# Annual report 2017

## Achmea Schadeverzekeringen N.V.

Achmea Schadeverzekeringen N.V. is registered at the Chamber of Commerce under number 08053410

In this document the English translation of the official Dutch annual report is presented. In case of differences between the Dutch and English version, the Dutch version is leading.

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# REPORT OF THE MANAGEMENT BOARD

## GENERAL

The objective of Achmea Schadeverzekeringen N.V. is to carry out Non-life insurance business. The company carries Non-life and Income protection insurance products in areas such as occupational disability insurance and other health and accident insurances, car insurance (comprehensive and third-party liability), fire and other property damage and general liability. The products are sold mainly in the Netherlands to both private and corporate customers.

## ORGANISATIONAL STRUCTURE

### Legal structure

Achmea Schadeverzekeringen N.V. is part of the Achmea Group. Achmea B.V. (Achmea) owns 100% of the shares of Achmea Schadeverzekeringen N.V.

Achmea Schadeverzekeringen N.V. is domiciled in Apeldoorn, the Netherlands. The following entities are subsidiaries of Achmea Schadeverzekeringen N.V.:

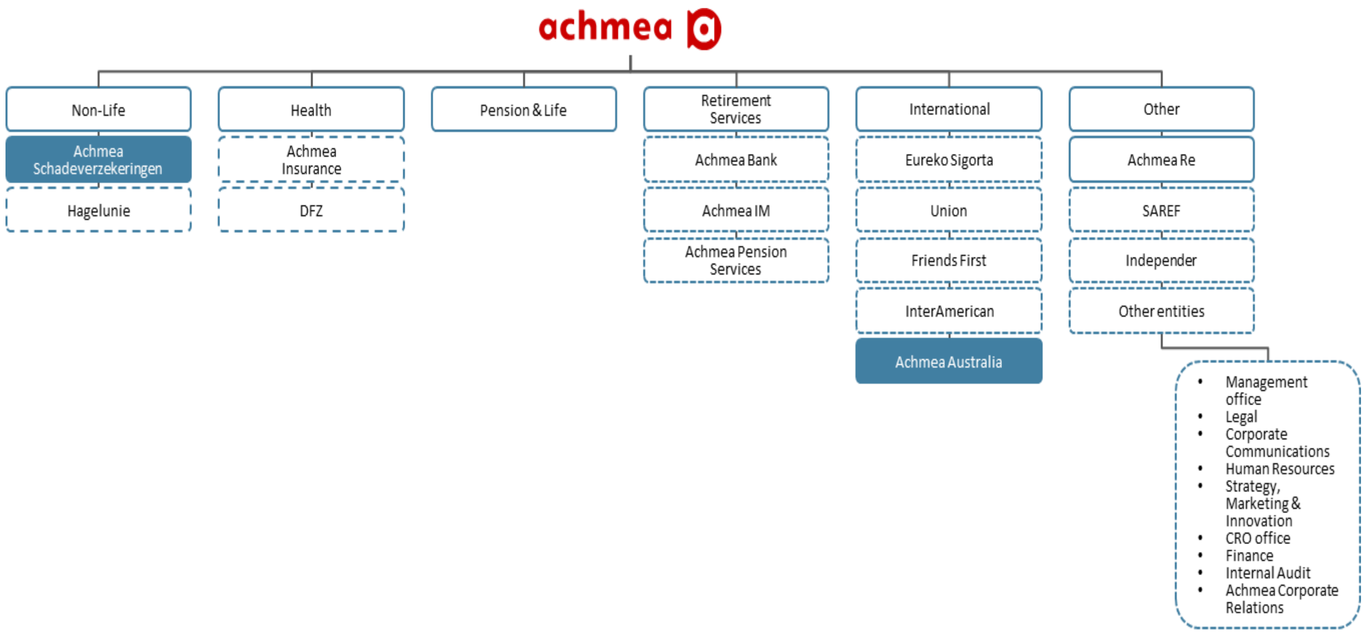
- Achmea Non-Life Beleggingen B.V.
- Achmea Woninghypotheken III B.V.
- Wagenplan B.V. (50%, consolidated)

The following entity is a participating interest of Achmea Schadeverzekeringen N.V.:

- N.V. Interpolis Onroerend Goed (33.15%)

### Organisational structure

The following organisation chart gives an overview of how the Achmea Group's activities are organised. These include the activities for Achmea Schadeverzekeringen N.V.



Achmea Schadeverzekeringen N.V.'s primary activities are undertaken in Achmea Schadeverzekeringen and Achmea Australia. Direct, banking and brokerage channels are used to sell its products. Retail and corporate customers are provided with, amongst others, car insurance, property insurance and liability insurance. In addition, various types of sickness insurance and individual and group disability insurances are offered.

All support services such as accommodation, ICT, administration and facility services are carried out by executive staff and shared service departments. This also applies to support activities for personnel. The employees who work for Achmea Schadeverzekeringen N.V. are employed by Achmea Interne Diensten N.V.

## STRATEGY

### Achmea's current strategy

Our strategy focuses on strengthening our current business models and on developing new products, services and business models. We want to be personally relevant to our customers and preferably on a daily basis. We provide insights and dialogue in order to deal better with risks and uncertainties. If desired, we help our customers determine how to deal with these, based on their own risk acceptance policy. Achmea Schadeverzekeringen N.V. offer insurance policies and services that match the solidarity our customers choose for. And when an insured risk occurs, we pay compensation for the damage and help in recovery.

### Achmea's four pillars of strategy

*Consolidating our current position*
Taking Customer Interest as the basic principle, the key is to maintain our market position and to achieve solid financial results. First and foremost, this requires us to serve our customers via existing activities. Each day, get it right the first time and continuing to improve our processes. Here, we are responding to the customer population created by demographic trends, systemic changes, new laws and legislation and growing digital customer interaction. As a result, we can also invest in the further development of our company.

*Digital customer interaction*
New challenges in customer interaction often come from outside the sector. Customers justifiably have ever-higher expectations. For this reason, we increasingly offer more personalised interaction, including the option to switch between channels or devices without a problem. Personalised online (robot) advice and automated services are part of this. Real-time insight into data on customers and the options of online and mobile interaction are conditional here.

*Expanding existing business models*
New opportunities in our corporate model are linked to the advent of new technologies and devices, such as artificial intelligence, robotics, wearables and the Internet-of-Things. This allows for greater efficiency in business operations and customer interaction and provides new possibilities for creating value for our customers.

Another important aspect is that this allows for different movements, such as the shift from push to pull. Customers take the initiative here. Emphasis is increasingly placed here on prudent management, especially in dealing with our customers' personal data.

*Strategic innovation*
Parties outside the sector are present in the value chain or parts of it, blurring market borders and making providers' new ecosystems visible. Data handling, innovation and partnering determine the level of success here. We are responding to this by leading the way in the market (possibly in selected domains) via our own platforms or ecosystems. We may also opt to operate as a follower and join the platforms or ecosystems of others. We are investing in future business models that contain services next to insurances for both familiar risks and in new risk areas.

### Focus of Achmea Schadeverzekeringen N.V.

Achmea Schadeverzekeringen N.V. in the Netherlands operates via brands such as Centraal Beheer, Interpolis, FBTO, Avéro Achmea, Inshared and Zilveren Kruis. Achmea Schadeverzekeringen N.V. is the market leader in property & casualty and occupies the third place in income protection. Customer appreciation is high for direct online distribution and distribution via Rabobank: In terms of NPS, Centraal Beheer and Interpolis are both in the top 3 in the market. With a view to further growth in this market, we are investing substantial amounts in further renewing our services and innovative solutions for safe homes and working environments and clean, safe and smart mobility. We want to help our customers to better protect themselves against the risks of climate change. Claims cost control, reductions in expenses and setting sustainable premiums are important factors here.

### Progress

In 2017 further improvements were made in digitisation and mobile interaction with customers. Using (assisted) self-service and omni-channel customer services, Centraal Beheer's retail and commercial customers can purchase products and services themselves more conveniently and make real-time changes.
We cooperate with (potential) customer in order to improve services and introduce innovative concepts into the market

Interpolis and Rabobank have intensified their partnership. Together they have introduced innovations to the insurance market, by offering package propositions for the retail and commercial markets and excellent service in dealing with claims.
The personal customer environment MijnFBTO was upgraded in 2017.

## DEVELOPMENTS DURING THE FINANCIAL YEAR AND RESULTS

### General

The financial statements have been prepared in accordance with International Financial Reporting Standards, including International Accounting Standards (IAS) and Interpretations, as adopted by the European Union (EU-IFRS).

RATIOS (X €MILLION)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Gross earned premiums | 3,250 | 3,155 |
| Operating expenses | 823 | 892 |
| **Result before taxes** | **126** | **−202** |
| RATIOS PROPERTY & CASUALTY | | |
| Claims ratio | 71.0% | 81.2% |
| Cost ratio | 27.3% | 30.4% |
| **Combined ratio** | **98.3%** | **111.6%** |
| RATIOS INCOME PROTECTION | | |
| Claims ratio | 72.8% | 68.6% |
| Cost ratio | 20.5% | 22.7% |
| **Combined ratio** | **93.3%** | **91.3%** |

### Gross earned premiums

Gross earned premiums increased by €95 million to €3,250 million (2015: €3,155 million). Gross written premiums from property & casualty insurance business increased to €2,650 million (2016: €2,565 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 governing temporary employees (Wet beperking ziekteverzuim en arbeidsongeschiktheid vangnetters, Restriction of Absenteeism and Disability Safety Net Act).

### Result before taxes

In 2017 the result before taxes was €126 million (2016: €-202 million). When adjusted for the cost of claims arising from the severe hail calamity in June 2016 (impact: €100 million), the result before tax was €228 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 97.4% (2016: 107.7%) and 71.3% respectively (2016: 78.8%).

### Property & Casualty

The result before taxes from our property & casualty business increased to €82 million in 2017 (2016: -€250 million).
When adjusted for the severe hail calamity in June 2016 (impact: €100 million), the result before tax from our property & casualty business increased by €232 million in 2017.
The improvement in the result before taxes 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 minimise the use of smartphones in traffic. Customers who use the Interpolis AutoModus app submit fewer claims on average. Partly as a result of the implemented improvement and expense measures, the combined ratio for property & casualty improved by 13.3 %-pt. to 98.3% in 2017 (2016: 111.6%) due to a sharp improvement in both the claims ratio and the expense ratio. The claims ratio stood at 71.0% (2016: 81.2%). The expense ratio improved by 3.1 %-pt. to 27.3% in 2017 (2016: 30.4%).

### Income protection

The result before taxes for our income protection insurance products totalled €44 million (2016: €49 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. 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%).

ABRIDGED STATEMENT OF THE FINANCIAL POSITION (X €MILLION)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Investments | 6,338 | 6,113 |
| Other assets | 1,620 | 1,793 |
| **Total assets** | **7,958** | **7,906** |
| | | |
| Total equity including minority interest | 973 | 927 |
| Liabilities related to insurance contracts | 6,476 | 6,317 |
| Other liabilities | 509 | 662 |
| **Total liabilities** | **7,958** | **7,906** |

### Investments

The main portion of the investment portfolio of Achmea Schadeverzekeringen N.V. consists of the matching portfolio (investments and the corresponding liabilities) for liquid and illiquid liabilities. This matching portfolio comprises fixed-income securities and mortgages. This requires credit-like long-term investments to meet the obligations of long-term illiquid liabilities. The public market barely provides such instruments and the realisable spreads have become very low. This does not yet apply to the less liquid categories. Therefore Achmea Schadeverzekeringen N.V. has decided to increase the exposure to direct mortgages. The mortgage portfolio was expanded in 2017. Bonds and asset backed securities were sold to finance the expansion. Moreover, there was a negative return on short-term government bonds at the end of 2016 and start of 2017. With a view to reducing the negative return somewhat, at the start of 2017 about €500 million in short-term government bonds were sold in exchange for money market investments with a better return (30-40 bps extra return).

### Equity

Total equity increased by €46 million to €973 million (2016: €927 million). This increase is mainly caused by a positive result after tax (€94 million), minus paid dividends amounting to €48 million.

### Liabilities related to insurance contracts

Liabilities related to insurance contracts slightly increased by €159 million to €6,476 million (2016: €6,317million) mainly due to the provisions for personal injury claims the as a result of increasing frequency of claims.

## CAPITAL AND RISK MANAGEMENT

Achmea Schadeverzekeringen N.V. comes under Achmea's general capital and risk management structure.

As a financial services provider, Achmea Schadeverzekeringen N.V. is exposed to insurance risk, market risk, counterparty default risk, liquidity risk, operational risk, compliance risk and strategic risk. The capital and risk management framework that has been established ensures that Achmea Schadeverzekeringen N.V. identifies risks in time, manages them carefully and has sufficient capital.

At year-end 2017 Achmea had a solid Solvency II capital position and a Solvency II ratio of 140%. The composition of the risk profile and the key risks identified remained largely unchanged in 2017.

This chapter summarises the company's capital and risk position and gives details of the main changes in its capital and risk management. Explanatory note 2 Capital and risk management in the financial statements contains a more detailed description of Achmea Schadeverzekeringen N.V.'s risk profile and its capital and risk management policy.

### Capital and liquidity position

Achmea Schadeverzekeringen N.V. 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. Sufficient liquidity, part of it comprising a buffer at group level, is available within Achmea Group to support the supervised entities, including Achmea Schadeverzekeringen N.V., if this becomes necessary.
- 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 model is already being used for internal management purposes. 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 Solvency Capital Requirement (SCR) under Solvency II, Achmea Schadeverzekeringen N.V. uses a partial internal model approved by the College of Supervisors. This involves a calculation of the capital adequacy requirements for some insurance risks for the property & casualty and income protection segments using an internal model. The other risks are calculated using the Solvency II standard formula. The solvency ratio under Solvency II is 140% (1 January 2016: 137%).

SOLVENCY RATIO (X €MILLION)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Eligible own funds Solvency II | 1,054 | 1,029 |
| Solvency Capital Requirement | 754 | 750 |
| Surplus | 300 | 279 |
| **Solvency II ratio** | **140%** | **137%** |

The eligible own funds amounts to €1,054 million (1 January 2016: €1,029 million).

ELIGIBLE OWN FUNDS SOLVENCY II (X € MILLION)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Tier 1 | 1,054 | 1,029 |
| **Total eligible own funds Solvency II** | **1,054** | **1,029** |

The Solvency II ratio has increased by 3 %pt. mainly caused by an increase of eligible own funds. The increase in the Solvency II eligible own funds results from a positive net result. This is offset by a dividend payment of €48 million and a restriction on equity for the Australian branch of €14 million.

The Solvency Capital Requirement mainly increased due to an increase in health risk, offset by a decrease in market risk. Health risk increased by €23 million as a result of higher provisions for accident and disability. Market risk decreased by €16 million mainly as a result of a decline in interest risk.

Market risk decreased by €16 million mainly as a result of a decline in interest rate risk. Interest rate risk decreased mainly due to use of the new calculation method for inflation risk and a decrease in the level of provisions. This was partly compensated for by an increase in both spread risk and equity risk. Equity risk increased due to the contraction of equity transitional, an increase in the value of the equities caused by market developments and a higher shock on equities caused by the equity dampener.

Note 2 Capital and risk management in the financial statements contains a more detailed description of the Solvency II outcomes. The relationship between the IFRS equity and the permitted equity under Solvency II is also explained in this note.

### Solvency II sensitivities

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

SOLVENCY II SENSITIVITIES

X (€ MILLION)

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | AVAILABLE SOLVENCY II OWN FUNDS | CAPITAL REQUIREMENT | RATIO | AVAILABLE SOLVENCY II OWN FUNDS | CAPITAL REQUIREMENT | RATIO |
| Equity -20% | −73 | −29 | −5% | −81 | −19 | −7% |
| Interest -50 bp * | −10 | −7 | 0% | | | |
| Interest +50 bp * | 11 | 6 | 0% | | | |
| Property -20% | −13 | −2 | −1% | −13 | −1 | −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.*

### Rating agencies

Rating agencies ) use their own methodologies to assess the creditworthiness of a company. For this purpose, ratings are included which S&P and Fitch have assigned to the Achmea Schadeverzekeringen N.V.

RATING

| | TYPE | RATING |
|---|---|---|
| S&P | CCR/IFSR* | A |
| Fitch | CCR/IFSR* | A+ |

* *CCR/IFSR: Counterparty Credit Rating/Insurer Financial Strength Rating*

Early 2017 S&P adjusted the outlook from ‘stable’ to ‘negative’. The Fitch rating outlook is ‘stable’.

### Capital and liquidity flows

Access to the capital and credit markets is arranged by Achmea B.V. Financing of Achmea Schadeverzekeringen N.V. is arranged by the holding company, for example through capital increases or (subordinated) loans.

### Risk management

Achmea’s 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. Note 2 in the financial statements on capital and risk management contains a detailed description of Achmea’s risk profile and its IRMF.

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 statement on the procurement of reinsurance, including the Key Risk Indicator (KRI) of deviation from the expected annual result due to one or more catastrophic events.
- In 2017, the 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, in 2017 extra attention was also devoted to the management of interest rate risk and spread risk.
- The market risk budget associated with the investment portfolio has remained unchanged. Furthermore, Achmea Schadeverzekeringen N.V. has continued to expand its mortgage portfolio. A number of smaller changes were made to the investment mix in order to increase returns.

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 the company’s information security policy is regularly assessed, and measures are implemented where necessary. Extra attention is paid 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 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 that oversees operational risk management activities. Each year, the KR/KCs in the Achmea Control Framework (CFW) are refined and where necessary tightened up.

## CORPORATE GOVERNANCE

### Introduction

Achmea Schadeverzekeringen N.V. is part of the Achmea Group, in which Achmea B.V. (‘Achmea’) is the ultimate parent company. Achmea is a private company with limited liability. Its registered office and headquarters are located in Zeist, the Netherlands. Achmea adheres to a number of relevant governance codes: the Dutch Insurers’ Code and the Dutch Corporate Governance Code.

### Insurers’ Code of conduct

The Insurers’ Code of Conduct includes a number of principles relating to the conscientious treatment of customers and the life-long education of directors and internal supervisors. This Code of Conduct (the most 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, its identity and its strategy map, and has integrated this into its processes and the Achmea Code of Conduct.

### 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 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 management 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 Code was then amended again in late 2016, on account of ongoing developments, the spirit of the times and overlaps with legislation.

Although Achmea and its insurance subsidiaries are not listed companies, 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.

Corporate governance is primarily determined at group level and is organised by setting up and organising a group-wide governance structure and by the formulation of group-wide policy. For further details reference is made to the Achmea Annual Report 2017 on the Achmea website at www.achmea.nl.

Achmea Schadeverzekeringen N.V.'s corporate governance is, to a significant degree, subject to the scope of operations of Achmea's corporate governance. Where relevant, specific points that are of importance in implementing the Corporate Governance for Achmea Schadeverzekeringen N.V. will be explained in more detail in the next section.

## Corporate Governance at the level of Achmea Schadeverzekeringen N.V.

### Responsibilities and role in Corporate Governance

The Management Board of Achmea Schadeverzekeringen N.V. comprised Mr M.G. Delfos and Mr F.J. Schuurman.

Achmea Schadeverzekeringen N.V. has a Supervisory Board. The Supervisory Board is responsible for monitoring and advising the Management Board. The regulations of the Supervisory Board apply to this task. The regulations also provide that the annual accounts of Achmea Schadeverzekeringen N.V., amendments to the regulations of the Supervisory Board and proposals for the distribution of dividends by Achmea Schadeverzekeringen N.V. must be submitted to the Supervisory Board for approval.

