope of our audit in order to achieve sufficient coverage on individual items in the consolidated financial statements are only taken into account for the individual items.

For the audit of the disclosure on the capital requirements under Solvency II regulations we have considered seven components individually financial significant. To achieve sufficient coverage on individual risk elements within the capital requirements we added five components to the scope of our group audit for the relating risk elements. We made use of other PwC auditors for the audit of these components.

For the remaining components we performed, amongst others, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

We have issued audit instructions for the audit procedures to be performed by the component auditors. We, as group auditor, had regular meetings with the auditors of the components about the risks, the audit approach, status of the audit and, based upon the reports submitted by the component auditors, findings and conclusions. Where considered necessary, the group engagement team reviewed the audit work in the files of the component auditors to assess the quality of the work performed. Closing meetings are held with the financial directors and the auditors of the components to discuss the financial results, the applied (important) accounting estimates and the findings from the audit. During these meetings specific attention was given to the risk of fraud and identified or suspected (internal) fraud.

The group consolidation and financial statement disclosures are audited by the group engagement team. Furthermore, the group engagement team is involved in the assessment of the impact on the reporting of significant occasional events, for example the sale of group activities.

By performing the procedures above at components, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

The topics relating to the key audit matters from our 2016 audit remain significant for 2017 given the nature of the activities within the group and the market circumstances, except for:

- Impairment testing of goodwill; and
- Restructuring provision.

In 2016 goodwill relating to the activities in Turkey was impaired. After this impairment the risk of a material misstatement in the goodwill relating to the remaining cash generating units has decreased. The amount of the restructuring provision decreased by utilization in 2017, reducing the risk of a material misstatement and was no longer a significant part of our audit procedures.

| Key audit matter | How our audit addressed the matter |
|---|---|
| *Disclosures on the capital position based on Solvency II regulations*<br>*Refer to note 2 to the financial statements.*<br><br>Achmea, as an insurance group, determines the required capital to cover the risk exposure based on the Solvency II requirements. The group used a partial internal model approved by the College of Supervisors for some risks to determine the capital requirements in the Netherlands and in Greece. For the other | We verified that the adjustments to come from the IFRS balance sheet to the economic balance sheet, the basis for the calculation of the available capital, are accurate and complete and in accordance with Solvency II regulations. We have tested the estimates (parameters and assumptions with respect to mortality, claims, disability, recovery, lapse and future expenses) used to determine the cash flows to the observed historical developments in the insurance portfolio. Where the assumptions |

| Key audit matter | How our audit addressed the matter |
|---|---|
| risks, the standard formula is applied.<br><br>When determining the available funds (€8,386 million) and the required capital positions (€4,555 million) some important estimates and valuation models are applied, in which input is used, that is not observable in the market. The main elements are:<br>- The cash flows used to determine the economic value of the technical provisions and reinsurance recoverables;<br>- Expected premium income for the next year;<br>- Projected fiscal results and an analysis of future realisations;<br>- The loss absorbing capacity of deferred taxes resulting from a shock in the solvency capital.<br><br>Given the management estimates and complex valuation models, there is a higher risk of a misstatement. As the solvency ratio is an important metric and the Solvency II information is being used in the capital- and dividend policy of the company, we believe this information is important. | take into account actions of management, we have challenged management on the feasibility and associated impact. We determined that management's estimates are supported by evidence and that the estimates used are reasonable.<br><br>We assessed that the capital requirements for each sub risk are calculated in accordance with Solvency II regulations, or the approved internal model where applicable. In this respect we tested the internal control procedures concerning the data used, the model governance and the calculation process. We also performed sample tests on the data used and the calculations performed.<br><br>We tested the loss absorbing capacity of deferred taxes that is taken into account. Herewith, we evaluated the projections of future (fiscal) results. These projections are based upon approved budgets and forecasts. For the life-business these reconcile to the cash flow projections that are made to calculate the technical provisions. We have performed back-testing on budgets and the previous year's forecasts. Further we have assessed that the valuation differences between the fiscal and the Solvency II valuation are taken into account in the correct year of the projection. Furthermore we focussed on the accuracy of the movements in the expected results, due to measures to recover that capital position, the correct timing of the inclusion of losses from the shock in fiscal results and that regulations with respect to offsetting of losses are applied correctly. We determined that management's estimates are supported by available audit evidence.<br><br>Furthermore we assessed the adequacy of the disclosures. |
| *Assets and liabilities measured at fair value for which no listed price in an active market is available and valued using market information and significant unobservable input*<br>*Refer to note 9 to the financial statements*<br><br>The group has assets (€24,697 million) and liabilities (€1,017 million) valued on fair value on a recurring basis, where no listed price in an active market is available. In measuring these assets and liabilities (property for own use, investment property, financial instruments, mortgages and the banking credit portfolio) valuation methods are used based on inputs that are directly or indirectly observable from market information and unobservable inputs. Further, the group has €5,516 million of assets and liabilities (€5,002 million) valued at fair value on a non-recurring basis.<br><br>The valuation of these assets and liabilities is important to our audit as it is highly dependent on estimates (various assumptions and techniques are used) which contain assumptions that are not observable in the market. The importance of management estimates combined with the extent of these items, result in a higher risk of a misstatement. An inherent risk exists in the | We tested the operating effectiveness of controls related to the source data of assets and liabilities, and concluded that, where relevant for our audit, we can make use of this.<br><br>In respect of financial instruments (assets and liabilities) that are valued using valuation models and with market observable inputs, we tested the valuation models and based upon a sample verified the used market information Based on the sample we agreed the market data used to data available for comparable listed instruments.<br><br>In respect of the audit of property for own use and investment property, we, amongst others, considered the objectivity, independence and expertise of the external appraisers that are hired by the group, and assessed the reasonability of the property related data as used by the external appraisers. Furthermore, we determined for a sample of the property for own use and investment property a range of acceptable outcomes and verified whether the valuations fall within. |