### Composition and diversity

The Dutch Corporate Governance Code and the Act on Management and Supervision ( as of 1 January 2013) apply to the reports compiled by Achmea Schadeverzekeringen N.V. Achmea Schadeverzekeringen N.V. currently has two managing directors and four supervisory members.

The members of the Supervisory Board of Achmea Schadeverzekeringen N.V. are also members of the Supervisory Board of Achmea B.V. or the Executive Board of Achmea B.V. The Supervisory Board of Achmea Schadeverzekeringen N.V. comprises of Mr A.J.A.M. Vermeer (chairman), Mr A.W. Veenman and Mr R. Th. Wijmenga and Mr R. Otto, who has been appointed member of the Supervisory Board effective 1 January 2018.

Achmea Schadeverzekeringen N.V. recognises the importance and benefits of diversity. At Achmea B.V. level, there is an equal proportion of men and women in the Supervisory Board.

The primary criterion for the composition of the Supervisory Board of Achmea Schadeverzekeringen N.V is functionality. In addition to the directors under the articles of association, day-to-day management is also in the hands of the directors not appointed under the articles of association, the majority of whom is female. This demonstrates that there is sufficient diversity in the total management of Achmea Schadeverzekeringen N.V.

### Independence

All members of the Supervisory Board of Achmea Schadeverzekeringen N.V. fulfil their duties independently and not bound by any instructions. All members of the Supervisory Board meet the criteria of independence. Mr R. Otto was appointed member of the

Supervisory Board of Achmea Schadeverzekeringen N.V. as of 1 January 2018 based on his role as member of the Executive Board of Achmea B.V., the sole shareholder.

The members of the Supervisory Board are appointed by the general meeting of the company on the basis of their expertise and independence and take part in the meetings without reference to or prior consultation with the parties that nominated them or of which they are an executive or supervisory director. Where appropriate, they will refrain from taking part in deliberations or decision-making. All members of the Supervisory Board of Achmea Schadeverzekeringen N.V. may be supervisory board members at the companies forming part of the Achmea Group.

### Supervisory Board committees

Given its size and position within the group's structure, the Supervisory Board of Achmea Schadeverzekeringen N.V. has no sub-committees. The three sub-committees of the Supervisory Board of Achmea B.V., are the Audit & Risk Committee, the Remuneration Committee and the Selection & Appointment Committee. The Audit & Risk Committee plays a preparatory role in decision-making by the Supervisory Board of Achmea Schadeverzekeringen N.V.

### Continuing education

The managing directors keep their knowledge up-to-date by attending customised programmes and workshops on finance, corporate governance, risk management, compliance and auditing.

### Achmea Code of Conduct

Achmea aims to be a leader in terms of its own rules of conduct and in terms of anticipating current and new regulations. Active control exercised to foster integrity and prevent integrity violations and fraud reduces any negative impact on trust and returns, as well as limiting the cost of claims. Achmea therefore drew up a company Code of Conduct to ensure ethical conduct in accordance with Achmea's values and standards, the Achmea Code of Conduct.

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

The Achmea Ethics Committee advises the Executive Board and Group entities including Achmea Schadeverzekeringen N.V. on ethical dilemmas. It does so by assessing ethical and societal issues, as well as practical situations, against 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 Ethics Committee is chaired by Henk Timmer (member of the Executive Board) and consists of employees of different business units and external members. The Achmea Code of Conduct is available at www.achmea.nl.

### Key Company data

Achmea Schadeverzekeringen N.V. is a public limited company with its registered office in Apeldoorn, the Netherlands, and its principal place of business at Laan van Malkenschoten 20 in Apeldoorn. The objective of the company is to carry on non-life insurance business within the meaning of the Dutch Financial Supervision Act.

The company's authorised share capital amounts to €2,270,000 and consists of 5,000 shares with a nominal value of €454 each, of which 1,500 are issued and fully paid-up shares (the issued share capital is €681,000). The shares are registered. Achmea Schadeverzekeringen N.V. is part of the Achmea Groep. Achmea B.V. holds 100% of the shares in capital of Achmea Schadeverzekeringen N.V.

## SUBSEQUENT EVENTS

No events with significant financial consequences occurred after the balance sheet date.

Zeist, 10 April 2018

Management Board of Achmea Schadeverzekeringen N.V.,

M.G. Delfos F.J. Schuurman

# REPORT OF THE SUPERVISORY BOARD

## GENERAL

The Supervisory Board had three members in 2017. The members of the Supervisory Board of Achmea Schadeverzekeringen N.V. are also members of the Supervisory Board of Achmea B.V. Notwithstanding the Supervisory Board's own supervisory responsibilities, the Supervisory Board undertakes its work within the whole Group Supervision structure of the Supervisory Board of Achmea B.V.

The Supervisory Board consist of Mr A.J.A.M. Vermeer (chairman), Mr A.W. Veenman and Mr R.Th. Wijmenga. As of 1 January 2018, Mr R. Otto was appointed member of the Supervisory Board, increasing the number of members to four.

## COMPOSITION OF THE BOARD OF DIRECTORS

In 2017 the Management Board consisted of Mr M.G. Delfos and Mr F.J. Schuurman respectively board chairman and financial director of the Non-Life and Income division.

In addition to the directors under the articles of association, day-to-day management is also in the hands of the directors not appointed under the articles of association, the majority of whom is female. This demonstrates that there is sufficient diversity in the total management of Achmea Schadeverzekeringen N.V.

## REVIEW

The Supervisory Board met four times in 2017 in regular meetings. These regular meetings were held in the presence of the Management Board of Achmea Schadeverzekeringen N.V. and a representation of the Achmea Executive Board.

The topics on the agenda were, besides financial reports, current events in the market and the division, risk management, chain costs, the progress in business plan 2017 and the standardisation and automation of processes and systems. The continuity and financial health of Achmea Schadeverzekeringen N.V. was discussed at each meeting. The Supervisory Board paid particular attention to the premium policy, the policy with regard to loss-making portfolios and the claims control policy.

## RISK MANAGEMENT AND CONTACTS WITH (EXTERNAL) AUDITOR

In the regular meetings of the Supervisory Board of Achmea Schadeverzekeringen N.V. the risk reporting is a standard report, which is discussed extensively. The Supervisory Board has shared the priorities for 2017 in the areas of Risk & Compliance, and how the risk management process within Achmea Schadeverzekeringen N.V. is completed. The progress of the Risk & Compliance priorities is discussed at the regular meetings during the year.

The external auditor of Achmea Schadeverzekeringen N.V. is the same as the external auditor of the Achmea group. Contact with the external auditor is largely through the Audit Committee at Achmea group. In the discussion of the annual report and financial statements for 2016, the external auditor was at the meeting of the Supervisory Board to explain the findings of the audit. No issues have emerged.

## CONTINUING EDUCATION

Members of the Achmea Schadeverzekeringen N.V. Supervisory Board also sit on the Achmea B.V. Supervisory Board. The chairman of Achmea B.V.'s Supervisory Board supervises the organisation of the programme of continuing education for the members of the Supervisory Board, with the aim of maintaining - and where necessary improving - the expertise possessed by the Supervisory Board members. Each member participates in the programme drawn up by Achmea B.V.'s Supervisory Board, and accordingly complies with the requirements of continuing education.

## ACKNOWLEDGEMENTS

Looking back on 2017, the Supervisory Board would like to thank the employees and management of Achmea Schadeverzekeringen N.V. We have seen that in the reporting year they again put in a substantial amount of effort, thereby giving substance to Achmea Schadeverzekeringen N.V.'s qualities and values. We are confident that this management will continue in this pleasant working atmosphere in 2018.

Zeist, 10 April 2018

The Supervisory Board of Achmea Schadeverzekeringen N.V.,

A.J.A.M. Vermeer
Chairman

A.W. Veenman

R.Th. Wijmenga

R. Otto

## FINANCIAL STATEMENTS

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

(€ MILLION)

| | NOTES | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|---|
| **Assets** | | | |
| Associates and joint ventures | 12 | 72 | 79 |
| Property for own use and equipment | | 55 | 57 |
| Investments | 4 | 6,338 | 6,113 |
| Income tax receivable | | 2 | 206 |
| Amounts ceded to reinsurers | 6 | 211 | 175 |
| Receivables and accruals | 5 | 1,123 | 1,205 |
| Cash and cash equivalents | 14 | 157 | 71 |
| **Total assets** | | **7,958** | **7,906** |
| | | | |
| **Total equity** | | | |
| Equity attributable to holders of equity instruments of the company | | 966 | 920 |
| Non-controlling interest | | 7 | 7 |
| **Total equity** | **15** | **973** | **927** |
| | | | |
| **Liabilities** | | | |
| Liabilities related to insurance contracts | 6 | 6,476 | 6,317 |
| Other provisions | 16 | 17 | 32 |
| Financial liabilities | 17 | 332 | 420 |
| Derivatives | 4 | 8 | 16 |
| Deferred tax liabilities | 13 | 152 | 194 |
| **Total liabilities** | | **6,985** | **6,979** |
| | | | |
| **Total equity and liabilities** | | **7,958** | **7,906** |

## CONSOLIDATED INCOME STATEMENT

(€ MILLION)

| | NOTES | 2017 | 2016 |
|---|---|---|---|
| Gross earned premiums | | 3,250 | 3,155 |
| Reinsurance premiums | | −148 | −108 |
| Change in provisions for unearned premiums and current risks (net of reinsurance | | 18 | 7 |
| **Net earned premiums** | **8** | **3,120** | **3,054** |
| Income from associates and joint ventures | | 6 | 4 |
| Investment income | 9 | 111 | 158 |
| Other income | 18 | 27 | 20 |
| **Total income** | | **3,264** | **3,236** |
| | | | |
| Net expenses from insurance contracts | 10 | 2,280 | 2,503 |
| Interest and similar expenses | | 5 | 3 |
| Operating expenses | 11 | 823 | 892 |
| Other expenses | 19 | 30 | 40 |
| **Total expenses** | | **3,138** | **3,438** |
| | | | |
| **Result before tax** | | **126** | **−202** |
| Income tax expenses | 20 | −32 | 44 |
| **Net result** | | **94** | **−158** |
| | | | |
| **Net profit attributable to:** | | | |
| Holders of equity instruments of the Company | | 93 | −159 |
| Non-controlling interest | | 1 | 1 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€ MILLION)

| | NOTES | 2017 | 2016 |
|---|---|---|---|
| **Items that will not be reclassified to the Income statement** | | | |
| | | | |
| **Items that may be reclassified subsequently to the Income statement** | | | |
| Unrealised gains and losses on financial instruments 'Available for sale' | | 38 | 118 |
| Gains and losses on financial instruments 'Available for sale' reclassified to the Income statement on disposal | | −40 | −70 |
| Impairment charges on financial instruments 'Available for sale' reclassified to the Income statement on disposal | | 3 | 3 |
| **Net other comprehensive income** | **21** | **1** | **51** |
| Net result | | 94 | −158 |
| | | | |
| **Comprehensive income** | | **95** | **−107** |
| | | | |
| **Comprehensive income attributable to:** | | | |
| Holders of equity instruments of the company | | 94 | −108 |
| Non-controlling interest | | 1 | 1 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ MILLION)

| | SHARE CAPITAL | SHARE PREMIUM | REVALUATION RESERVE | RETAINED EARNINGS | RESULT FOR THE YEAR | SUBTOTAL EQUITY* | NON-CONTROLLING INTEREST | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | 1 | 166 | 131 | 740 | −7 | 1,031 | 7 | 1,038 |
| Changes in accounting principles | | | | −3 | | −3 | | −3 |
| **Balance per 1 January 2016, after changes in accounting principles** | **1** | **166** | **131** | **737** | **−7** | **1,028** | **7** | **1,035** |
| Net other comprehensive income | | | 51 | | | 51 | | 51 |
| Net result | | | | | −159 | −159 | 1 | −158 |
| **Comprehensive income** | | | **51** | | **−159** | **−108** | **1** | **−107** |
| Appropriations to reserves | | | 1 | −8 | 7 | | | |
| Dividend payments | | | | | | | −1 | −1 |
| **Balance at 31 December 2016** | **1** | **166** | **183** | **729** | **−159** | **920** | **7** | **927** |
| | | | | | | | | |
| **Balance at 1 January 2017** | **1** | **166** | **183** | **729** | **−159** | **920** | **7** | **927** |
| Net other comprehensive income | | | 1 | | | 1 | | 1 |
| Net result | | | | | 93 | 93 | 1 | 94 |
| **Comprehensive income** | | | **1** | | **93** | **94** | **1** | **95** |
| Appropriations to reserves | | | 1 | −160 | 159 | | | 0 |
| Dividend payments | | | | −48 | | −48 | −1 | −49 |
| **Balance at 31 December 2017** | **1** | **166** | **185** | **521** | **93** | **966** | **7** | **973** |

* *Subtotal equity refers to equity attributable to holders of equity instruments of the company*

## CONSOLIDATED STATEMENT OF CASH FLOWS

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| **Cash flow from operating activities *** | | |
| Result before tax | 126 | −202 |
| *Adjustments of non-cash items and reclassifications:* | | |
| Unrealised results on Investments, including foreign currency results and value changes and provisions for uncollectability | 3 | −30 |
| Amortisation and impairment on Intangible assets and Property for own use and equipment | 13 | 17 |
| Capital management charges | 17 | 17 |
| Income from Associates and joint ventures | −6 | −4 |
| (Accrued) Interest expenses | 9 | 11 |
| | **36** | **11** |
| *Changes in operating assets and liabilities:* | | |
| Changes in Receivables and accruals and Other liabilities recognised as Financial liabilities | 55 | −110 |
| Changes in Liabilities related to insurance contracts net of reinsurance | 123 | 283 |
| Changes in Other provisions | −15 | 20 |
| Changes in Loans and borrowings recognised as Financial liabilities | 1 | −11 |
| | **164** | **182** |
| *Cash flows operating items not reflected in Result before tax:* | | |
| Purchase of Investments | −3,847 | −3,384 |
| Divestments of Investments | 3,584 | 3,379 |
| Income taxes received/paid | 130 | 34 |
| | **−133** | **29** |
| | | |
| **Total cash flow from operating activities** | **193** | **20** |
| | | |
| *Cash flow from investing activities ** | | |
| Purchase of Property for own use and equipment | −24 | −23 |
| Divestments of loans to group companies | 18 | |
| Sales and disposal of Property for own use and equipment | 13 | 15 |
| Dividends received from Associates and joint ventures | 13 | 7 |
| | | |
| **Total cash flow from investing activities** | **20** | **−1** |
| | | |
| *Cash flow from financing activities ** | | |
| Capital management charges equity | −17 | −17 |
| Dividend and coupon payments | −49 | −1 |
| **Total cash flow from financing activities** | **−66** | **−18** |
| | | |
| **Net cash flow** | **147** | **1** |
| | | |
| Net cash and cash equivalents at 1 January | 8 | 7 |
| **Net cash and cash equivalents at 31 December** | **155** | **8** |

## CONSOLIDATED STATEMENT OF CASH FLOWS, CONTINUED

(€ MILLION)

| | | 2017 | 2016 |
|---|---|---|---|
| **Cash and cash equivalents include the following items:** | | | |
| Bank balances | 14 | 157 | 71 |
| Debts to credit institutions | 17 | −2 | −63 |
| **Cash and cash equivalents at 31 December** | | **155** | **8** |

* *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.*

Included in the cash flows from operating activities is interest received amounting to €75 million (2016: €87 million), dividends received amounting to €12 million (2016: €12million) and interest paid amounting to €5 million (2016: €3 million).

# Notes to the consolidated Financial Statements

## GENERAL

## GENERAL INFORMATION

### Activities

The activities of Achmea Schadeverzekeringen N.V., with its registered office in Apeldoorn (the Netherlands) principally consist of the operation of non-life business within the meaning of the Financial Supervision Act (Wft). The company has its principal place of business at Laan van Malkenschoten 20, Apeldoorn and registered at the Chamber of Commerce, trade register 08053410.

### Group relationships

Achmea Schadeverzekeringen N.V. is part of the Achmea Group. Achmea B.V. (Achmea) owns 100% of the shares of Achmea Schadeverzekeringen N.V.

Relationships between companies of the Achmea Group are included under the investments, the receivables and the liabilities. See also note “Related party transactions”.

## 1. ACCOUNTING POLICIES

## A. AUTHORISATION FINANCIAL STATEMENTS

The Achmea Schadeverzekeringen N.V. Consolidated Financial Statements for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Management Board on 10 April 2018. At the same date, the Supervisory Board gave its advice to the General Meeting of Shareholders to adopt the Financial Statements. The Management Board may decide to amend the Financial Statements as long as these have not been adopted by the General Meeting of Shareholders. The General Meeting of Shareholders may decide not to adopt the Financial Statements, but may not amend these.

## B. BASIS OF PRESENTATION

The Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 statement items of a similar nature are condense. In the notes these items are disaggregated as they are of relative importance for Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 no qualitatively, the notes are as limited as possible in accordance with the IASB Disclosure initiative principles and related materiality principles.

Furthermore Achmea Schadeverzekeringen N.V. has separated the notes into chapters ‘Notes to significant balance sheet and income statement items’ and ‘Other notes’. The notes concerning the core activities of Achmea Schadeverzekeringen N.V. 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’.

If references are made to the balance sheet in these consolidated financial statements, this refers to the statement of financial position.

## 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 17 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 Schadeverzekeringen N.V.

## 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. EU. The standard is effective for reporting periods beginning on or after 1 January 2018.

Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. does not expect the standard to have a material impact on Total assets, Total liabilities, Total equity and the Net result of Achmea Schadeverzekeringen N.V.

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

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 Schadeverzekeringen N.V. in preparing its Consolidated Financial Statements 2017. Since these (amendments to) standards have no impact on Total equity, Net result or presentation and notes of Achmea Schadeverzekeringen N.V., 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)
- IFRS 15 Revenue form contracts with customers (effective as of 1 January 2018)
- Amendments to IAS 40 Transfers of investment property (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 Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. and the agents collect, pay and settle the relevant premiums and claims with the policyholder net of a commission, on behalf of Achmea Schadeverzekeringen N.V. 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 amount to €-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 Schadeverzekeringen N.V. 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:
- Until 2016 the consolidated financial statements were prepared according to Book 2, Title 9 of the Dutch Civil Code. The consolidated statement of financial position and the consolidated income statement were prescribed by Models N and O

according to Dutch legislation (Besluit modellen jaarrekening). As of 2017 Achmea Schadeverzekeringen N.V. will use a balance sheet and income statement model more consistent with IFRS regulations. As of 2017 the consolidated financial statements are in millions of euros.
- The consolidated statement of financial position, the consolidated income statement and the consolidated statement of cash flows are condensed. Further itemisation is included in the notes to the consolidated financial statements of Achmea Schadeverzekeringen N.V. (see section B. Basis of presentation). The following items have been consolidated compared to previous years in the primary consolidated statements:
  - Investments was previously Investments and Derivatives;
  - Receivables and accruals was previously Receivables and Prepayments and accrued income;
  - Liabilities related to insurance contracts was previously Insurance liabilities;
  - In Other provisions was previously Deferred taxes were included, which is now a separate line item on the consolidated statement of financial position;
  - Financial liabilities previously was previously Liabilities and Accrued and deferred income;
  - In the Income statement no separate schedules are presented for Technical and Non-technical accounts of the insurance company;
  - Investment income was previously Investment income, Unrealised gains on investments, Impairments on investments, Administrative expenses, Realised losses on investments and Unrealised losses on investments;
  - Other income was previously Other technical income own account and Other income;
  - Net expenses from insurance contracts was previously Claims and movements in insurance liabilities and Profit sharing and bonuses for policyholders;
  - Other expenses was previously Other technical expenses own account and Other expenses.

- The grouping of the notes takes into account the significance of the notes to the consolidated financial statements of Achmea Schadeverzekeringen N.V. The notes are therefore classified either as notes to 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 to that specific item.

The above changes have no impact on Total Equity, Net result of Achmea Schadeverzekeringen N.V.

## F. CHANGES IN ACCOUNTING ESTIMATES

In preparing these Consolidated Financial Statements, the significant judgements made by management in applying Achmea Schadeverzekeringen N.V.'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 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 Schadeverzekeringen N.V. 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.

## G. CONSOLIDATION FRAMEWORK

### Basis for consolidation

All of Achmea Schadeverzekeringen N.V.'s subsidiaries, associates and joint ventures are included in the Consolidated Financial Statements, based on Achmea Schadeverzekeringen N.V.'s accounting framework.

### Subsidiaries

Subsidiaries are entities over which Achmea Schadeverzekeringen N.V. has control. Achmea Schadeverzekeringen N.V. controls an entity when Achmea Schadeverzekeringen N.V. 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 substance of the relationship between Achmea Schadeverzekeringen N.V. and the entity and considers existing and potential voting rights that are substantive. For a right to be substantive, Achmea Schadeverzekeringen N.V. must have the practical ability to exercise that right. Third-party interests in these entities are presented as Non-controlling interest within Total equity.

### Joint ventures

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

### Associates

Entities over which Achmea Schadeverzekeringen N.V. 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 transactions

Intra-group transactions have been eliminated in the Consolidated Financial Statements. Profits and losses resulting from transactions with associates or joint ventures are eliminated to the extent of Achmea Schadeverzekeringen N.V.’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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V.

## 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, and bank balances. Bank overdrafts that are repayable on demand and form an integral part of Achmea Schadeverzekeringen N.V.’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 Statements, and changes in operating assets and liabilities, which do not result in actual cash flows during the year. Due to the nature of Achmea Schadeverzekeringen N.V.’s activities, in which insurance is part of the operations, cash flows related to Investments and Liabilities related to insurance contracts are presented as part of Total cash flow from operating activities.

### Foreign currency differences

The Consolidated Financial Statements are presented in euros, which is Achmea Schadeverzekeringen N.V.'s functional and presentation currency. Items included in the Company Financial Statements of Achmea Schadeverzekeringen N.V.'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 such 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 such 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 with a functional currency other than the euro is translated into euros at the year-end exchange rates. The results of associates 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 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 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 qualifying net investment hedges. 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 Schadeverzekeringen N.V. becomes a party to the contractual provision of a financial instrument (i.e. at trade date), Achmea Schadeverzekeringen recognises the instrument at fair value including transaction cost (unless it 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 Schadeverzekeringen N.V. has transferred substantially all risks and rewards of ownership. Also if Achmea Schadeverzekeringen N.V. neither transfers nor retains substantially all the risks and rewards of ownership.

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

If In transfers where control over the asset is retained, Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 when Achmea Schadeverzekeringen N.V.:
- 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 Schadeverzekeringen N.V. assesses whether there is an indication that an asset could be impaired and whether it is necessary to recognise an impairment loss. Impairments on Investments are recognised as Investment income - *Realised and unrealised gains and losses* in 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 (Investment 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). 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.

### Leasing

Leases entered into by Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. under an operating lease and rented out to a third party is not classified as Investment property.

### Property for own use and equipment

#### 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.

The lease cars are measured at acquisition price less annuity depreciation, which is primarily determined on the basis of duration and the calculated residual values, as laid down in the relevant leasing agreements. Most of the contracts have a lifetime of between 2 and 5 years. The acquisition price determined will have had any purchase discounts deducted from it.

## I. KEY ACCOUNTING ESTIMATES

For the measurement of the financial statements, Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. has control over an entity, Achmea Schadeverzekeringen N.V. 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 investor give current ability to direct the relevant activities. In performing this assessment, Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. is exposed to or has rights to variable returns from its involvement with the entity and whether Achmea Schadeverzekeringen N.V. has the ability to use its powers over the entity to affect the amount of its returns. If an entity performs activities for the benefit of the public and not only for the benefit of Achmea Schadeverzekeringen N.V. and/or its customers, no ability for Achmea Schadeverzekeringen N.V. to use its power over the entity to affect Achmea Schadeverzekeringen N.V.’s return is presumed to exist. Different assumptions may result in a different outcome of the control assessment.

## 2. CAPITAL AND RISK MANAGEMENT

Achmea Schadeverzekeringen N.V. is part of Achmea B.V. (hereafter Achmea)and falls within scope of the overall risk management and capital management structure within Achmea. The following sections outlines Achmea's approach to risk- and capital management. Where necessary, specific points regarding risks and risk controls applicable for Achmea Schadeverzekeringen N.V. are explained.

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 the Achmea and all supervised entities, including Achmea Schadeverzekeringen N.V., 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 including Achmea Schadeverzekeringen N.V.

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 risks, 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 Schadeverzekeringen N.V. in greater detail. First Achmea Schadeverzekeringen N.V.'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 and Solvency II. At year-end 2017 Achmea Schadeverzekeringen N.V. is sufficiently funded in accordance with statutory requirements.

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

SOLVENCY RATIO (€ MILLION)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Eligible Own funds | 1,054 | 1,029 |
| Solvency Capital Requirement | 754 | 750 |
| Surplus | 300 | 279 |
| **Ratio (%)** | **140%** | **137%** |

For calculating the required capital under Solvency II ('Solvency Capital Requirement' (SCR)) Achmea Schadeverzekeringen N.V. 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 140% (31 December 2016: 137%). The improved capital position is the result of a combination of a €25 million increase in the Solvency II eligible own funds to €1,054 million (2016: €1,029 million) and a €4 million decrease in the Solvency Capital Requirement to €754 million (2016: €750 million).

The increase in the Solvency II eligible own funds results from a positive net result. This is offset by a dividend payment of €48 million and a restriction on equity for the Australian branch of €14 million.

The Solvency Capital Requirement mainly increased due to an increase in health risk, offset by a decrease in market risk. Health risk increased by €23 million as a result of higher provisions for accidents and disability. Market risk decreased by €16 million mainly as a result of a decline in interest risk.

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)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Tier 1 | 1,054 | 1,029 |
| **Total eligible Solvency II own funds** | **1,054** | **1,029** |

The composition of equity under the Solvency II regulations is not the same as equity for IFRS purposes because of 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)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Equity Financial statements | 966 | 920 |
| **Total IFRS excess of assets over liabilities** | **966** | **920** |
| Valuation differences Solvency II | 102 | 109 |
| **Total economic excess of assets over liabilities** | **1,068** | **1,029** |
| Other restrictions | −14 | |
| **Eligible own funds Solvency II** | **1,054** | **1,029** |

## B. RISK PROFILE

Achmea Schadeverzekeringen N.V.'s risk profile and risk classification as a financial service provider consist of the following main risks:

- Insurance risk: Achmea Schadeverzekeringen N.V. is exposed to non-life and health risks through its product range as an insurance company.
- Market risk: as a financial service provider, Achmea Schadeverzekeringen N.V. is exposed to market risk due to its investment portfolio, minimum guarantees and profit sharing (disability insurance).
- Counterparty risk: Achmea Schadeverzekeringen N.V. is exposed to counterparty risk in its investments, mortgage loans, treasury, reinsurance activities, intermediaries and policyholders.
- Liquidity risk: Achmea is exposed to liquidity risk at group level and within the entities, including Achmea Schadeverzekeringen N.V. with regard to the insurance activities.
- Operational risk: Achmea Schadeverzekeringen N.V. runs the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- Compliance risk: Achmea Schadeverzekeringen 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 Schadeverzekeringen N.V. runs strategic risks, i.e. specific risks related to the risk profile in the long term.

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

### Partial internal model

The table below gives an overview of Achmea Schadeverzekeringen N.V.'s risk profile based on the SCR results 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)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Market risk | 471 | 487 |
| Counterparty risk | 97 | 94 |
| Health risk | 293 | 270 |
| Non-life risk | 554 | 554 |
| Diversification | −459 | −449 |
| **Basic Solvency Capital Requirement** | **956** | **956** |
| | | |
| Loss-Absorbing Capacity | −303 | −315 |
| Operational risk | 101 | 109 |
| **Solvency Capital Requirement** | **754** | **750** |

A large part of the SCR results directly from the product range and consists of insurance risk, non-life and health risks. The total volume increased slightly in 2017 after diversification. As a financial service provider Achmea Schadeverzekeringen N.V. is also exposed to market risk due to its investment portfolio and disability insurance with minimum guarantees and profit. 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 the Loss-Absorbing Capacity has been taken into account. 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. focuses on continued digitisation of its processes, supported by IT systems, to respond to changing customer needs.
- Competitive costs
  As major financial service provider Achmea Schadeverzekeringen N.V. is also exposed to 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. as a company. There is a risk that Achmea Schadeverzekeringen N.V.'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 Schadeverzekeringen N.V.’s corporate objectives. Extra attention is given to business acumen, innovation, agility, working in an international context, required expertise and appropriate remuneration.

Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. has a large exposure to various 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. Inflation risk is a specific risk for Achmea Schadeverzekeringen N.V.
- Catastrophes
  Important insurance-related risks Achmea Schadeverzekeringen N.V. 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 counterparties, and 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. RISK MANAGEMENT SYSTEM

The Achmea and Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 the Management Board of Achmea Schadeverzekeringen N.V. 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>- Exceeding 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. Inflation risk is a specific risk for Achmea Schadeverzekeringen N.V.

### 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, including Achmea Schadeverzekeringen N.V. 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, like Achmea Schadeverzekeringen N.V.

- At group level, the Supervisory Board supervises the Executive Board. The Audit & Risk Committee advises the Supervisory Board on financial, administrative and organisational compliance matters, as well as on the risk profile and risk management. The presence of a Chief Risk Officer (CRO) on the Executive Board helps ensure a permanent focus on risk management in our business operations. At Achmea Schadeverzekering N.V. level the Supervisory Board supervises the Management Board. The Audit & Risk Committee advises the Supervisory Board of Achmea Schadeverzekeringen N.V.
- 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.

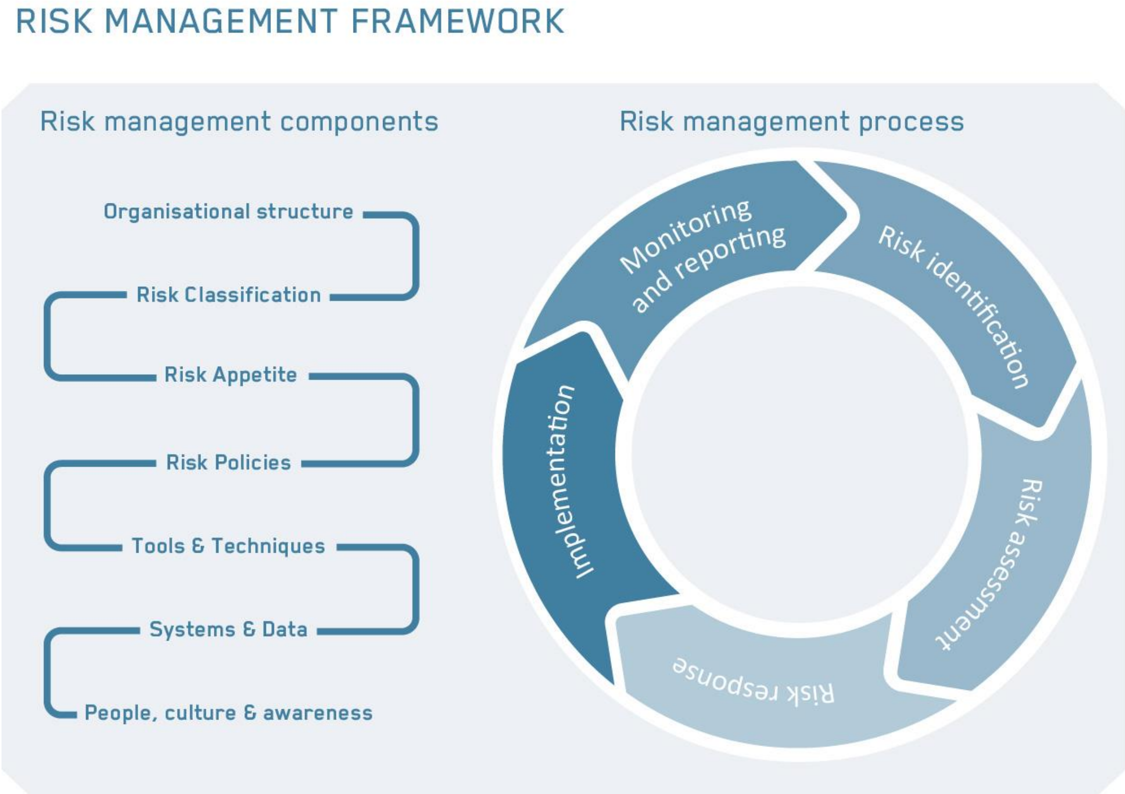
### Model management and validation

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 of Achmea B.V. and the Management Board of Achmea Schadeverzekeringen N.V. 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 identification**

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

- Qualitative risk self-assessments which focus on areas such as strategy, projects and operational risks. This includes, among others, the qualitative Strategic Risk Assessment with management and Achmea Schadeverzekeringen N.V.'s Management Board, in which potential strategic risks are identified and assessed.
- Achmea uses risk models to make a quantitative estimate of our risk profile. These risk models are used amongst others in 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 Schadeverzekeringen N.V.'s risk profile is monitored periodically, and on the basis of that second and third line reports are drawn for the Executive Board, the Audit & Risk Committee and the Supervisory Board of Achmea Schadeverzekeringen N.V. For the main risk types, line management periodically verifies that the risk is still within the risk limits set which are derived 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 Schadeverzekeringen N.V. 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
- For non-life risk the natural catastrophe risk
- For health risk (health Not Similar to Life Techniques, NSLT) the premium and reserve risk
- For health risk (health Similar to Life Techniques, SLT) the risks relating to incidence, recovery and revision percentages.

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 Insurance liabilities, resulting from inadequate pricing and provisioning assumptions and encompasses 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 all contribute to the management of the insurance risk. These phases are explained in more detail below and in the sections 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, including Achmea Schadeverzekeringen N.V. To that end it enters into reinsurance contracts with the Achmea entities, including the non-Dutch entities, as well as third parties. Through retrocession the contracts are partially placed with external reinsurers.

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.

### 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.

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.

## Non-Life risk

Non-life risk is the risk of loss or of adverse change in the value of Liabilities related to insurance contracts 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 Schadeverzekeringen N.V. is exposed to non-life insurance risk. Australia (Achmea Australia) is the Non-life market outside the Netherlands where Achmea Schadeverzekeringen N.V operates.

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

NON-LIFE RISK (€ MILLION)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Lapse | 124 | 120 |
| Premium and reserve | 434 | 403 |
| Catastrophe | 230 | 274 |
| Diversification | −234 | −243 |
| **Solvency Capital Requirement Non-life risk** | **554** | **554** |

The required capital for Non-life, calculated using the Solvency Capital Requirement (SCR) under Solvency II, is unchanged compared to 2016 (€554 million). The increase in Premium and reserve mainly relates to additional capital being held for injury claims.

Within Achmea Schadeverzekeringen N.V., 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. 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.

### Risk response

Acceptance guidelines ensure a good assessment of the risk, acceptance (under possible conditions) and premium setting. Achmea Schadeverzekeringen N.V. does not underwrite heavy industrial risks such as airports or power plants.

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, including Achmea Schadeverzekeringen N.V., 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.
- 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 Liabilities related to insurance contracts resulting from:

- 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) and sickness and accident insurance (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.

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 Schadeverzekeringen N.V. 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.

Disability insurance risks are changes in legislation, changes in medical cost levels, 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.

HEALTH RISK (€ MILLION)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Health risk SLT | 213 | 200 |
| Health risk NSLT | 108 | 93 |
| Health catastrophe | 31 | 31 |
| Diversification | −59 | −54 |
| **Solvency Capital Requirement Health risk** | **293** | **270** |

Health risk increased by €23 million, from €270 million to €293 million.
Health risk SLT increased by €13 million. The risk increased due to a higher disability shock in the WIA disability act, compensated for by a lower net cost of claims for the current year as a volume measure of disability risk. The reserve risk decreased mainly due to a lower correlation between disability insurance and the WIA disability act.

Health risk NSLT increased by €15 million, from €93 million to €108 million. The main reasons for this increase were the higher volume measures (€10 million) and higher risk factors for the reserve risk (€4 million). For the portfolios with personal injury cover (Insurance for Passengers), a mark-up has been applied to the reserve risk, which results in a higher risk factor.

The increased diversification has a compensating effect of -€5 million.

### 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.

**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, currency risk. Inflation risk is included in interest rate risk.

### Risk profile

As a financial service provider, Achmea Schadeverzekeringen N.V. is exposed to market risk due to its investment portfolio, minimum guarantees and profit sharing (disability insurance).

MARKET RISK (€ MILLION)

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Interest | 159 | 246 |
| Equity | 175 | 156 |
| Property | 21 | 22 |
| Spread | 278 | 273 |
| Currency | 11 | 7 |
| Diversification | −173 | −217 |
| **Solvency Capital Requirement Market risk** | **471** | **487** |

The market risk profile, calculated using the Solvency Capital Requirement (SCR) under Solvency II, decreased to €471 million in 2017. The SCR was calculated here using the standard Solvency II formula.

Interest rate risk (-€87 million) decreased mainly due to use of a new calculation method for inflation risk (-€83 million), adjustments in the portfolio and a decrease in the level of the provisions (-€4 million).

Equity risk (€21 million) increased due to volume and shock increases caused by market developments (€24 million) and a reduction in equity transitional (€24 million), compensated for by the shift of Senior Secured Loans from equities to spread risk (-€27 million).

Spread risk (€5 million) increased due to the reclassification of the Senior Secured Loans and a shift in the portfolio from government bonds to corporate bonds. This portfolio adjustment is in line with the investment plan.

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

IFRS SENSITIVITIES (€ MILLION)

| | EFFECT SHOCK TOTAL EQUITY IFRS | EFFECT SHOCK % | EFFECT SHOCK TOTAL EQUITY IFRS | EFFECT SHOCK % |
|---|---|---|---|---|
| Equity -20% | −86 | −9% | −77 | −8% |
| Interest -40 bp | 5 | 1% | 4 | 1% |
| Interest +40 bp | −5 | −1% | −4 | −1% |

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

SOLVENCY II SENSITIVITIES X (€ MILLION)

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | AVAILABLE SOLVENCY II OWN FUNDS | CAPITAL REQUIREMENT | RATIO | AVAILABLE SOLVENCY II OWN FUNDS | CAPITAL REQUIREMENT | RATIO |
| Equity -20% | −73 | −29 | −5% | −81 | −19 | −7% |
| Interest -50 bp * | −10 | −7 | 0% | | | |
| Interest +50 bp * | 11 | 6 | 0% | | | |
| Property -20% | −13 | −2 | −1% | −13 | −1 | −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 for market risk 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 Liabilities related to insurance contracts 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 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.