| Key audit matter | How our audit addressed the matter |
|---|---|
| valuation of investment property because limited representative transactions in the current market exist. | In respect of the banking credit portfolio our procedures were focused on the determination of the future cash flows from this portfolio, which includes the non performing risk. We tested the pricing models and inputs (contract data, risk of non-performance, discount rate) used by the company, including comparison with market data based on the specific Achmea portfolio characteristics. No significant deviations are noted.<br><br>In respect of the mortgage loan portfolio valued at fair value, we focused on testing the appropriateness of the applied discount rate. We assessed that interest rates are derived appropriately from available market information and that the discount rates as used are within our acceptable range of discounts. We tested the operating effectiveness of the procedures that assure that the source data of the individual loans as used in the valuation is accurate and complete.<br><br>Furthermore, we assessed the adequacy of the disclosures, particularly on completeness and accuracy of the fair value hierarchy disclosures and related sensitivities. |
| *Uncertainty in the valuation of the tax position*<br>*Refer to note 1 I to the financial statements.*<br><br>The group is involved in a legal procedure in respect of the applicability of the Dutch tax exemption on certain results relating to the disposal of activities. The acceptability of the fiscal treatment is depending on the verdict in a pending court case.<br><br>The tax liability reflects management's best estimate of the amounts actually to be paid. The legal position is evaluated with the use of the company's internal tax advisors and external legal advisors.<br><br>As a part of our audit, we considered the tax provision important given the related subjectivity and uncertainty in the outcomes of the positions. | We have analysed, the position of the tax authorities, the internal position papers and external legal opinions, based upon the information obtained. We evaluated the arguments raised in the case from both the group's and the tax authority's position, the tax legislation, the verdict of the tax court and existing jurisprudence to assess the appropriateness of the tax position as included in the financial statements. Based upon the procedures performed we determined that the assessment of management is based upon available audit evidence and the assessment is reasonable.<br><br>Furthermore, we assessed the adequacy of the disclosures. |
| *Uncertainties in the valuation of assets and liabilities arising from insurance contracts*<br>*Refer to note 2, 7 and 17 to the financial statements for the related disclosures*<br><br>The calculation of the assets and liabilities arising from insurance contracts is complex, highly judgmental and is based on assumptions which are affected by future economic and political conditions in particular regarding healthcare insurance.<br><br>**Life insurance**<br>The assumptions used for the liabilities relating to life insurance contracts of €45,369 million relate to risks regarding mortality, longevity, lapses and future expenses and other assumptions used in the liability adequacy test. Furthermore the valuation of these liabilities arising from life insurance contracts is affected by | **Internal controls**<br>We performed tests on the operating effectiveness of the company's procedures to ascertain that the data used in the valuation of the liabilities arising from insurance contracts is adequate and complete. Management has concluded that a number of internal controls with respect to data quality, reconciliations between financial administration and insurance technical systems did not work effectively during the year.<br>In a response, management has, performed mitigating internal controls. We have tested the internal controls considered to be effective and the mitigating internal controls and concluded, where relevant for our audit, we could rely on these controls. These procedures include data analysis based on business rules and follow up procedures on exemptions. |