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.

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.

The Market Risk Policy describes how this interest rate risk is managed. Achmea's interest rate policy for the Dutch insurance entities, including Achmea Schadeverzekeringen N.V. 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, including Achmea Schadeverzekeringen N.V. For Achmea Schadeverzekeringen N.V. 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.

The interest rate risk is hedged by means of an overlay management process that makes use of interest rate derivatives (swaps and swaptions). Achmea applies hedge accounting when necessary to decrease the volatility in the consolidated Income statement. The value of the interest rate derivative position is €-7 million (2016: nil) with a notional amount of €256 million (2016: nil).

## 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 4, Investments.

For Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. uses the Equity Transitional to determine the risk capital for 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. Achmea Schadeverzekeringen N.V. is exposed to property risk mainly as a result of the 33.15% interest in N.V. Interpolis Onroerend Goed (real estate).

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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 Schadeverzekeringen N.V.'s main exposure to spread risk is from investment grade credits (€2,114 million; 2016: €1,723 million), convertible bonds (€78 million; 2016: €77 million) and emerging market debt (€106 million; 2016: €100 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. is exposed to currency risk, specifically in US dollars, as part of the regular investment portfolio (equities, fixed-income investments and listed real estate). 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 AMOUTS OF HEDGING INSTRUMENTS | 2017 NET EXPOSURE | 2016 TOTAL EXPOSURE | 2016 NOTIONAL AMOUTS OF HEDGING INSTRUMENTS | 2016 NET EXPOSURE |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Australian dollar | 38 | 3 | 35 | 34 | 5 | 29 |
| US dollar | 685 | 701 | −16 | 725 | 707 | 18 |
| Pound sterling | 114 | 116 | −2 | 107 | 104 | 3 |
| Japanese Yen | 26 | 26 | | 24 | 25 | −1 |
| Other | 41 | 23 | 18 | 32 | 24 | 8 |
| | **904** | **869** | **35** | **922** | **865** | **57** |
| **Liabilities** | | | | | | |
| Australian dollar | 33 | | 33 | 29 | | 29 |
| US dollar | | | | | | |
| Pound sterling | | | | | | |
| Japanese Yen | | | | | | |
| Other | | | | | | |
| | **33** | | **33** | **29** | | **29** |
| **Net position** | | | | | | |
| Australian dollar | 5 | 3 | 2 | 5 | 5 | |
| US dollar | 685 | 701 | −16 | 725 | 707 | 18 |
| Pound sterling | 114 | 116 | −2 | 107 | 104 | 3 |
| Japanese Yen | 26 | 26 | | 24 | 25 | −1 |
| Other | 41 | 23 | 18 | 32 | 24 | 8 |
| | **871** | **869** | **2** | **893** | **865** | **28** |

Exposure in the investment portfolio is generally hedged with foreign exchange contracts

### COUNTERPARTY DEFAULT RISK

Counterparty default risk is the risk of loss resulting from unexpected default, or deterioration in the credit standing (e.g. migration), of the counterparties and debtors of Achmea Schadeverzekeringen N.V.

## Risk profile

Achmea Schadeverzekeringen N.V. is exposed to counterparty risk in the area of investments, treasury, reinsurance, intermediaries, and policyholders.

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 24.

## 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 legal entities, including Achmea Schadeverzekeringen N.V. 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 and ensure that risks are sufficiently reduced or mitigated. Additionally, important measures in managing counterparty risk are arranged, for example to ensure that recovery processes are well organised to withstand credit events.

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

MAXIMUM EXPOSURE ON GROUP LEVEL (€ MILLION)

| | SUPRA NATIONALS 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.

### 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.

### Policyholders

The counterparty risk of receivables relating to policyholders is managed by premium collection measures. For 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 within the legal entities, including Achmea Schadeverzekeringen N.V. From the perspective of Achmea Schadeverzekeringen N.V. this is related to catastrophes such as extreme storms and hail.

Maturity analyses of the Liabilities related to insurance contracts are presented in Note 6, Liabilities related to insurance contracts.

### Risk response

The Liquidity Risk Policy describes how liquidity risk is managed. Achmea has defined metrics for each of its legal entities, including Achmea Schadeverzekeringen N.V. 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, including Achmea Schadeverzekeringen N.V. 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. 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.

### 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 policy 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 huge impact on the business. Not only from local regulations but also international legislation that becomes applicable such as FATCA, UK Bribery act, European legislation on privacy etc. 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 by the move of Achmea toward a digital insurer and on the other hand 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, including Achmea Schadeverzekeringen N.V. are always adequately funded to secure the interests of all stakeholders in the short and long term. The capital position of Achmea Group and all its entities, including Achmea Schadeverzekeringen N.V. 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, including Achmea Schadeverzekeringen N.V. 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.

## 3. SUBSEQUENT EVENTS

There are no subsequent events which should be disclosed in the financial statements.

## NOTES TO SIGNIFICANT BALANCE SHEET AND INCOME STATEMENT ITEMS

### 4. INVESTMENTS

#### INVESTMENTS OWN ACCOUNT CLASSIFIED BY NATURE

(€ MILLION)

| | INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS | | INVESTMENTS - AVAILABLE FOR SALE | | TOTAL | |
|---|---|---|---|---|---|---|
| | 31 DECEMBER 2017 | 31 DECEMBER 2016 | 31 DECEMBER 2017 | 31 DECEMBER 2016 | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
| Equities and similar investments | 62 | 62 | 518 | 465 | 580 | 527 |
| Fixed income investments | 32 | 4 | 5,705 | 5,570 | 5,737 | 5,574 |
| Derivatives | 21 | 12 | | | 21 | 12 |
| **Balance at 31 December** | **115** | **78** | **6,223** | **6,035** | **6,338** | **6,113** |

#### MOVEMENT TABLE INVESTMENTS OWN ACCOUNT

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 6,113 | 6,025 |
| Investments and loans granted | 3,847 | 3,372 |
| Divestments and disposals | −3,602 | −3,369 |
| Fair value changes | 142 | 148 |
| Foreign currency differences | −99 | 5 |
| Amortisation | −54 | −56 |
| Accrued interest | −9 | −11 |
| Other movements | | −1 |
| **Balance at 31 December** | **6,338** | **6,113** |

Equity investments and similar investments of in total €580 million (31 December 2016: €527 million) consist of investments in listed ordinary shares of €221 million (31 December 2016: €189 million), alternative investments of €87 million (31 December 2016: €97 million), investments in real estate funds of €9 million (31 December 2016: €9 million), investments in fixed-income funds of €104 million (31 December 2016: €101 million) and other investments of €159million (31 December 2016: €131 million).

The investments for which Achmea Schadeverzekeringen N.V. made use of the option to designate them as 'At fair value through profit or loss' as at 31 December 2017 amounted to €115 million (31 December 2016: €78 million). Derivatives are used for hedging purposes. Achmea Schadeverzekeringen N.V. holds no financial instruments for trading purposes.

Based on their contractual maturity, an amount of €4,986 million (2016: €5,207 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.

#### FIXED INCOME INVESTMENTS OWN ACCOUNT BY NATURE

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Government and Government related or guaranteed bonds | 2,443 | 3,080 |
| Securitised bonds* | 205 | 190 |
| Corporate bonds | 2,384 | 1,877 |
| Convertible bonds | 68 | 66 |
| Loans covered by mortgages | 576 | 337 |
| Loans to group companies | | 18 |
| Loans and deposits | 61 | 6 |
| | **5,737** | **5,574** |

* *Securitised bonds include €194 million (2016: €190 million) asset backed securities (collaterized).*

For further information with regard to Loans to group companies relate to note 27 Related party transactions.

Achmea Schadeverzekeringen N.V.'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* and *Loans* *to group companies*. The composition of Achmea Schadeverzekeringen N.V.'s portfolios in the interests in structured entities is widely dispersed looking at the individual amount per entity. For the main part Achmea Schadeverzekeringen N.V. invests in the senior rated interest of these assets backed securities, limiting the potential credit losses. For the most significant structured entities the following table presents the maximum exposure to loss for Achmea Schadeverzekeringen N.V. as at 31 December 2017, which equals the carrying amount of the securities at that date. Furthermore, the table presents a comparison of Achmea Schadeverzekeringen N.V.'s interest with the total amount of issued notes 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 UNCONSOLIDATED STRUCTURED ENTITIES

(€ MILLION)

| | 31 DECEMBER 2017 | | 31 DECEMBER 2016 | |
|---|---|---|---|---|
| | MAXIMUM EXPOSURE TO LOSS | TOTAL AMOUNT OF ISSUED NOTES AT ISSUE DATE | MAXIMUM EXPOSURE TO LOSS | TOTAL AMOUNT OF ISSUED NOTES AT ISSUE DATE |
| Mortgage backed securities | 84 | 7,344 | 108 | 9,832 |
| Mortgage backed securities (group companies) | | | 18 | 616 |
| Car leasing receivables backed securities | 32 | 9,335 | 23 | 5,748 |
| Other securities | 78 | 2,735 | 59 | 1,285 |
| **Carrying amount of interest in structured entities as at 31 December** | **194** | **19,414** | **208** | **17,481** |

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

## DERIVATIVES BY NATURE

(€ MILLION)

| | ASSETS | LIABILITIES | 31 DECEMBER 2017 |
|---|---|---|---|
| Interest derivatives | 1 | 8 | −7 |
| Currency derivatives | 10 | | 10 |
| Equity derivatives | 10 | | 10 |
| | **21** | **8** | **13** |

| | ASSETS | LIABILITIES | 31 DECEMBER 2016 |
|---|---|---|---|
| Currency derivatives | 2 | 16 | −14 |
| Equity derivatives | 10 | | 10 |
| | **12** | **16** | **−4** |

## ANALYSIS OF THE EXPECTED DURATION OF THE UNDISCOUNTED CASH FLOWS OF THE DERIVATIVES (LIABILITIES)

(€ MILLION)

| 31 DECEMBER 2017 | TOTAL | WITHIN 1 YEAR | 1 - 3 YEARS | 3 - 5 YEARS | → 5 YEARS |
|---|---|---|---|---|---|
| Interest derivatives | 8 | 8 | | | |
| Currency derivatives | | | | | |
| | **8** | **8** | | | |

| 31 DECEMBER 2016 | TOTAL | WITHIN 1 YEAR | 1 - 3 YEARS | 3 - 5 YEARS | → 5 YEARS |
|---|---|---|---|---|---|
| Interest derivatives | | | | | |
| Currency derivatives | 16 | 16 | | | |
| | **16** | **16** | | | |

## ANALYSIS INTEREST DERIVATIVES AND CURRENCY DERIVATIVES INVESTMENTS OWN ACCOUNT 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 | 256 | 1 | 8 | | | |
| Forward exchange contracts | 869 | 10 | | 865 | 2 | 16 |
| | **1,125** | **11** | **8** | **865** | **2** | **16** |

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

**Impairment testing of financial assets**

Each reporting date Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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.

**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 7 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 Schadeverzekeringen N.V. applies the following framework:
- Investments backing banking liabilities measured at fair value where cash flows are discounted using current market interest rates 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 Schadeverzekeringen N.V. 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 initial 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 '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.

*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.

## 5. RECEIVABLES AND ACCRUALS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Receivables from direct insurance | | |
| Policyholders | 728 | 672 |
| Agents | 10 | 15 |
| Receivables on indirect insurance * | 111 | 89 |
| Receivables from reinsurance * | | 24 |
| Receivables from group companies | 44 | 89 |
| Prepayments and accrued income | 100 | 113 |
| Taxes and social security premiums | 13 | 85 |
| Non insurance assets acquired by exercising rights to recoveries | 103 | 93 |
| Other receivables | 14 | 25 |
| **Balance at 31 December** | **1,123** | **1,205** |

* *In 2017 the items 'Receivables from indirect insurance' and 'Receivables from reinsurance' were reassessed. The 2016 comparative figures of have been adjusted accordingly.*

Receivables and accruals are expected to be recovered within 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.

Impairment losses recognised in 2017 related to Receivables and accruals amounted to €5 million (31 December 2016: nil) and are included in Other expenses.

As a result of a change in settlement of insurance tax a receivable of €74 million is recorded as Other taxes and insurance contributions at year-end 2016. This contains prepaid insurance taxes. As of 2017 insurance tax liabilities will be paid on a monthly basis. Until 2016 insurance tax liabilities were paid yearly in advance.

For a list of the Receivables from group companies, please see Note 27 Related party transactions.

### ACCOUNTING POLICIES RECEIVABLES AND ACCRUALS

Receivables and accruals are measured at amortised cost, which usually equals the face value, adjusted for accumulated impairment losses.

## 6. 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 |
| Unearned premiums | 989 | 37 | 965 | 1 |
| Provision for unexpired risks | 42 | | 48 | |
| Outstanding claims (including IBNR) | 5,423 | 174 | 5,278 | 174 |
| Profit sharing and bonuses for policyholders | 22 | | 26 | |
| **Total** | **6,476** | **211** | **6,317** | **175** |

The table below shows the Liabilities related to insurance contracts analysed by estimated time to maturity. The Income Protection contracts are analysed, based on the discounted cash in- and outflows related to the insurance contracts; Property & Casualty 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 |
|---|---|---|---|---|---|
| Income protection | 602 | 1,249 | 999 | 255 | 3,105 |
| Property & Casualty | 1,405 | 1,386 | 537 | 43 | 3,371 |
| **Balance at 31 December** | **2,007** | **2,635** | **1,536** | **298** | **6,476** |

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

(€ MILLION)

| 2016 | WITHIN 1 YEAR | 1 - 5 YEARS | 5 - 15 YEARS | OVER 15 YEARS | TOTAL |
|---|---|---|---|---|---|
| Income protection | 488 | 1,133 | 1,101 | 333 | 3,055 |
| Property & Casualty | 1,180 | 1,404 | 641 | 37 | 3,262 |
| **Balance at 31 December** | **1,668** | **2,537** | **1,742** | **370** | **6,317** |

### NON-LIFE PORTFOLIO ANALYSIS

(€ MILLION)

| | LIABILITIES RELATED TO INSURANCE CONTRACTS | % | LIABILITIES RELATED TO INSURANCE CONTRACTS | % |
|---|---|---|---|---|
| Accident | 3,105 | 48% | 3,055 | 48% |
| Motor Liability | 1,496 | 23% | 1,379 | 22% |
| Motor hull | 275 | 4% | 289 | 4% |
| Transport / aviation liability | 25 | 0% | 32 | 1% |
| Property | 653 | 10% | 622 | 10% |
| General liability | 738 | 11% | 734 | 12% |
| Legal assistance | 184 | 3% | 206 | 3% |
| **Total** | **6,476** | **100%** | **6,317** | **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** | | | | |
| Balance at 1 January * | 965 | 1 | 969 | 1 |
| Added during the year * | 3,250 | 148 | 3,155 | 108 |
| Released to the Income Statement * | −3,226 | −112 | −3,159 | −108 |
| **Balance at 31 December** | **989** | **37** | **965** | **1** |
| | | | | |
| **PROVISION FOR UNEXPIRED RISKS** | | | | |
| Balance at 1 January | 48 | | 52 | |
| Added during the year | 1 | | 1 | |
| Released to the Income Statement | −7 | | −5 | |
| **Balance at 31 December** | **42** | | **48** | |
| | | | | |
| **PROVISION FOR CLAIMS (INCLUDING IBNR)** | | | | |
| **Balance at 1 January** | **5,278** | **174** | **4,937** | **124** |
| | | | | |
| Current period claims reported * | 2,351 | 53 | 2,481 | 97 |
| Change in reported claims previous periods | −150 | 10 | 62 | 11 |
| **Plus claims reported** | **2,201** | **63** | **2,543** | **108** |
| | | | | |
| Current period claims paid * | 1,044 | 7 | 1,170 | 33 |
| Previous period claims paid | 1,105 | 56 | 1,104 | 25 |
| **Less claims paid** | **2,149** | **63** | **2,274** | **58** |
| | | | | |
| Unwinding of discount | 65 | | 72 | |
| Effect of changes in assumptions | 28 | | | |
| **Balance at 31 December** | **5,423** | **174** | **5,278** | **174** |
| | | | | |
| **PROFIT SHARING AND REBATES POLICYHOLDERS** | | | | |
| Balance at 1 January | 26 | | 26 | |
| Additions/disposals due to acquired/sold portfolios | | | −2 | |
| Added during the year | 8 | | 8 | |
| Released to the Income Statement | −12 | | −6 | |
| **Balance at 31 December** | **22** | | **26** | |
| | | | | |
| **Total Non-life** | **6,476** | **211** | **6,317** | **175** |

* *The 2016 figures have been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies*

Effect of changes in assumptions of €28 million 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.

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 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of cumulative claims:** | | | | | | | | | | | |
| At end of underwriting year | 2,351 | 2,480 | 2,298 | 2,198 | 2,365 | 2,264 | 2,322 | 2,381 | 2,366 | 2,392 | |
| One year later | | 2,473 | 2,341 | 2,224 | 2,353 | 2,262 | 2,278 | 2,428 | 2,356 | 2,370 | |
| Two years later | | | 2,375 | 2,278 | 2,357 | 2,239 | 2,283 | 2,323 | 2,330 | 2,349 | |
| Three years later | | | | 2,273 | 2,367 | 2,240 | 2,254 | 2,318 | 2,349 | 2,328 | |
| Four years later | | | | | 2,344 | 2,195 | 2,253 | 2,309 | 2,359 | 2,343 | |
| Five years later | | | | | | 2,177 | 2,236 | 2,315 | 2,371 | 2,317 | |
| Six years later | | | | | | | 2,215 | 2,293 | 2,363 | 2,325 | |
| Seven years later | | | | | | | | 2,307 | 2,360 | 2,328 | |
| Eight years later | | | | | | | | | 2,363 | 2,349 | |
| Nine years later | | | | | | | | | | 2,339 | |
| **Estimate of cumulative claims:** | **2,351** | **2,473** | **2,375** | **2,273** | **2,344** | **2,177** | **2,215** | **2,307** | **2,363** | **2,339** | **23,217** |
| Cumulative payments | 1,044 | 1,703 | 1,725 | 1,739 | 2,013 | 1,908 | 1,949 | 2,069 | 2,112 | 2,123 | 18,385 |
| | 1,307 | 770 | 650 | 534 | 331 | 269 | 266 | 238 | 251 | 216 | 4,832 |
| Liabilities related to insurance contracts claims prior years (<2008) | | | | | | | | | | | 1,261 |
| Effect of discounting | | | | | | | | | | | −670 |
| **Outstanding claims at 31 December 2017** | | | | | | | | | | | **5,423** |

## CLAIMS DEVELOPMENT TABLE FOR NON-LIFE

(€ MILLION)

| (NET OF REINSURANCE) | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimate of cumulative claims:** | | | | | | | | | | | |
| At end of underwriting year | 2,298 | 2,383 | 2,263 | 2,187 | 2,294 | 2,260 | 2,296 | 2,347 | 2,317 | 2,300 | |
| One year later | | 2,369 | 2,308 | 2,208 | 2,282 | 2,248 | 2,260 | 2,407 | 2,307 | 2,281 | |
| Two years later | | | 2,340 | 2,259 | 2,285 | 2,224 | 2,258 | 2,292 | 2,278 | 2,264 | |
| Three years later | | | | 2,252 | 2,294 | 2,223 | 2,228 | 2,283 | 2,300 | 2,243 | |
| Four years later | | | | | 2,272 | 2,177 | 2,228 | 2,275 | 2,308 | 2,257 | |
| Five years later | | | | | | 2,159 | 2,210 | 2,281 | 2,321 | 2,230 | |
| Six years later | | | | | | | 2,189 | 2,258 | 2,313 | 2,239 | |
| Seven years later | | | | | | | | 2,271 | 2,309 | 2,241 | |
| Eight years later | | | | | | | | | 2,313 | 2,263 | |
| Nine years later | | | | | | | | | | 2,256 | |
| **Estimate of cumulative claims:** | **2,298** | **2,369** | **2,340** | **2,252** | **2,272** | **2,159** | **2,189** | **2,271** | **2,313** | **2,256** | **22,719** |
| Cumulative payments | 1,037 | 1,627 | 1,703 | 1,733 | 1,947 | 1,900 | 1,930 | 2,036 | 2,063 | 2,042 | 18,018 |
| | 1,261 | 742 | 637 | 519 | 325 | 259 | 259 | 235 | 250 | 214 | 4,701 |
| Liabilities related to insurance contracts claims prior years (<2008) | | | | | | | | | | | 1,218 |
| Effect of discounting | | | | | | | | | | | −670 |
| **Outstanding claims at 31 December 2017** | | | | | | | | | | | **5,249** |

## 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 Schadeverzekeringen N.V. 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 and 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 form insurance contracts.

Achmea Schadeverzekeringen N.V. tests the adequacy of the recognised Liabilities related to insurance contracts and related assets at each reporting date (see accounting policies of Liabilities related to insurance contracts). The test considers current estimates of all contractual cash flows of the Liabilities related to insurance contracts, 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.

Liabilities related to insurance contracts 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 Liabilities related to insurance contracts 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 Liabilities related to insurance contracts.

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 Schadeverzekeringen N.V. tests the adequacy of the recognised Liabilities related to insurance contracts and related assets at each reporting date and more often if deemed necessary. The test considers current estimates of all contractual cash flows of the Liabilities related to insurance contracts, including expected cost for claim handling, guarantees and embedded options. If the test shows that the Liabilities related to insurance contracts are inadequate, Achmea will recognise a loss. The deficit is compensated by increasing the related Liabilities related to insurance contracts.

**Profit sharing and bonuses for policyholders**

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.

**Provisions for unearned premiums**

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**

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**

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%).

**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 Schadeverzekeringen N.V. 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.

## 7. 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 venture capital investments, private equity investments and mortgages loans.

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)

| | | | | 31 DECEMBER 2017 |
|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| **Assets** | | | | |
| **Recurring fair value measurements** | | | | |
| Investments | | | | |
| Equities and similar investments | 374 | 155 | 51 | 580 |
| Fixed income investments | 4,658 | 501 | 578 | 5,737 |
| Derivatives | | 21 | | 21 |
| Cash and cash equivalents | 157 | | | 157 |
| **Total assets measured at fair value on a recurring basis** | **5,189** | **677** | **629** | **6,495** |
| | | | | |
| **Non-Recurring fair value measurements** | | | | |
| | | | | |
| **Liabilities** | | | | |
| **Recurring fair value measurements** | | | | |
| Financial liabilities | | | | |
| Derivatives | | 8 | | 8 |
| | | | | |
| **Total liabilities measured at fair value on a recurring basis** | | **8** | | **8** |

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING AND NON-RECURRING BASIS AT 31 DECEMBER 2016

(€ MILLION)

| | | | | 31 DECEMBER 2016 |
|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| **Assets** | | | | |
| **Recurring fair value measurements** | | | | |
| Investments | | | | |
| Equities and similar investments | 307 | 159 | 61 | 527 |
| Fixed income investments | 5,047 | 190 | 337 | 5,574 |
| Derivatives | | 12 | | 12 |
| Cash and cash equivalents | 71 | | | 71 |
| **Total assets measured at fair value on a recurring basis** | **5,425** | **361** | **398** | **6,184** |
| | | | | |
| **Non-Recurring fair value measurements** | | | | |
| | | | | |
| **Liabilities** | | | | |
| **Recurring fair value measurements** | | | | |
| Financial liabilities | | | | |
| Derivatives | | 16 | | 16 |
| **Total liabilities measured at fair value on a recurring basis** | | **16** | | **16** |

* *In 2017 Equities and similar investments and Derivatives were reclassified from Level 2 to Level 3 (€7 million). For a better insight into the developments in these items the comparative figures have been adjusted accordingly.*

### Main changes in the fair value hierarchy in 2017

At each reporting date Achmea Schadeverzekeringen N.V. 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

(€ MILLION)

| | EQUITIES AND SIMILAR INVESTMENTS | FIXED INCOME INVESTMENTS | TOTAL 2017 |
|---|---|---|---|
| **Assets** | | | |
| Balance at 1 January | 61 | 337 | 398 |
| Investments and loans granted | 1 | 259 | 260 |
| Divestments and disposals | −13 | −24 | −37 |
| Fair value adjustments included in Other comprehensive income | 2 | 5 | 7 |
| Changes due to reclassification | | 1 | 1 |
| **Balance at 31 December** | **51** | **578** | **629** |

### MOVEMENT SCHEDULE FOR LEVEL 3 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

(€ MILLION)

| | EQUITIES AND SIMILAR INVESTMENTS* | FIXED-INCOME INVESTMENTS | TOTAL 2016 |
|---|---|---|---|
| **Assets** | | | |
| Balance at 1 January | 72 | 29 | 102 |
| Investments and loans granted | 2 | 309 | 311 |
| Divestments and disposals | −10 | −8 | −18 |
| Fair value adjustments included in Income Statement | | 8 | 8 |
| Fair value adjustments included in Other comprehensive income | −3 | | −3 |
| Changes due to reclassification | | −1 | −1 |
| **Balance at 31 December** | **61** | **337** | **398** |

* *In 2017 Equities and similar investments and Derivatives were reclassified from Level 2 to Level 3 (€7 million). For a better insight into the developments in these items the comparative figures have been adjusted accordingly.*

### SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

(€ MILLION)

| | FAIR VALUE AS AT 31 DECEMBER 2017 | VALUATION TECHNIQUE USED | UNOBSERVABLE INPUT | RANGE (WEIGTHED AVERAGE) | RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE |
|---|---|---|---|---|---|
| Equities and similar investments | 51 | Net Asset Value* | N/A | N/A | N/A |
| Fixed income investments | 578 | Discounted cashflows | Total spread | 135 - 345 (bp) | Increase will result in a decrease in value |

### SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

(€ MILLION)

| | FAIR VALUE AS AT 31 DECEMBER 2016 | VALUATION TECHNIQUE USED | UNOBSERVABLE INPUT | RANGE (WEIGTHED AVERAGE) | RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE |
|---|---|---|---|---|---|
| Equities and similar investments | 61 | Net Asset Value * | N/A | N/A | N/A |
| Fixed income investments | 337 | Discounted cashflows | Total spread | 143 - 403 (bp) | Increase will result in a decrease in value |

* *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 consist of private equity investment portfolio, amounting to €35 million (31 December 2016: €39 million), property funds, amounting to €2 million (31 December 2016: €2 million), and infrastructure funds, amounting to €7 million (31 December 2016: €13 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. Fixed income investments comprises mortgage loans.

### VALUATION TECHNIQUES USED AND VALUATION PROCESS WITHIN ACHMEA FOR LEVEL 2 AND 3 MEASUREMENTS.

Depending on the specific assets and liabilities Achmea Schadeverzekeringen N.V. 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.

**Investments – Equity and similar investments**

When available, Achmea Schadeverzekeringen N.V. 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 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 Schadeverzekeringen N.V. Achmea Schadeverzekeringen N.V.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 Schadeverzekeringen N.V.'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 Schadeverzekeringen N.V. 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 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.

**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 Schadeverzekeringen N.V. normally mitigates counterparty default risk in derivative contracts by entering collateral agreements into the contracts where possible.

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.

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE FOR WHICH THE FAIR VALUE IS DISCLOSED (€ 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** | | | | | |
| Receivables and accruals | 1,123 | | 1,123 | | 1,123 |
| | | | | | |
| **Liabilities** | | | | | |
| Financial liabilities | | | | | |
| Other liabilities | 332 | 2 | 330 | | 332 |

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE FOR WHICH THE FAIR VALUE IS DISCLOSED (€ MILLION)

| | CARRYING AMOUNT AS AT 31 DECEMBER 2016 | | | | FAIR VALUE AS AT TOTAAL 2016 |
|---|---|---|---|---|---|
| | | QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL INSTRUMENTS | SIGNIFICANT OTHER OBSERVABLE INPUTS | SIGNIFICANT UNOBSERVABLE INPUTS | |
| | | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| **Assets** | | | | | |
| Receivables and accruals | 1,205 | | 1,205 | | 1,205 |
| | | | | | |
| **Liabilities** | | | | | |
| Financial liabilities | | | | | |
| Other liabilities | 420 | 63 | 357 | | 420 |

### 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.

**Receivables and accruals**

Receivables and accruals 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 and accruals comprise mainly short-term amounts due related to the ordinary operating activities of Achmea Schadeverzekeringen N.V. 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. 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**

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 Schadeverzekeringen N.V. 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.

## 8. NET EARNED PREMIUMS

### BREAKDOWN GROSS PREMIUMS TO BRANCHES *

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Accident | 686 | 672 |
| Motor Liability | 634 | 573 |
| Motor hull | 601 | 600 |
| Transport / aviation liability | 33 | 39 |
| Property | 882 | 848 |
| General liability | 236 | 243 |
| Legal assistance | 178 | 179 |
| Other | | 1 |
| **Total** | **3,250** | **3,155** |

* *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 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) 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 Schadeverzekeringen N.V. is unable to (entirely) adjust the premiums or the insurance policy conditions for the changed risk profile of policyholders. Premiums for Non-life insurance contracts are generally recognised as earned in proportion to the period of insurance coverage provided.

## 9. INVESTMENT INCOME

### RESULTS ON INVESTMENTS OWN ACCOUNT

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Direct income | | |
| Investments - Available for sale | 78 | 89 |
| Investment costs | −7 | −6 |
| **Total** | **71** | **83** |
| | | |
| Realised and unrealised gains and losses on financial assets and derivatives liabilities | | |
| Investments - At fair value through profit or loss | 72 | −25 |
| Investments - Available for sale | 47 | 101 |
| **Total** | **119** | **76** |
| | | |
| Impairment losses on investments | | |
| Investments - Available for sale | −4 | −5 |
| **Total** | **−4** | **−5** |
| | | |
| Foreign currency differences * | −75 | 4 |
| | | |
| **Total income from investments** | **111** | **158** |

* *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 22 Hedge accounting.*

### DIRECT INCOME INVESTMENT OWN ACCOUNT BY TYPE

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| | | |
| Direct income own account by type: | | |
| Rental income | 66 | 77 |
| Dividend | 12 | 12 |
| **Total** | **78** | **89** |

Direct interest revenue from investments own risk classified as ‘At fair value through profit or loss’ includes revenue from derivatives amounting to €5 million (2016: €-12 million).

A total of €-1 million (2016: €1 million) of the unrealised results from fair value changes is related to investments which are measured using a valuation technique. These are mainly related to unlisted derivatives and equities.

Impairment losses on investments related to investments classified as ‘Available for sale’ amounted to €4 million (2016: €5 million).

A total of €0,1 million (2016: €0,3 million) of direct income is related to loans to group companies. For more information please refer to Note 4 Investments and Note 27 Related party transactions.

### ACCOUNTING POLICIES INVESTMENT INCOME

The accounting policies for investment income are closely related to the accounting principles for investments. See Note 4 Investments for further explanation.

## 10. NET EXPENSES FROM INSURANCE CONTRACTS

(€ MILLION)

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | GROSS | REINSURANCE SHARE | GROSS | REINSURANCE SHARE |
| Claims paid * | 2,149 | 63 | 2,267 | 58 |
| Change in insurance liabilities own risk | 118 | | 300 | 50 |
| Claim handling expenses | 243 | | 211 | |
| Recoveries | −169 | | −172 | |
| Changes to provision for Profit sharing and bonuses for policyholders due to granted profit sharing rights | 2 | | 5 | |
| **Total** | **2,343** | **63** | **2,611** | **108** |

* *The 2016 figures have been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies.*

## 11. OPERATING EXPENSES

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Acquisition costs | 488 | 524 |
| Other charged on costs | 335 | 368 |
| **Total** | **823** | **892** |

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.

### Acquisition costs

Acquisition costs are costs related to the entering into of policies (including commissions paid to third parties). These costs are capitalised under the accrued income, written off over the policies' duration and charged to the results of each financial year.

### Personnel

All personnel with the exception of the directors of Achmea B.V. are employed by Achmea Interne Diensten N.V. The personnel costs and other operating expenses associated with the activities of Achmea Schadeverzekeringen N.V. are passed on.
Achmea Interne Diensten N.V. allocates the pension expenses to the various Achmea Group entities. Allocation is effected on the basis of the pensionable salary of the current employees. For further information relate to note 27 Related party transactions.

### Auditor's fees

By virtue of Article 2: 382a, section 3 of the Dutch Civil Code, the individual components of our external auditor's fees are not shown. To this end, refer to the Consolidated Financial Statements of Achmea B.V. The other audit services performed by the independent auditor are (besides audit of the annual report and review and audit on behalf of the Achmea B.V. annual report):

- Audit of the regulatory reporting for Solvency II to be submitted to the regulator De Nederlandsche Bank (the Dutch Central Bank).
- Issue an assurance report regarding the premium earnings to be submitted to the "Verbond van verzekeraars" (Association of insurers) and "het Nederlands Bureau der Motorrijtuigverzekeraars en het Belgisch gemeenschappelijk waarborgfonds" (Guarantee fund for Dutch and for Belgian motor insurance undertakings).
- Factual findings reports for external statements which have contractually been agreed upon with customers.

## OTHER NOTES

### OTHER STATEMENT OF FINANCIAL POSITION

### 12. ASSOCIATES AND JOINT VENTURES

(€ MILLION)

| NAME OF THE COMPANY | CORPORATE SEAT | DESCRIPTION OF BUSINESS | DATE OF AQCUISITION | % OWNERSHIP 2017 | NET ASSET VALUE 2017 | **BOOKVALUE AS AT 31 DECEMBER 2017** | BOOKVALUE AS AT 31 DECEMBER 2016 |
|---|---|---|---|---|---|---|---|
| N.V. Interpolis Onroerend Goed | Tilburg | Investment property | 1990 | 33.15% | 72 | 72 | 79 |

Although Achmea Schadeverzekeringen N.V. holds 33.15% of the shares of N.V. Interpolis Onroerend Goed, Achmea exercises significant influence because the other shares are owned by Achmea Pensioen- en Levensverzekeringen N.V.

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 Schadeverzekeringen N.V. bases the book value on preliminary, unaudited figures received from the associate or joint venture. Achmea Schadeverzekeringen N.V. 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.

### 13. 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 | OTHER MOVEMENTS | **BALANCE AT 31 DECEMBER 2017** |
|---|---|---|---|---|---|
| Investments | 70 | −13 | | | 57 |
| Liabilities related to insurance contracts | 124 | −29 | | | 95 |
| | **194** | **−42** | | | **152** |
| **Comprises of:** | | | | | |
| Deferred tax liabilities | | | | | 152 |

(€ MILLION)

| | BALANCE AT 1 JANUARY 2016 | RECOGNISED IN INCOME | RECOGNISED IN EQUITY | OTHER MOVEMENTS | **BALANCE AT 31 DECEMBER 2016** |
|---|---|---|---|---|---|
| Investments | 60 | −2 | 17 | −5 | 70 |
| Liabilities related to insurance contracts | −17 | 24 | | 117 | 124 |
| | **43** | **22** | **17** | **112** | **194** |
| **Comprises of:** | | | | | |
| Deferred tax liabilities | | | | | 194 |

* *In 2016 deferred tax assets with regard to the Australian branch were impaired through other movements (€5 million). Both opening balance and impairment are not included in this schedule.*

The tax rates used in calculating deferred tax assets and liabilities were in both 2016 and 2017 25%. The other movements in 2016 mainly relate to transfers between deferred taxes and current tax positions. The other movements in 2016 mainly relate to a transfer between deferred and current tax positions due to a change in valuation in tax purposes of insurance liabilities and investments.

An amount of €95 million (2016: €124 million) of the Deferred tax assets and liabilities is expected to be recovered, to a large extent, more than twelve months after reporting date.

Deferred taxes assets and liabilities are respectively receivables from or liabilities to Achmea B.V. because Achmea B.V. heads the fiscal unity.

### 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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.

## 14. CASH AND CASH EQUIVALENTS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Bank balances | 157 | 71 |
| **Balance at 31 December** | **157** | **71** |

The cash and cash equivalents are at the free disposal of Achmea Schadeverzekeringen N.V. They comprise bank balances. Liquidity management is performed at Achmea B.V. Group level. Current account positions in Achmea B.V.'s cash pool that are payable on demand constitute an integral part of this liquidity management, and accordingly constitute part of the cash and cash equivalents of Achmea Schadeverzekeringen N.V.

### ACCOUNTING POLICIES CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, bank balances and call deposits and are measured at fair value.

## 15. 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

The authorised capital consists of 5,000 shares each of a nominal value of €454. 1,500 of these shares have been issued and fully paid-up. In 2017 and 2016, there were no movements in the paid up and called up capital.

### Share premium

In 2017, as was the case in 2016, there were no movements in the share premium reserve.

### Revaluation reserve

Based on the accounting principles used by Achmea Schadeverzekeringen N.V., a revaluation reserve is formed. Furthermore, based on Dutch regulations, Achmea Schadeverzekeringen N.V. 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 fair value movements of these assets in 2017, an amount of €2 million (2016: €2 million) is reallocated from the retained earnings into the revaluation reserve.

The majority of the revaluation reserve is related to investments classified as 'Available for sale'. The revaluation reserve contains an amount of €12 million (2016: €21 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 €12 million (2016: €21 million) cannot be distributed to shareholders.

### Retained earnings

The Retained Earnings are at the disposal of the shareholders of Achmea Schadeverzekeringen N.V.
The appropriation of results is presented in the Company Financial Statements of Achmea Schadeverzekeringen N.V. for 2017, Note 28. According to the proposal of the management board for the appropriation of results, with regard to financial year 2016 the result is added to the Retained Earnings by the General Meeting of the company. In November 2017 a €48 million interim dividend payment was made which was charged to the Retained earnings.

**ACCOUNTING POLICIES 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 Schadeverzekeringen N.V's accounting principles.

## 16. OTHER PROVISIONS

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 32 | 12 |
| Additions | 2 | 20 |
| Usage | −17 | |
| **Balance at 31 December** | **17** | **32** |
| | | |
| Non-current * | 16 | 12 |
| Current * | 1 | 20 |
| **Balance at 31 December** | **17** | **32** |

* *In 2017 the duration of Other provisions was reassessed. The 2016 comparative figures of have been adjusted accordingly.*

Other provisions include liabilities relating to the Guarantee Fund for statutory liability for insured motor vehicles (Waarborgfonds Motorverkeer). Furthermore a provision for onerous contracts has been recognised in 2016.

**KEY ASSUMPTIONS AND ESTIMATES OTHER PROVISIONS**

The determination of provisions is an inherently uncertain process involving estimates regarding amounts and timing of cash flows.

**ACCOUNTING POLICIES 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 Schadeverzekeringen N.V. are not provided for.