| Key audit matter | How our audit addressed the matter |
|---|---|
| market discussions on the transparency of expenses of investment linked contracts. The company has analysed the (Legal) rulings with respect to the complaints on transparency on investment linked contracts in the Dutch market. Further, it is assessed if the rulings should result in compensating measures in the company's own portfolio.<br><br>**Non-Life insurance**<br>The assumptions used for non-life insurance liabilities of €7,421 million relate to the amount of the claim, the number of incurred but not yet reported claims, risks regarding catastrophe, lapse, incidence & recovery rates and future expense and other assumptions used in the liability adequacy test. Furthermore the valuation of the assets and liabilities arising from non-life insurance contracts is affected by government regulations, in particular regarding the claims with respect to workers' compensations insurance (WGA).<br><br>**Health insurance**<br>The main uncertainty in respect of the liabilities from Healthcare insurance contracts of €4,503 million results from the declarations to be received from Healthcare providers in respect of legitimate treatments that started before the balance sheet date. The valuation of receivables regarding the Dutch Health Insurance Fund of €2,233 million is an inherently uncertain process, involving assumptions for national healthcare costs and allocation of healthcare costs to budget parameters. Any change in the assumptions could have a significant impact on the settlement with the Health Insurance Fund. Furthermore, the measurement of the Onerous Contracts Provision (€109 million) is a significant estimate. This is, among others, based on the expected budget and the expected claims in 2018. As the healthcare-costs as from the year 2015 are not yet settled, this also increases this uncertainty.<br><br>**Reinsurance**<br>The assumptions and uncertainties also apply for the related claims from reinsurance contracts. (for life-insurance €205 million and for non-life insurance €451 million).<br><br>**General**<br>The assumptions are mainly based upon the judgments of management. The group has extensive procedures and internal controls to measure assets and liabilities from insurance contracts, and to test the liability adequacy of the technical provisions. The significance of management's estimates combined with the extent of the related liabilities and assets result in a higher risk of misstatements. We therefore considered this a key audit matter. | **Assumptions**<br>We performed testing of the company's procedures regarding the determination of the assumptions. We also tested these assumptions to market observable data. The quality of previously made estimates are tested by actuarial analysis of the technical results of the group during the year compared with the expected outcome based on the assumptions used. We discussed the outcome of the actuarial analysis with the internal actuaries and the actuarial function holder. Specific attention was given to mortality and future expenses in respect of the life insurance business, the assumptions on future incidence and recovery in disability and worker compensation insurance, the impact of court judgments in respect of open injury claims and the assumptions used to estimate the budget contribution in respect of health insurance business. We determined that management's assumptions are based upon available audit evidence and the assumptions used are reasonable.<br><br>**Investment linked contracts**<br>With respect to the cost transparency of investment linked contracts we verified if agreements reached with consumer parties are included in the measurement of provisions and whether products have been adjusted. We have tested the procedures related to the measurement and calculation of provisions by verifying that published rulings are included in the analysis and an evaluation was made of the impact on the group's own portfolio. Management is challenged on the applied estimates. We assessed that management, in setting the provisions, has sufficiently taken into account available (market)information.<br><br>**Health care insurance**<br>We have tested the procedures to estimate the ultimate Healthcare claims to be received. These procedures contain actuarial projections based on claim development patterns, where we have tested the claim data used. Next to this, the procedures include an estimate of the claims based on the Healthcare contracts agreed with the providers, where we have tested the data used by reconciling them to the contracts. The valuation of receivables regarding the Dutch Health Insurance Fund is tested by reconciling the information, with respect to profiles of the insured population, to confirmations received from the Health Insurance Fund in respect of the budget parameters. Furthermore we tested the assumptions related to the development of macro (economic) health costs with public information from Zorgverzekeraars Nederland and how this was translated into the expected impact on budget. We determined that management's assumptions are supported by evidence and the assumptions used are reasonable.<br><br>With respect to the provision for onerous contracts in the health insurance activities, we tested the assumption setting process to estimate the claims and future expenses to determine the budget result for each type of policy. We tested the projected |

| Key audit matter | How our audit addressed the matter |
| --- | --- |
| | expenses to confirm that they did not include expenses already incurred before the balance sheet date. We also tested the accuracy of the number of policies based on the underlying records.<br><br>**Disclosures**<br>Furthermore, we assessed the adequacy of the disclosures and especially the sensitivities. |

## REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- Annual Review – Introducing Achmea;
- Annual Review – Context & Strategy;
- Annual Review – Objectives & Progress;
- Annual Review – Other information;
- Annual Review – Appendices;
- Year Report – Management Report;
- Year Report – Governance;
- Year Report – Other information;
- Supplements.