## 17. FINANCIAL LIABILITIES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Loans and borrowings | 37 | 36 |
| Other liabilities | 295 | 384 |
| | **332** | **420** |

### LOANS AND BORROWINGS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Other | 37 | 36 |
| | **37** | **36** |

The amortised cost is a good proxy of the fair value of loans and borrowings. The loans were entered into by Wagenplan B.V.

### MOVEMENT TABLE LOANS AND BORROWINGS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Balance at 1 January | 36 | 47 |
| Money deposited | 1 | |
| Money withdrawn | | −11 |
| **Balance at 31 December** | **37** | **36** |

### 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 | 1 | | 1 | 5 | | 5 |
| 3-12 months | 7 | | 7 | 11 | | 11 |
| 1-5 years | 29 | | 29 | 20 | | 20 |
| | **37** | | **37** | **36** | | **36** |

### OTHER LIABILITIES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Liabilities out of direct insurance | | |
| Policyholders | 93 | 71 |
| Intermediars | 35 | 90 |
| Prepaid premiums | 3 | 4 |
| Liabilities to credit institutions | 2 | 63 |
| Investment liabilities | | 4 |
| Reinsurance liabilities | 1 | 27 |
| Liabilities to group companies | 32 | 24 |
| Taxes and social security premiums | 46 | 46 |
| Accruals and deferred income | 55 | 33 |
| Other | 28 | 22 |
| **Balance at 31 December** | **295** | **384** |

Other liabilities are expected to be settled within 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. For an overview of the Liabilities to Group companies, please see note 27 Related party transactions.

### KEY ASSUMPTIONS AND ESTIMATES TO DETERMINE THE FAIR VALUE OF LIABILITIES

In the absence of an (active) market, the fair value of non-quoted financial assets and liabilities is estimated by using present value or other valuation techniques. Reference is made to Note 7 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 assets and 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

**Loans and borrowings**

Banking customer accounts are measured at amortised cost. Loans and borrowings include all loans from external parties to Achmea Schadeverzekeringen N.V.

**Other liabilities**

Other liabilities are accounted for at amortised cost.

## OTHER INCOME STATEMENT

### 18. OTHER INCOME

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Wagenplan B.V. | 5 | 6 |
| Income from sales transactions | 13 | |
| Fee income pooling and captives | 5 | 6 |
| Reversal of bad debts | | 3 |
| Other income | 4 | 5 |
| **Total** | **27** | **20** |

The other income of Wagenplan B.V. relates to the participation's gross result, this being the offsetting of the income in the amount of €48 million (2016: €57 million) and the expenses in the amount of €43 million (2016: €51 million).

Other income includes from sales transactions (€13 million) relating to the sale of self-developed customer files.

### 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 Schadeverzekeringen N.V., 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.

### 19. OTHER EXPENSES

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Holding company cost charged on | 20 | 18 |
| Change in provision for onerous contracts | | 15 |
| Impairments on receivables | 5 | |
| Other expenses | 5 | 7 |
| **Total** | **30** | **40** |

* *The 2016 figures have been adjusted to reflect the change in accounting policy, as set out in Note 1E under Changes in accounting policies*

Both restructuring charges (2017: €3 million; 2016: €1 million) and charges relating to Achmea B.V.'s capital management (2017: €17 million; 2016: €17 million) are charged to Other expenses. For further information relate to note 27 Related party transactions.

## 20. INCOME TAX EXPENSES

### RECONCILIATION OF EFFECTIVE TAX RATE

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| | | |
| Result before tax[1] | 126 | −202 |
| | | |
| Corporation tax rate | 25.0% | 25.0% |
| Income tax using the corporation tax rate[2] | 32 | −50 |
| Tax effect on: | | |
| Participation exemption | −2 | −1 |
| Other movements | 2 | 7 |
| **Effective tax amount[1]** | **32** | **−44** |

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 24,7% (2016: 21,9%).

### SPECIFICATION OF THE CURRENT AND THE DEFERRED INCOME TAX

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Current income tax | | |
| Current year | 74 | −66 |
| | **74** | **−66** |
| Deferred income tax | | |
| Current year | −42 | 22 |
| **Total Income tax expense in Income Statement** | **32** | **−44** |

### 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.

Tax positions are calculated at the level of the legal entity. Settlements are made within the tax unity. Current receivables or liabilities are recorded as Income tax receivable or Income tax payable. De tax position is calculated as if the legal entity is an autonomous taxable entity.

## 21. NET OTHER COMPREHENSIVE INCOME

(€ MILLION)

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | OTHER COMPREHENSIVE INCOME BEFORE TAX | INCOME TAX EXPENSE | NET OTHER COMPREHENSIVE INCOME | OTHER COMPREHENSIVE INCOME BEFORE TAX | INCOME TAX EXPENSE | NET OTHER COMPREHENSIVE INCOME |
| Unrealised gains and losses on financial instruments 'Available for sale' | 51 | −13 | 38 | 157 | −39 | 118 |
| Gains and losses on financial instruments 'Available for sale' reclassified to the Income Statement on disposal | −54 | 14 | −40 | −93 | 23 | −70 |
| Impairment charges on financial instruments 'Available for sale' reclassified to the Income Statement on disposal | 4 | −1 | 3 | 4 | −1 | 3 |
| **Total other comprehensive income** | **1** | | **1** | **68** | **−17** | **51** |

## OTHER NOTES

## 22. HEDGE-ACCOUNTING

Achmea Schadeverzekeringen N.V. applies fair value hedge accounting for the portfolios exposed to foreign currency risk. 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.

Foreign exchange contracts 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 €2 million (31 December 2016: €-3 million). The fair value of a foreign exchange contract 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: €4 million).

### RESULTS ON HEDGE ACCOUNTING

(€ MILLION)

| FOREIGN CURRENCY FAIR VALUE HEDGES | 2017 | 2016 |
|---|---|---|
| Fair value changes of the hedged item attributable to the hedged risk | 20 | −3 |
| Fair value changes of the related derivatives (including discontinuation) | −16 | 7 |
| **Fair value changes of the hedging instrument - ineffective portion** | **4** | **4** |

### ACCOUNTING POLICIES HEDGE ACCOUNTING

Achmea Schadeverzekeringen N.V. applies fair value hedge accounting for certain investment portfolios. When Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. starts amortising the related fair value adjustment over the remaining duration of the hedged item when the hedge relationship is discontinued. When Achmea Schadeverzekeringen N.V. 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.

## 23. CONTINGENCIES

### Legal procedures

Achmea Schadeverzekeringen N.V. and companies forming part of Achmea Schadeverzekeringen N.V. are involved in lawsuits and arbitration proceedings. These proceedings relate to claims instituted by and against these companies arising from ordinary operations, including the activities carried out in their capacity as insurer, investor and tax payer. Although it is not possible to predict or define the outcomes of pending or imminent legal proceedings, the Management Board believes that it is unlikely that the outcomes of the actions will have a material, negative impact on the financial position of Achmea Schadeverzekeringen N.V.

### Contingent liabilities

CONTINGENT LIABILITIES (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Guarantees | 47 | 46 |
| | **47** | **46** |

The Netherlands-based insurance companies of Achmea Schadeverzekeringen N.V. provided the 'Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V.' with guarantees to a maximum of €15 million (2016: €14 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 Schadeverzekeringen N.V. has provided a guarantee for two facilities taken out by Wagenplan B.V. These contain a €60 million lease facility with ABN AMRO Lease N.V. and a €4 million overdraft facility with ABN AMRO Bank N.V. Achmea Schadeverzekeringen N.V. has given financial commitment to 50% of Wagenplan B.V.'s liabilities with regard to these facilities to ABN AMRO Lease N.V. (up to a maximum of €30 million) and to ABN AMRO Bank N.V. (up to a maximum of €2 million). Wagenplan B.V. is a joint venture between Achmea Schadeverzekeringen N.V. and Athlon Car Lease Nederland B.V.

Achmea Schadeverzekeringen N.V. has provided Vereniging Achmea and Coöperatieve Rabobank U.A., in their capacity as shareholder in the ultimate parent company (Achmea B.V.) of Achmea Schadeverzekeringen N.V., with an indemnity for damages suffered by them as a consequence of additional obligations and responsibilities relating to the Australian branch of Achmea Schadeverzekeringen N.V. No material losses are expected in respect of this indemnity. Due to its nature, this indemnity is not to be quantified.

### Contingent liabilities

UNRECOGNISED CONTRACTUAL COMMITMENTS (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Commitments related to investments | 55 | 122 |
| | **55** | **122** |

At year-end 2017 Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. is obliged to provide credits in the amount of €7 million (2016 €10 million).

Achmea Schadeverzekeringen N.V. provides mortgage loans for its own account. In this capacity Achmea Schadeverzekeringen N.V. has commitments arising from offers for mortgage loans. If the clients accept the offers Achmea Schadeverzekeringen N.V. is obliged to provide mortgage loans in the amount of €33 million (2016: €92 million).

The other commitments are liabilities not yet met based on investments in, including private equity, real estate funds and infrastructure funds.

### Tax entity

Regarding the value-added tax (VAT) and Corporate income tax, Achmea Schadeverzekeringen N.V. is part of the tax fiscal unity within Achmea B.V. and therefore is jointly and severally liable for the obligations of the fiscal unity.

## 24. 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* | 1,572 | 464 | 890 | 1,113 | 1,018 | 73 | 607 | 5,737 |
| Derivatives | | 1 | | 2 | 2 | 2 | 14 | 21 |
| Amounts ceded to reinsurers | | | 11 | 117 | | 1 | 82 | 211 |
| Receivables and accruals | | | | | | | 1,123 | 1,123 |
| Cash and cash equivalents | | | 40 | 115 | | | 2 | 157 |

EXTERNAL CREDIT RATING ASSETS (€ MILLION)

| 31 DECEMBER 2016 | AAA SOVEREIGN | AAA | AA | A | BBB | BELOW BBB | NOT RATED | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Investments | | | | | | | | |
| Fixed income investments* | 2,278 | 344 | 878 | 744 | 895 | 63 | 372 | 5,574 |
| Derivatives | | | | | | | 12 | 12 |
| Amounts ceded to reinsurers | | | 3 | 102 | 1 | | 69 | 175 |
| Receivables and accruals | | | | | | | 1,205 | 1,205 |
| Cash and cash equivalents | | | | 70 | | | 1 | 71 |

* *Fixed income investments without a rating relate to NHG mortgages (mortgages with National Mortgage Guarantee) for an amount of €519 million (2016: €346 million).*

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)

| 2017 | NEITHER PAST DUE NOR IMPAIRMENT | | | | IMPAIRED ASSETS |
|---|---|---|---|---|---|
| | 0 - 3 MONTHS | 3 MONTHS - 1 YEAR | MORE THAN ONE YEAR PAST DUE | AMOUNT OVERDUE | CARRYING AMOUNT AFTER IMPAIRMENT |
| Investments | | | | | |
| Fixed income investments | | | | | 2 |

FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED (€ MILLION)

| 2016 | NEITHER PAST DUE NOR IMPAIRMENT | | | | IMPAIRED ASSETS |
|---|---|---|---|---|---|
| | 0 - 3 MONTHS | 3 MONTHS - 1 YEAR | MORE THAN ONE YEAR PAST DUE | AMOUNT OVERDUE | CARRYING AMOUNT AFTER IMPAIRMENT |
| Investments | | | | | |
| Fixed income investments | | | | | 1 |

The table below provides an overview of asset and liabilities subject to offsetting, enforceable Master Netting Agreements and similar agreements.

FINANCIAL ASSETS SUBJECT OF OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

(€ MILLION)

| | GROSS AMOUNTS OF RECOGNISED FINANCIAL ASSETS | GROSS AMOUNTS OF RECOGNISED FINANCIAL LIABILITIES | 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 |
|---|---|---|---|---|---|---|
| 2017 | | | | | | |
| Derivatives assets | 21 | | | | | |
| Derivatives liabilities | | 8 | | | | |
| **Net** | | | **13** | **−2** | **5** | **10** |
| | | | | | | |
| Cash and cash equivalents | 893 | 830 | | | | |
| Liabilities to credit institutions | 416 | 418 | | | | |
| **Net** | | | **61** | | | **61** |
| | | | | | | |
| 2016 | | | | | | |
| Derivatives assets | 12 | | | | | |
| Derivatives liabilities | | 16 | | | | |
| **Net** | | | **−4** | | | **−4** |
| | | | | | | |
| Cash and cash equivalents | 650 | 644 | | | | |
| Liabilities to credit institutions | 266 | 315 | | | | |
| **Net** | | | **−43** | | | **−43** |

* *In 2017 a reassessment was made of Master netting agreements for Cash and cash equivalents and Liabilities to credit institutions. The 2016 figures have been adjusted accordingly.*

## 25. TRANSFER OF FINANCIAL ASSETS AND SECURITIES

Achmea Schadeverzekeringen N.V. transfers financial assets when it transfers contractual rights to receive cash flows from the financial asset. In addition, Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. 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. 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 |
|---|---|
| Carrying amount of transferred financial assets in the balance sheet | 534 |
| Fair value of non-cash collateral received net in the balance sheet | 567 |
| **Net exposure** | **−33** |

Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. and the borrower. Securities lending involves transfer of the legal ownership to the borrower, whereas the beneficial ownership remains with Achmea Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V., 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 Schadeverzekeringen N.V. 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 Schadeverzekeringen N.V. and return these to Achmea Schadeverzekeringen N.V. Any losses are not for the account of Achmea Schadeverzekeringen N.V. If the lending agent is unable to return the same securities, Achmea Schadeverzekeringen N.V. 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.

RECEIVED OR COLLAPSED COLLATERAL INVESTMENTS IN THE CONTEXT OF DERIVATIVE TRANSACTIONS

(€ MILLION)

| | 31 DECEMBER 2017 |
|---|---|
| Net position of assets and liabilities derivatives | 13 |
| Covered by collateral | −2 |
| Liquid funds received in collateral | 5 |
| **Net position** | **10** |

Bilateral arrangements regarding collateral to be received or provided have been agreed with Achmea Schadeverzekeringen N.V'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 no collateral deposited for cleared derivatives positions. The net position of derivatives assets and liabilities cleared centrally must be fully covered by collateral for each individual counterparty.

## 26. INTERESTS IN SUBSIDIARIES

| | CORPORATE SEAT | % OF OWNERSHIP INTEREST HELD BY ACHMEA SCHADEVERZEKERINGEN N.V. |
|---|---|---|
| Achmea Non-Life Beleggingen B.V. | Zeist | 100.00% |
| Achmea Woninghypotheken III B.V. | Zeist | 100.00% |
| Wagenplan B.V. | Schiphol-Rijk | 50.00% |

Set out above are Achmea Schadeverzekeringen N.V.'s subsidiaries as at 31 December 2017. These are subsidiaries which are wholly owned, directly or indirectly, unless stated otherwise, and are involved in insurance business, asset management or services related to these activities. The voting power in these subsidiaries held by Achmea Schadeverzekeringen N.V. is equal to the shareholding.

Since Achmea Schadeverzekeringen N.V. can appoint the Chairman of the Board of directors and the Chairman of the Supervisory Board Wagenplan B.V. due to statutory regulations, Achmea Schadeverzekeringen N.V. has control over the subsidiary.

The country of incorporation or registration is also their principal place of business.

## 27. RELATED PARTY TRANSACTIONS

### TRANSACTIONS WITH SHAREHOLDERS AND ULTIMATE PARENT COMPANY

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| **Achmea B.V.:** | | |
| Derivatives (currency derivatives) | | −2 |
| Receivables | 7 | 20 |
| Dividend payment | 48 | |
| Operating expenses | 29 | 26 |
| Other expenses | 17 | 17 |

### NATURE OF RELATED PARTY TRANSACTIONS

#### General

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). Since Achmea B.V. as head of the Group exercises direct or indirect control over all legal entities that form part of the Achmea Group, Achmea Schadeverzekeringen N.V. deems these entities to be related parties too.

Achmea Schadeverzekeringen N.V. also considers its defined benefit pension plan (Stichting Pensioenfonds Achmea) as a related party. Members of the Management and Supervisory Board and their close family members are also considered related parties to Achmea Schadeverzekeringen N.V.

In addition Achmea Schadeverzekeringen N.V. maintains business relationships with related parties as part of the company's ordinary activities (particularly in the area of insurance). The transactions with such parties are not considered material to Achmea Schadeverzekeringen N.V., either individually or in the aggregate.

Costs for shared service centres and holding costs are allocated to entities based on fixed amounts mainly based on time spent by employees, work carried out and transactions processed in relation to the legal entity. This cost allocation is shown under Operating expenses and Other expenses.

#### Shareholders

The shareholder of Achmea Schadeverzekeringen N.V. is Achmea B.V. which as at 31 December 2017 held 100% of the shares (100% of the voting rights).

#### Related party transactions

Unless stated otherwise below, when it comes to the outstanding balances with related parties, no guarantees have been given or received, loan loss provisions included in relation to the amount of outstanding balances or charges relating to uncollectable or doubtful debts included in the Income Statement.

TRANSACTIONS WITH ASSOCIATES OF THE ACHMEA GROUP

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| **Operating expenses:** | | |
| Achmea Interne Diensten N.V.* | 408 | 491 |
| | | |
| **Other expenses:** | | |
| Achmea Interne Diensten N.V. | 3 | 1 |
| | | |
| **Fixed income investments in group companies** | | |
| Achmea Bank N.V. | | 18 |
| | | |
| **Interest income on Fixed income investments in group companies:** | | |
| Achmea Bank N.V. | | |
| | | |
| **Receivables:** | | |
| Achmea Interne Diensten N.V. | 6 | 36 |
| Achmea Pensioen- en Levensverzekeringen N.V. | 1 | 2 |
| Inshared Nederland B.V. | 22 | 19 |
| H.I. Services B.V. | 8 | 8 |
| Zilveren Kruis Zorgverzekeringen N.V. (previously OZF Achmea Zorgverzekeringen N.V.) | | 1 |
| Zilveren Kruis Zorgverzekeringen N.V. | | 3 |
| | | |
| **Liabilities:** | | |
| Achmea Services N.V. | | 1 |
| Achmea Zorgverzekeringen N.V. | 12 | 11 |
| N.V. Hagelunie | 5 | 6 |
| Stichting Achmea Rechtsbijstand | 3 | 6 |
| | | |
| **Aquisition costs:** | | |
| Inshared Nederland B.V. | 14 | 9 |
| H.I. Services B.V. | 5 | 4 |
| Online Claims Services B.V. | 5 | 5 |
| Inshared Holding B.V. | | 1 |
| | | |
| **Quota share contract of N.V. Hagelunie:** | | |
| Share in Liabilities related to insurance contracts | 8 | 6 |
| Liabilities from indirect insurance | 4 | 4 |
| Gross written premiums | 24 | 19 |
| Gross claims from insurance contrats | 12 | 7 |
| Commission, part of Operational expenses | 8 | 7 |
| | | |
| **Reinsurance via Achmea Reinsurance Company N.V.:** | | |
| Share in Amounts ceded to reinsurers | 113 | 99 |
| Outgoing reinsurance premium | 107 | 69 |
| Incoming claims | 24 | 76 |
| Receivables on reinsurance | | 24 |
| Liabilities from reinsurance | 11 | 19 |

* *Adjusted for comparison reasons*

## REMUNERATION OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

### Key positions: Management Board of Achmea Schadeverzekeringen N.V.

The members of the Management Board of Achmea Schadeverzekeringen N.V. are primarily responsible for their own entity. In addition, they perform activities for Achmea as a group and have a number of responsibilities in that context. This is related to the nature and organisation of Achmea B.V., a financial conglomerate, in which directors and members of the executive committee can be involved in several entities.