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements. We have performed an assurance engagement on the annual report (Annual Review, Management Report and Reporting on Corporate Governance). For the scope and outcome of our procedures we refer to our separate assurance report included on page 208-210 of the annual report.

The Executive Board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Our appointment

We were appointed as auditors of Achmea B.V. on 29 April 2011 by the Supervisory Board following the passing of a resolution by the shareholders at the annual meeting held on 6 April 2011 and the appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of 7 years.

### No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

### Services rendered

The services, in addition to the audit, that we have provided to the company and its controlled entities, for the period to which our statutory audit relates, are disclosed in note 24 to the financial statements.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going-concern basis of accounting unless the Executive Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

### Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion.

Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements.

Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 15 March 2018

PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by R.A.J. Swaak RA

## APPENDIX TO OUR AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS 2017 OF ACHMEA B.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Concluding on the appropriateness of the Executive Board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect we also issue an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

# Assurance report of the independent auditor

To: the General Meeting and Supervisory Board of Achmea B.V.

## ASSURANCE REPORT ON THE ANNUAL REPORT 2017

### Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Annual Review, the Management Report and the reporting on Corporate Governance as included in the Annual Report 2017 of Achmea B.V. does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to corporate social responsibility; and
- the events and achievements related thereto for the year ended 31 December 2017, in accordance with the Sustainability Reporting Guidelines of GRI and the company's reporting criteria.

### Our opinion

In our opinion the Annual Report of Achmea B.V. is, in all material respects, presented reliably and adequately for:

- 'Our employees' on page 31-33 of the Annual Review and 'Employees and diversity' on page 33-35 of the Year Report
- 'Our financial results' on page 40-43 of the Annual Review and "Results and developments in 2017' on page 5-25 of the Year Report.

#### What we are assuring

The Annual Report comprises a representation of the financial and non-financial policy and the business operations of Achmea B.V., Zeist (hereafter: Achmea) relating to corporate social responsibility and of the events and achievements related thereto during 2017.

We have reviewed the Annual Report for the year ended 31 December 2017, as included in the following sections:

- Annual Review:
  - o Introduction Achmea on page 3-13
  - o Context & Strategy on page 14-20
  - o Objectives & progress on page 21-43
- Year Report:
  - o Management Report on page 3 -35
  - o Corporate governance on page 47-52.

In addition we have audited the Annual Report for the year ended 31 December 2017, as included in the following sections:

- Annual Review:
  - o 'Our employees' on page 31-33
  - o 'Our financial results' on page 40-43
- Year Report:
  - o 'Results and developments in 2017' on page 5-25
  - o 'Employees and diversity' on page 33-35.

#### The following information is not part of the scope of our engagement

- The links to external sources or websites are not part of the Annual Report that we have reviewed and the information audited by us. We do not provide assurance over information outside of this Annual Report.
- The Annual Review contains a Glossary. This information is not reviewed by us and is not in scope of our engagement.
- The Management report includes information on new business in life insurance (page 16). The data regarding this information is not part of our review and are not in scope of our engagement.
- The Year Report includes the chapters 'Report of the Supervisory Board' and 'Biographies of Executive and Supervisory Board members' on pages 37-46 and 53-56. These chapters are not reviewed by us and are not in scope of our engagement.

### The basis for our conclusion and opinion

We conducted our review and audit in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assurance engagements on corporate social responsibility reports' ('Assurance-opdrachten inzake maatschappelijke verslagen'). Our engagement is aimed to obtain a combination of limited assurance (resulting in a conclusion) on the Annual Report and reasonable assurance (resulting in opinion) on the following information:

- Annual Review:
  - o 'Our employees' on page 31-33
  - o 'Our financial results' on page 40-43
- Year Report:
  - o 'Results and developments in 2017' on page 5-25
  - o 'Employees and diversity' on page 33-35.

Our responsibilities are further described in the paragraph 'Our responsibilities for the assurance-engagement of the Annual Report'.

We believe that the assurance information we have obtained is sufficient and appropriate to provide a basis for our conclusion and opinion.

### Independence and quality control
We are independent of Achmea B.V. in accordance with the 'Code of Ethics for Professional Accountants, a regulation with respect to independence' ('Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' - ViO) and other for the engagement relevant independence requirements in the Netherlands. Furthermore we have complied with the 'Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct' ('Verordening gedrags- en beroepsregels accountants' - VGBA).

We apply the 'detailed rules for quality systems' ('Nadere voorschriften kwaliteitssystemen') and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other applicable legal and regulatory requirements.