In these paragraphs, we consider the Board of Directors of the division Non-Life & Income - who also fulfil the core management duties for the entity Achmea Schadeverzekeringen N.V. – are deemed to be those who hold key positions under IAS 24.

### Remuneration of the Management Board

The remuneration of the members of the Management Board of Achmea Schadeverzekeringen N.V. is related to the content and responsibilities of their respective positions. The various positions are weighted on aspects such as the impact and nature of the position, complexity of the managerial context in which they operate, and the necessary knowledge, experience and competencies.

Besides an annual (fixed) salary, the remuneration package of an Management Board member includes elements of variable remuneration. The Achmea Executive Board decides, on the advice of the Remuneration Committee, on the granting of awards of variable remuneration in the year after the performance. Where necessary, this occurs in accordance with the Remuneration Committee of the Supervisory Board. 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 Management Board of Achmea Schadeverzekeringen N.V. have a pension scheme. This scheme applies to the employees of Achmea Interne Diensten N.V. who are residing to the Collective Agreement (CAO personnel). This pension scheme is carried out by Stichting Pensioenfonds Achmea.

On 1 January 2015 the tax rules for pension accrual in the Netherlands were changed significantly. Tax-supported pension accrual is now capped at a set amount (2017: €103,317).
Employees who accrued pension rights in excess of the capped amount before 1 January 2015 will be compensated for that accrual in an alternative way. This applies to all employees, both CAO personnel and members of the Management Board.

REMUNERATION OF THE MANAGEMENT BOARD OF ACHMEA SCHADEVERZEKERINGEN N.V. FOR THE FINANCIAL YEAR*

(€ THOUSAND)

| | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | 565 | 576 |
| Post-employment benefits | 231 | 201 |
| Other long-term employee benefits | | 33 |
| Termination benefits | | 283 |
| **Total** | **796** | **1,093** |

* *Fiscal cap in 2017 €103,317 (2016: €101,519).*

A total amount of €796 thousand was recognised in the reporting period 2017 for Management Board remuneration (2016: €1,093 thousand). 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 Management Board.

On the next page an overview is included of the remuneration of the members of the Management Board for performance year 2017. This overview includes an aggregate comparison with 2016.

REMUNERATION OF THE MANAGEMENT BOARD OF ACHMEA SCHADEVERZEKERINGEN N.V. FOR THE CURRENT PERFORMANCE YEAR

(€ THOUSAND)

| NAME | ANNUAL SALARY[2] | VARIABLE REMUNERATION AWARDED (OTHER SHORT TERM EMPLOYEE BENEFITS) | VARIABLE REMUNERATION AWARDED (OTHER LONG TERM EMPLOYEE BENEFITS) | POST EMPLOYMENT BENEFITS (UNTIL FISCAL CAP)[1] | PENSION( EXCEEDING FISCAL CAP)[1] | WAGE BENEFIT (EXCEEDING FISCAL CAP)[1] | TOTAL |
|---|---|---|---|---|---|---|---|
| M.G. (Michiel) Delfos | 317 | t.b.d. | t.b.d. | 40 | 41 | 40 | 438 |
| F.J. (Fred) Schuurman | 248 | t.b.d. | t.b.d. | 45 | 32 | 33 | 358 |
| **Total 2017** | **565** | **t.b.d.** | **t.b.d.** | **85** | **73** | **73** | **796** |
| Total 2016 | 542 | | | 81 | 60 | 60 | 743 |
| Average number of active Directors 2017: 2.00 | | | | | | | |
| Average number of active Directors 2016: 2.00 | | | | | | | |

1. *Fiscal cap in 2017 €103,317 (2016: €101,519).*
2. *The annual salary for 2016 is adjusted because the management board's benefit of private use of a lease car erroneously was adjusted twice last year. The 2016 figures have been adjusted.*

### Annual salary

The annual salary of the Executive Board is the fixed all-in salary on an annual basis including holiday allowance. The salary is paid in twelve equal instalments. Insofar as applicable the benefit of private use of a lease car is also included. On 1 January 2017 the salary was raised as collectively agreed by 1%. Furthermore, on 1 January 2017 an individual raise was awarded based on regular performance assessment.

### 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. Due to the results for 2016 no variable remuneration was awarded for the performance year 2016.

### Post-employment benefits

The pension scheme applicable to CAO personnel and senior managers/directors also applies to the Management Board. Tax-supported pension accrual is now capped at a set amount (2017: €103,317).

### Post-employment benefits over the fiscal cap (€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 Management Board of Achmea Schadeverzekeringen N.V. 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 the Centraal Beheer label. The remainder for post-employment benefits over €103,317 is paid as a gross wage benefit.

### Claw back

In 2017, there were no adjustments or claw back of remuneration from former years with regard to members of the Management Board, nor were there any in 2016.

### Loans

Members of the Management Board have loans outstanding with Rabobank. The loans amount to €543 thousand (2016: €566 thousand). The weighted interest rate of these loans is 2,75% (2016: 2,82%). The loans are mortgage loans. In 2017 €23 thousand has been repaid (2016: €23 thousand).

## REMUNERATION OF SUPERVISORY BOARD MEMBERS

The members of the Supervisory Board of Achmea Schadeverzekeringen N.V. are also members of the Supervisory Board of Achmea B.V. In 2017 all members received remuneration for their activities in their capacity of Supervisory Board members. This remuneration is in line with the time they have given to these activities and was not increased in 2017 with regard to 2016.

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD PER YEAR* (€ THOUSAND)

| | 2017 | 2016 |
|---|---|---|
| **Supervisory Board members as at 31 December 2017:** | | |
| A.J.A.M. Vermeer (Chairman) | 27 | 27 |
| A.W. Veenman | 18 | 18 |
| R. Th. Wijmenga | 18 | 18 |
| **Total** | **63** | **63** |

* *Excluding VAT*

## TRANSACTIONS WITH ASSOCIATES OF THE ACHMEA GROUP

### Fixed income investments in group companies

The loan to Achmea Bank N.V. contained interests in Securitised bonds (asset backed) and has been sold in 2017. The asset backed securities contain bonds issued by some special-purpose vehicles (SPV's) which are part of the Achmea Bank N.V.'s consolidation scope . The names of these SPVs are called Dutch Mortgage Portfolio Loans (DMPL) and are AAA-rated. The interest rate on these investments amounts to 1,18% (31-12-2016: 1,18%) and will be contractually due on 26 September 2051).

### Other operating costs and personnel costs

Costs for shared service centres and holding costs are allocated to entities on the basis of amounts mainly based on past experience with regard to time spent by employees, work carried out and transactions processed. These costs are recognised as Operating expenses.

All personnel are employed by Achmea Interne Diensten N.V., an entity of Achmea B.V. The Achmea Group's pension commitments have been placed with Stichting Pensioenfonds Achmea. The personnel costs and other operating expenses associated with the activities are passed on to Achmea Schadeverzekeringen N.V. The associated pension expenses are allocated on the basis of the pensionable salary of current employees.

Achmea Schadeverzekeringen N.V. as part of the Achmea Group undertakes many transactions with other Group companies, in particular in the field of internal service provision such as facilities services and IT. The operating expenses associated with the activities are passed on to Achmea Schadeverzekeringen N.V.

The receivables and liabilities arising from these transactions relate to current account balances.

### Other expenses

Charges relating to Achmea's restructuring programme (2017: €3 million; 2016: €1 million) are not directly related to insurance business, and are recognised as Other expenses.

Charges relating to Achmea B.V.'s capital management (2017: €17 million; 2016: €17 million) are not directly related to insurance business, and are recognised as Other expenses.

### Other related party transactions

In connection with the non-climatological risks of the greenhouse cultivation portfolio of N.V. Hagelunie, a 94% quota share contract has been entered into with Achmea Schadeverzekeringen N.V.

### Independer

Independer is part Achmea B.V. Due to the self-governing structure of Independer in relation to the entities of the Achmea Group, transactions are considered not to be intercompany.

### Reinsurance via Achmea Reinsurance Company N.V.

Achmea Reinsurance Company N.V. is the internal reinsurer within the Achmea Group. Achmea Schadeverzekeringen N.V. has placed (a large share of) its reinsurance business with this company.

### Transactions, receivables and liabilities with other related parties

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Investment expenses F&C Asset Management asset management activities | | 1 |
| Investment expenses Achmea Investment Management B.V. | | 2 |
| Rabobank commission expenses | 163 | 209 |

### Pension liabilities

Achmea Interne Diensten N.V. has placed the pension commitments for employees of Achmea Schadeverzekeringen N.V. with Stichting Pensioenfonds Achmea (SPA).

The pension scheme is a so-called Collective Defined (CDC) scheme. The financial and actuarial risks are in substance transferred to the employees, implying amongst others that the future increase on vested rights for current employees has become conditional on the funded status within the plan. The related CDC contributions are allocated by Achmea Interne Diensten N.V. to Achmea Schadeverzekeringen N.V. on the basis of pensionable salary of current employees. The provision is determined on the basis of the number of active years of service until the balance sheet date, the estimated level of salary as at the expected retirement date and the market interest rate on the high-quality bonds issued by the entities. These liabilities will be reduced by any assets related to this scheme.

IAS 19 Employee Benefits is applicable to Achmea Schadeverzekeringen N.V. based on the situation that the defined benefit plans share risks between entities under common control. For the disclosures on the IAS 19 Employee Benefits (based on IAS 19.150) reference is made the 2016 financial statements of Achmea B.V. (www.achmea.com).

Pension costs charged to Achmea Schadeverzekeringen N.V. amount to €119 million in 2017 (2016*: €111 million).

* *Adjusted for comparison reasons*

### Rabobank

Rabobank is an important shareholder of Achmea B.V. For its operations, Achmea Schadeverzekeringen N.V. 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.

## AUTHORISATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Zeist, 10 April 2018

Management Board of Achmea Schadeverzekeringen N.V.,

| | |
|---|---|
| M.G. Delfos | F.J. Schuurman |

The members of the Supervisory Board of Achmea Schadeverzekeringen N.V.

| | |
|---|---|
| A.J.A.M. Vermeer<br>Chairman | A.W. Veenman |
| R.Th. Wijmenga | R. Otto |

## COMPANY FINANCIAL STATEMENTS

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

(€ MILLION)

| | NOTES | 31 DECEMBER 2017 | 31 DECEMBER 2016 | 1 JANUARY 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| Intangible assets | | | | 1 |
| Subsidiaries, associates and joint ventures | 12 | 115 | 113 | 101 |
| Investments | 4 | 6,306 | 6,108 | 6,020 |
| Deferred tax assets | 13 | | | 5 |
| Income tax receivable | | 7 | 208 | 55 |
| Amounts ceded to reinsurers | 6 | 211 | 175 | 125 |
| Receivables and accruals | 5 | 1,114 | 1,185 | 1,050 |
| Cash and cash equivalents | 14 | 154 | 65 | 25 |
| **Total assets** | | **7,907** | **7,854** | **7,382** |
| | | | | |
| **Total equity** | | | | |
| Equity attributable to holders of equity instruments of the company | | 966 | 920 | 1,028 |
| **Total equity** | **15** | **966** | **920** | **1,028** |
| | | | | |
| Liabilities | | | | |
| Liabilities related to insurance contracts | 6 | 6,476 | 6,317 | 5,984 |
| Other provisions | 16 | 17 | 32 | 12 |
| Financial liabilities | 17 | 294 | 381 | 314 |
| Derivatives | 4 | 8 | 15 | 4 |
| Deferred tax liabilities | 13 | 146 | 189 | 40 |
| **Total liabilities** | | **6,941** | **6,934** | **6,354** |
| | | | | |
| **Total equity and liabilities** | | **7,907** | **7,854** | **7,382** |

## COMPANY INCOME STATEMENT

(€ MILLION)

| | NOTES | 2017 | 2016 |
|---|---|---|---|
| Gross earned premiums | | 3,250 | 3,155 |
| Reinsurance premiums | | −148 | −108 |
| Change in provisions for unearned premiums and current risks (net of reinsurance | | 18 | 7 |
| **Net earned premiums** | **8** | **3,120** | **3,054** |
| Income from subsidiaries, associates and joint ventures | | 13 | 8 |
| Investment income | 9 | 102 | 154 |
| Other income | 18 | 22 | 14 |
| **Total income** | | **3,257** | **3,230** |
| | | | |
| Net expenses from insurance contracts | 10 | 2,280 | 2,503 |
| Interest and similar expenses | | 2 | 0 |
| Operating expenses | 11 | 823 | 892 |
| Other expenses | 19 | 30 | 40 |
| **Total expenses** | | **3,135** | **3,435** |
| | | | |
| **Result before tax** | | **122** | **−205** |
| Income tax expenses | 20 | −29 | 46 |
| **Net result** | | **93** | **−159** |
| | | | |
| **Net profit attributable to:** | | | |
| Holders of equity instruments of the company | | 93 | −159 |

## COMPANY STATEMENT OF COMPREHENSIVE INCOME

(€ MILLION)

| | NOTES | 2017 | 2016 |
|---|---|---|---|
| **Items that will not be reclassified to the Income statement** | | | |
| | | | |
| **Items that may be reclassified subsequently to the Income statement** | | | |
| Unrealised gains and losses on financial instruments 'Available for sale' | | 33 | 108 |
| Share in other comprehensive income of Subsidiaries, associates and joint ventures | | 4 | 8 |
| Gains and losses on financial instruments 'Available for sale' reclassified to the Income statement on disposal | | −39 | −68 |
| Impairment charges on financial instruments 'Available for sale' reclassified to the Income statement on disposal | | 3 | 3 |
| | | **1** | **51** |
| | | | |
| **Net other comprehensive income** | **21** | **1** | **51** |
| Net result | | 93 | −159 |
| | | | |
| **Comprehensive income** | | **94** | **−108** |
| | | | |
| **Comprehensive income attributable to:** | | | |
| Holders of equity instruments of the company | | 94 | −108 |

## COMPANY STATEMENT OF CHANGES IN EQUITY

(€ MILLION)

| | SHARE CAPITAL | SHARE PREMIUM | REVALUATION RESERVE | RETAINED EARNINGS | PROFIT FOR THE YEAR | TOTAL EQUITY ATTRIBUTABLE TO SHARE-HOLDERS OF THE COMPANY |
|---|---|---|---|---|---|---|
| Balance at 1 January 2016 | 1 | 166 | 131 | 740 | −7 | 1,031 |
| Changes in accounting principles | | | | -3 | | -3 |
| **Balance per 1 January 2016, after changes in accounting principles** | **1** | **166** | **131** | **737** | **-7** | **1,028** |
| Net other comprehensive income | | | 51 | | | 51 |
| Net result | | | | | −159 | −159 |
| **Comprehensive income** | | | **51** | | **−159** | **−108** |
| | | | | | | |
| Appropriations to reserves | | | 1 | −8 | 7 | |
| **Balance at 31 December 2016** | **1** | **166** | **183** | **729** | **−159** | **920** |
| | | | | | | |
| **Balance at 1 January 2017** | **1** | **166** | **183** | **729** | **−159** | **920** |
| Net other comprehensive income | | | 1 | | | 1 |
| Net result | | | | | 93 | 93 |
| **Comprehensive income** | | | **1** | | **93** | **94** |
| | | | | | | |
| Appropriations to reserves | | | 1 | −160 | 159 | |
| Dividend payments | | | | −48 | | −48 |
| **Balance at 31 December 2017** | **1** | **166** | **185** | **521** | **93** | **966** |

## COMPANY STATEMENT OF CASH FLOWS

(€ MILLION)

| | NOTES | 2017 | 2016 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit before tax | | 122 | −205 |
| *Adjustments of non-cash items and reclassifications:* | | | |
| Unrealised results on Investments, including foreign currency results and value changes and provisions for uncollectability | | 6 | −29 |
| Capital management charges | | 17 | 17 |
| Income from Associates and joint ventures | | −13 | −8 |
| (Accrued) Interest expenses | | 5 | 5 |
| | | **15** | **−15** |
| *Changes in operating assets and liabilities:* | | | |
| Changes in Receivables and accruals and Other liabilities recognised as Financial liabilities | | 48 | −104 |
| Changes in Liabilities related to insurance contracts net of reinsurance | | 123 | 283 |
| Changes in Other provisions | | −15 | 20 |
| | | **156** | **199** |
| *Cash flows operating items not reflected in Result before tax:* | | | |
| Purchase of Investments | | −3,480 | −2,964 |
| Divestments of Investments | | 3,436 | 3,249 |
| Income taxes paid | | 129 | 32 |
| | | **85** | **317** |
| **Total cash flow from operating activities** | | **378** | **296** |
| | | | |
| *Cash flow from investing activities* | | | |
| Investment in loans to group companies | | −214 | −308 |
| Divestments of loans to group companies | | 39 | 17 |
| Dividends received from Subsidiaries, associates and joint ventures | | 15 | 4 |
| | | | |
| **Total cash flow from investing activities** | | **−160** | **−287** |
| | | | |
| *Cash flow from financing activities* | | | |
| Capital management charges equity | | −17 | −17 |
| Dividend and coupon payments | | −48 | |
| **Total cash flow from financing activities** | | **−65** | **−17** |
| | | | |
| **Net cash flow** | | **153** | **−8** |
| | | | |
| Net cash and cash equivalents at 1 January | | −10 | −2 |
| **Net cash and cash equivalents at 31 December** | | **143** | **−10** |
| | | | |
| **Cash and cash equivalents include the following items:** | | | |
| Cash and bank balances | 14 | 154 | 65 |
| Debts to credit institutions | 17 | −11 | −75 |
| **Cash and cash equivalents at 31 December** | | **143** | **−10** |

Included in the cash flows from operating activities for 2017 is interests received amounting to €63 million (2016: €80 million), dividends received amounting to €12 million (2016: €12 million) and interest paid amounting to €2 million (2016: €1 million).

# Notes to the company Financial Statements

## 1. ACCOUNTING POLICIES

### General

Reference is made to Note 1 Accounting policies and the specific accounting principles recognised in the notes in the Consolidated financial statements, for a description of the accounting principles used.

All amounts in the Company financial statements are in millions of euros unless stated otherwise

### First time adoption IFRS

Up to and including 2016 Achmea Schadeverzekeringen N.V. applied the so called ‘option 3’ for preparing its company financials statements in accordance with Dutch GAAP accounting principles (Book 2, part 9 of the Dutch Civil Code). As of 2017 Achmea Schadeverzekeringen N.V. has chosen to fully adopt International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and interpretations, adopted by the European Union for preparing its company financial statements. As a result of amendments to IAS 27, effective as of 1 January 2016, application of the equity method for valuation of subsidiaries is permitted. As a result Total equity and Net result in the company financial statements will equal the consolidated financial statements.

In preparing the company financial statements as per 1 January 2016 and as per 31 December 2016, the equity method was already applied. Therefore the first time adoption has no impact on the Company statement of financial position, the Company statement of total equity and the Company net result of Achmea Schadeverzekeringen N.V. The company Statement of financial position as per 1 January 2016 is included in accordance with IAS1.

## 2. CAPITAL AND RISK MANAGEMENT

Reference is made to Note 2 Capital and riskmanagement of the Consolidated Financial Statementsfor a description of Achmea Schadeverzekeringen N.V.’s capital- and riskmanagement.

## 3. SUBSEQUENT EVENTS

There are no subsequent events which should be disclosed in the financial statements.