### Reporting criteria
Achmea B.V. developed its reporting criteria on the basis of the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and article 391, Part 9, Book 2 Dutch Civil Code. Detailed information about the reporting criteria are disclosed on page 47 of the Annual Review.

The information in the scope of this assurance engagement needs to be read and understood in conjunction with these reporting criteria. The Executive Board is responsible for selecting and applying these reporting criteria. The absence of a significant body of established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

### Inherent limitations
The Annual Report includes prospective information such as expectations on ambitions, strategy, plans, risk assessments and estimates. Inherently, the actual results are likely to differ from these expectations, due to changes in assumptions. These differences may be material. We do not provide any assurance on the assumptions and achievability of prospective information in the Annual Report.

## Responsibilities for the Annual Report and the assurance-engagement

### Responsibilities of the Executive Board
The Executive Board of Achmea B.V. is responsible for the preparation of the Annual Report in accordance with the Sustainability Reporting Standards of GRI and the applied reporting criteria as disclosed in chapter 'Reporting principles' of the Annual Review, including the identification of intended users, the definition of material subjects and the applicability of applied criteria for the objectives of intended users. The choices made by the Executive board regarding the scope of the Annual Report and the reporting principles are summarized on pages 47-48 of the Annual Review. The Executive board is responsible for determining that the applied reporting criteria are acceptable in the circumstances.

The Executive Board is also responsible for such internal control as it determines is necessary to enable the preparation of the Annual Report that is free from material misstatement, whether due to fraud or errors.

The Supervisory Board is responsible for overseeing the company's reporting process on the Annual Report.

### Our responsibilities for the assurance-engagement of the Annual Report
Our responsibility is to plan and perform a combined limited and reasonable assurance engagement to obtain sufficient and appropriate assurance information to provide a basis for our conclusion and opinion.

The review of the Annual Report is aimed at obtaining limited assurance. In obtaining a limited level of assurance, the performed procedures are aimed at determining the plausibility of information and are less extensive than those aimed at obtaining reasonable assurance in an audit engagement. The assurance obtained in review engagements aimed at obtaining limited assurance is therefore significantly lower than the assurance obtained in assurance engagements aimed at obtaining reasonable assurance.

The procedures performed on the information about 'Our employees' and 'Our financial results' in the Annual Review and 'Results and developments in 2017' and 'Employees and diversity' in the Year Report are aimed at obtaining reasonable assurance that this information is free from material misstatements. Reasonable assurance is a high level but not an absolute level of assurance and therefore we may not detect all misstatements during our audit.

Misstatements may arise due to irregularities, including fraud or error and are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Annual Report. The materiality affects the nature, timing and extent of our review procedures and the evaluation of the effect of identified misstatements on our conclusion and opinion.

### Procedures performed

We have exercised this combined review and audit engagement maintaining professional scepticism and if relevant applied professional judgement and have throughout the assurance engagement, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements. Our work was performed by a multidisciplinary team (which is part of the group audit team) with experience in sustainability reports and giving assurance on this.

Our main procedures include:

- Performing an external environment analysis and obtaining insight into relevant social themes and issues, relevant laws and regulations and the characteristics of the organization;
- Evaluating the appropriateness of the reporting criteria used and its consistent application, including the evaluation of the results of the stakeholders' dialogue, and the reasonableness of estimates made by management and related disclosures in the Annual Report;
- Evaluating the design and implementation of the systems and processes for information gathering and processing for the information in the Annual Report;
- Interviewing relevant staff, responsible for providing the information in the Annual Report, carrying out internal control procedures on the data and consolidating the data in the Annual Report.
- Evaluating relevant internal and external documentation, on a test basis, to determine the reliability of the information in the Annual Report;
- An analytical review of the data and trends;
- Assessing the consistency of the information included in the Annual report not in scope for this assurance report;
- Assessing whether the Annual Report has been prepared 'in accordance' with the Sustainability Reporting Standards of GRI.
- Evaluating the overall presentation, structure and content of the Annual Report, including the disclosures and assess whether the Annual Report is a reliable and adequate representation of the underlying transactions and events;
- Evaluate the consistency between the non-financial information in the Annual Report and the other information in the Annual Report outside the scope of our review engagement;
- Evaluate the internal and external documentation to determine whether the information, including the explanations, presentation and assertions made in the Annual Report are adequately substantiated.

We communicate with the Supervisory Board on the planned scope and timing of the engagement and on the significant findings that result from our engagement, including significant shortcomings in the internal controls.

Amsterdam, 15 March 2018
PricewaterhouseCoopers Accountants N.V.

Originally Dutch version signed by R.A.J. Swaak RA