## NOTES TO SIGNIFICANT BALANCE SHEET AND INCOME STATEMENT ITEMS

### 4. INVESTMENTS

INVESTMENTS OWN ACCOUNT BY NATURE (€ MILLION)

| | INVESTMENTS - AT FAIR VALUE THROUGH PROFIT OR LOSS | | INVESTMENTS - AVAILABLE FOR SALE | | TOTAL | |
|---|---|---|---|---|---|---|
| | 31 DECEMBER 2017 | 31 DECEMBER 2016 | 31 DECEMBER 2017 | 31 DECEMBER 2016 | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
| Equities and similar investments | 59 | 60 | 498 | 446 | 557 | 506 |
| Fixed income investments | 32 | 4 | 5,697 | 5,587 | 5,729 | 5,591 |
| Derivatives | 20 | 11 | | | 20 | 11 |
| **Balance at 31 December** | **111** | **75** | **6,195** | **6,033** | **6,306** | **6,108** |

MOVEMENT TABLE INVESTMENTS OWN ACCOUNT (€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 6,108 | 6,020 |
| Investments and loans granted | 3,694 | 3,272 |
| Divestments and disposals | −3,475 | −3,266 |
| Fair value changes | 131 | 135 |
| Foreign currency differences | −95 | 5 |
| Amortisation | −52 | −53 |
| Accrued interest | −5 | −5 |
| **Balance at 31 December** | **6,306** | **6,108** |

Equity investments and similar investments of in total €557 million (31 December 2016: €506 million) consist of investments in listed ordinary shares of €212 million (31 December 2016: €181 million), alternative investments of €84 million (31 December 2016: €93 million), investments in real estate funds of €9 million (31 December 2016: €9 million), investments in fixed-income funds of €100 million (31 December 2016: €97 million) and other investments of €152 million (31 December 2016: €126 million).

The investments for which Achmea Schadeverzekeringen N.V. made use of the option to designate them as 'At fair value through profit or loss' as at 31 December 2017 amounted to €111 million (31 December 2016: €75 million). Derivatives are used for hedging purposes. Achmea Schadeverzekeringen N.V. holds no financial instruments for trading purposes.

Based on their contractual maturity, an amount of €4.922million (2016: €5.255 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.

FIXED INCOME INVESTMENTS OWN ACCOUNT BY NATURE (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Government and Government related or guaranteed bonds | 2,347 | 2,959 |
| Securitised bonds* | 197 | 182 |
| Corporate bonds | 2,303 | 1,803 |
| Convertibles | 65 | 64 |
| Loans to group companies | 756 | 577 |
| Loans and deposits | 61 | 6 |
| | **5,729** | **5,591** |

* *Securitised bonds include €187 million (2016: €182million) asset backed securities (collateralized)*

Achmea Schadeverzekeringen N.V.'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 (asset backed) and loans to group companies. The composition of Achmea Schadeverzekeringen N.V.'s portfolios in the interests in structured entities is widely dispersed looking at the individual amount per entity. For the main part Achmea Schadeverzekeringen N.V. invests in the senior rated interest of these assets backed securities, limiting the potential credit losses. For the most significant structured entities the following table presents the maximum exposure to loss for Achmea Schadeverzekeringen N.V. as at 31 December 2017, which equals the carrying amount of the securities at that date. Furthermore, the table presents a comparison of Achmea Schadeverzekeringen N.V.'s interest with the total amount of issued notes 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 UNCONSOLIDATED STRUCTURED ENTITIES (€ MILLION)

| | 31 DECEMBER 2017 | | 31 DECEMBER 2016 | |
|---|---|---|---|---|
| | MAXIMUM EXPOSURE TO LOSS | TOTAL AMOUNT OF ISSUED NOTES AT ISSUE DATE | MAXIMUM EXPOSURE TO LOSS | TOTAL AMOUNT OF ISSUED NOTES AT ISSUE DATE |
| Mortgage backed securities | 81 | 7,344 | 104 | 9,832 |
| Mortgage backed securities (group companies) | | | 17 | 616 |
| Car leasing receivables backed securities | 31 | 9,335 | 22 | 5,748 |
| Other securities | 75 | 2,735 | 56 | 1,285 |
| **Carrying amount of interest in unconsolidated structured entities as at 31 December** | **187** | **19,414** | **199** | **17,481** |

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

LOANS TO GROUP COMPANIES (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Achmea Bank N.V. | | 17 |
| Achmea Non-life Beleggingen B.V. | 211 | 221 |
| Achmea Woninghypotheken III B.V. | 545 | 339 |
| | **756** | **577** |

### Achmea Non-life Beleggingen B.V.

The loan to Achmea Non-Life Beleggingen B.V. expires on 30 September 2024. The rate of interest charged on this loan is the twelve month Euribor interest rate plus a surcharge of 115 basis points.

### Achmea Woninghypotheken III B.V.

The bonds issued by Achmea Bank N.V. consist of two parts expiring on 14 September 2025. Three-month Euribor interest is paid on the bond issues plus a surcharge of 85 and 150 basis points respectively.

DERIVATIVES BY NATURE (€ MILLION)

| | ASSETS | LIABILITIES | 31 DECEMBER 2017 |
|---|---|---|---|
| Interest derivatives | 1 | 8 | −7 |
| Currency derivatives | 9 | | 9 |
| Equity derivatives | 10 | | 10 |
| | **20** | **8** | **12** |

| | ASSETS | LIABILITIES | 31 DECEMBER 2016 |
|---|---|---|---|
| Currency derivatives | 1 | 15 | −14 |
| Equity derivatives | 10 | | 10 |
| | **11** | **15** | **−4** |

### ANALYSIS OF THE EXPECTED DURATION OF THE UNDISCOUNTED CASH FLOWS OF THE DERIVATIVES (LIABILITIES)

31 DECEMBER 2017

| 31 DECEMBER 2017 | TOTAL | WITHIN 1 YEAR | 1 - 3 YEARS | 3 - 5 YEARS | → 5 YEARS |
|---|---|---|---|---|---|
| Interest derivatives | 8 | 8 | | | |
| | **8** | **8** | | | |

### ANALYSIS OF THE EXPECTED DURATION OF THE UNDISCOUNTED CASH FLOWS OF THE DERIVATIVES (LIABILITIES)

31 DECEMBER 2016

| 31 DECEMBER 2016 | TOTAL | WITHIN 1 YEAR | 1 - 3 YEARS | 3 - 5 YEARS | → 5 YEARS |
|---|---|---|---|---|---|
| Currency derivatives | 15 | 15 | | | |
| | **15** | **15** | | | |

### ANALYSIS CURRENCY DERIVATIVES INVESTMENTS OWN ACCOUNT TO NOTIONAL AMOUNTS AND FAIR VALUE

31 DECEMBER 2016

| | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES | NOTIONAL AMOUNT | FAIR VALUE ASSETS | FAIR VALUE LIABILITIES |
|---|---|---|---|---|---|---|
| Interest rate derivatives | 246 | 1 | 8 | | | |
| Forward exchange contracts | 834 | 9 | | 831 | 1 | 15 |
| | **1,080** | **10** | **8** | **831** | **1** | **15** |

Please refer to Note 4 ‘Investments’ in the consolidated financial statements for key assumptions and estimates and accounting policies.

## 5. RECEIVABLES AND ACCRUALS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Receivables from direct insurance | | |
| Policyholders | 728 | 672 |
| Agents | 10 | 15 |
| Receivables on indirect insurance * | 111 | 89 |
| Receivables on reinsurance * | | 24 |
| Receivables from group companies | 44 | 89 |
| Accruals and prepayments | 100 | 113 |
| Taxes and social security premiums | 13 | 85 |
| Receivables acquired by exercising rights to recoveries | 103 | 93 |
| Other receivables | 5 | 5 |
| **Balance at 31 December** | **1,114** | **1,185** |

* *In 2017 the items ‘Receivables from indirect insurance’ and ‘Receivables from reinsurance’ were reassessed. The 2016 comparative figures of have been adjusted accordingly.*

Receivables and accruals are expected to be recovered within 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.

Impairment losses recognised in 2017 related to Receivables and accruals amounted to €5 million (31 December 2016: nil) and are included in Other expenses.

As a result of a change in settlement of insurance tax a receivable of €74 million is recorded as Other taxes and insurance contributions at year-end 2016. This contains prepaid insurance taxes. As of 2017 insurance tax liabilities will be paid on a monthly basis. Until 2016 insurance tax liabilities were paid yearly in advance.

For a list of the Receivables from group companies, please see Note 27 Related party transactions in the consolidated financial statements.

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

For further information please refer to Note 6 ‘Liabilities related to insurance contracts and amounts ceded to reinsurers’ in the consolidated financial statements.

## 7. FAIR VALUE HIERARCHY

For a description of the Fair value hierarchy and main changes in the Fair value hierarchy in 2017 please refer to Note 7 ‘Fair value hierarchy’ in the consolidated financial statements.

### ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING AND NON-RECURRING BASIS AS AT 31 DECEMBER 2017

(€ MILLION)

| | | | | 31 DECEMBER 2017 |
|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| **Assets** | | | | |
| Recurring fair value measurements | | | | |
| Investments | | | | |
| Equities and similar investments | 359 | 149 | 49 | 557 |
| Fixed income investments | 4,480 | 1,249 | | 5,729 |
| Derivatives | | 20 | | 20 |
| Cash and cash equivalents | 154 | | | 154 |
| **Total assets measured at fair value on a recurring basis** | **4,993** | **1,418** | **49** | **6,460** |
| | | | | |
| **Non-Recurring fair value measurements** | | | | |
| | | | | |
| **Liabilities** | | | | |
| **Recurring fair value measurements** | | | | |
| Derivatives | | 8 | | 8 |
| **Total liabilities measured at fair value on a recurring basis** | | **8** | | **8** |

### ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING AND NON-RECURRING BASIS AT 31 DECEMBER 2016

(€ MILLION)

| | | | | 31 DECEMBER 2016 |
|---|---|---|---|---|
| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
| **Assets** | | | | |
| Recurring fair value measurements | | | | |
| Investments | | | | |
| Equities and similar investments | 295 | 152 | 59 | 506 |
| Fixed income investments | 4,847 | 744 | | 5,591 |
| Derivatives | | 11 | | 11 |
| Cash and cash equivalents | 65 | | | 65 |
| **Total assets measured at fair value on a recurring basis** | **5,207** | **907** | **59** | **6,173** |
| | | | | |
| **Non-Recurring fair value measurements** | | | | |
| | | | | |
| **Liabilities** | | | | |
| **Recurring fair value measurements** | | | | |
| Derivatives | | 15 | | 15 |
| **Total liabilities measured at fair value** | | **15** | | **15** |

## MOVEMENT SCHEDULE OF LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

(€ MILLION)

| | EQUITIES AND SIMILAR INVESTMENTS | TOTAL 2017 |
|---|---|---|
| **Assets** | | |
| Balance at 1 January | 59 | 59 |
| Investments and loans granted | 1 | 1 |
| Divestments and disposals | −13 | −13 |
| Fair value adjustments included in Other comprehensive income | 2 | 2 |
| Balance at 31 December | 49 | 49 |

## MOVEMENT SCHEDULE OF LEVEL 3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

(€ MILLION)

| | EQUITIES AND SIMILAR INVESTMENTS | TOTAL 2016 |
|---|---|---|
| **Assets** | | |
| Balance at 1 January | 70 | 70 |
| Investments and loans granted | 2 | 2 |
| Divestments and disposals | −10 | −10 |
| Fair value adjustments included in Other comprehensive income | −3 | −3 |
| **Balance at 31 December** | **59** | **59** |

## SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 ASSETS AND LIABILITIES AT FAIR VALUE

(€ MILLION)

| | FAIR VALUE AS AT 31 DECEMBER 2017 | VALUATION TECHNIQUE USED | UNOBSERVABLE INPUT | RANGE (WEIGTHED AVERAGE) | RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE |
|---|---|---|---|---|---|
| Equities and similar investments | 49 | Net Asset Value* | N/A | N/A | N/A |

## SIGNIFICANT UNOBSERVABLE INPUTS FOR LEVEL 3 ASSETS AND LIABILITIES AT FAIR VALUE

(€ MILLION)

| | FAIR VALUE AS AT 31 DECEMBER 2016 | VALUATION TECHNIQUE | UNOBSERVABLE INPUT | RANGE (WEIGTHED AVERAGE) | RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE |
|---|---|---|---|---|---|
| Equities and similar investments | 59 | Net Asset Value* | N/A | N/A | N/A |

* *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 €34 million (31 December 2016: €32 million) property funds, amounting to €2 million (31 December 2016: €2 million), and infrastructure funds, amounting to €7 million (31 December 2016: €12 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.

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.

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE FOR WHICH THE FAIR VALUE IS DISCLOSED (€ 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** | | | | | |
| Receivables and accruals | 1,114 | | 1,114 | | 1,114 |
| | | | | | |
| **Liabilities** | | | | | |
| Financial liabilities | | | | | |
| Other liabilities | 295 | 11 | 284 | | 295 |

ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE FOR WHICH THE FAIR VALUE IS DISCLOSED (€ MILLION)

| | CARRYING AMOUNT AS AT 31 DECEMBER 2016 | | | | FAIR VALUE AS AT TOTAL 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** | | | | | |
| Receivables and accruals | 1,185 | | 1,185 | | 1,185 |
| | | | | | |
| **Liabilities** | | | | | |
| Financial liabilities | | | | | |
| Other liabilities | 381 | 75 | 306 | | 381 |

## 8. NET EARNED PREMIUMS

For further information on net earned premiums please refer to Note 8 ‘Net earned premiums’ in the consolidated financial statements.

## 9. INVESTMENT INCOME

### RESULTS ON INVESTMENTS OWN ACCOUNT

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Direct income | | |
| Investments at fair value through profit or loss | | |
| Investments available for sale | 70 | 87 |
| Investment costs | −6 | −6 |
| **Total** | **64** | **81** |
| | | |
| Realised and unrealised results on financial assets and derivatives liabilities | | |
| Investments at fair value through profit or loss | 69 | −23 |
| Investments available for sale | 45 | 97 |
| **Total** | **114** | **74** |
| | | |
| Impairment losses on investments | | |
| Investments available for sale | −3 | −4 |
| **Total** | **−3** | **−4** |
| | | |
| Foreign currency differences * | −73 | 0 |
| **Total income from investments** | **102** | **151** |

* *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 22 Hedge accounting.*

### DIRECT INCOME INVESTMENT OWN ACCOUNT BY TYPE

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Direct income own account by type: | | |
| Rental income | 58 | 75 |
| Dividend | 12 | 12 |
| **Total** | **70** | **87** |

Direct interest revenue from investments classified as ‘At fair value through profit or loss’ includes revenue from derivatives amounting to €5 million (2016: -12 million). These are mainly related to investment property, unlisted derivatives and equities.

A total of €-1 million (2016: €1 million) of the unrealised results from fair value changes is related to investments which are measured using a valuation technique. These are mainly related to investment property, unlisted derivatives and equities.

A total of €4 million (2016: €6 million) of direct income is related to loans to group companies.

## 10. NET EXPENSES FROM INSURANCE CONTRACTS

For further information please refer to Note 10 ‘Net expenses from insurance contracts’ in the consolidated financial statements.

## 11. OPERATING EXPENSES

For further information please refer to Note 11 ‘Operating expenses’ in the consolidated financial statements.

## OTHER NOTES

### OTHER STATEMENT OF FINANCIAL POSITION

### 12. SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(€ MILLION)

| NAME OF THE COMPANY | CORPORATE SEAT | DESCRIPTION OF BUSINESS | | % OF OWNERSHIP 2017 | EQUITY VALUE 2017 | **CARRYING AMOUNT AS AT 31 DECEMBER 2017** | CARRYING AMOUNT AS AT 31 DECEMBER 2016 |
|---|---|---|---|---|---|---|---|
| Achmea Non-life Beleggingen B.V. | Zeist | Investing | 10.01.2005 | 100.00% | 14 | 14 | 20 |
| Achmea Woninghypotheken III B.V. | Zeist | Investing in mortgages | 28.05.2015 | 100.00% | 22 | 22 | 6 |
| Wagenplan B.V. | Schiphol-Rijk | Leasing | 15.03.2001 | 50.00% | 7 | 7 | 8 |
| N.V. Interpolis Onroerend Goed N.V. | Tilburg | Investing in real estate | 19.06.1990 | 33.15% | 72 | 72 | 79 |
| | | | | | **115** | **115** | **113** |

Set out above are Achmea Schadeverzekeringen N.V.'s 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, asset management or services related to these activities. The voting power in these subsidiaries held by Achmea Schadeverzekeringen N.V. is equal to the shareholding. Since Achmea Schadeverzekeringen N.V. can appoint the Chairman of the Board of directors and the Chairman of the Supervisory Board Wagenplan B.V. due to statutory regulations, Achmea Schadeverzekeringen N.V. has control over the subsidiary.

The book value of the subsidiaries, associates and joint ventures is determined based on the (IFRS) financial statements (based on the valuation principles of the entity concerned) for the same financial year of those entities, where available. If not available, Achmea Schadeverzekeringen N.V. bases the book value on preliminary, unaudited figures received from the associate or joint venture. Achmea Schadeverzekeringen N.V. has established that, in the past, there were no material differences between those preliminary, unaudited figures and the (IFRS) financial statements of the subsidiary, associate or joint venture concerned.

The country of incorporation or registration is also their principal place of business.

### 13. DEFERRED TAX ASSETS AND LIABILITIES

(€ MILLION)

| | BALANCE AT 1 JANUARY 2017 | RECOGNISED IN INCOME | RECOGNISED IN EQUITY | OTHER MOVEMENTS | **BALANCE AT 31 DECEMBER 2017** |
|---|---|---|---|---|---|
| Investments | 65 | −14 | | | 51 |
| Liabilities related to insurance contracts | 124 | −29 | | | 95 |
| | **189** | **−43** | | | **146** |
| **Comprises of:** | | | | | |
| Deferred tax assets | | | | | |
| Deferred tax liabilities | | | | | 146 |

| | BALANCE AT 1 JANUARY 2016 | RECOGNISED IN INCOME | RECOGNISED IN EQUITY | OTHER MOVEMENTS | **BALANCE AT 31 DECEMBER 2016** |
|---|---|---|---|---|---|
| Investments | 57 | −2 | 14 | −4 | 65 |
| Liabilities related to insurance contracts | −17 | 24 | | 117 | 124 |
| | **40** | **22** | **14** | **113** | **189** |
| **Comprises of:** | | | | | |
| Deferred tax assets | | | | | |
| Deferred tax liabilities | | | | | 189 |

* *In 2016 deferred tax assets with regard to the Australian branch were impaired through other movements (€5 million). Both opening balance and impairment are not included in this schedule.*

The tax rates used in calculating deferred tax assets and liabilities were in both 2016 and 2017 25%. The other movements in 2016 mainly relate to a transfer between deferred and current tax positions due to a change in valuation in tax purposes of liabilities related to insurance contracts and investments.

An amount of €95 million (2016: €123 million) of the Deferred tax assets and liabilities is expected to be recovered, to a large extent, more than twelve months after reporting date.

Deferred taxes assets and liabilities are respectively receivables from or liabilities to Achmea B.V. because Achmea B.V. heads the fiscal unity

Please refer to Note 13 'Deferred tax assets and liabilities' in the consolidated financial statements for key assumptions and estimates and accounting policies.

### 14. CASH AND CASH EQUIVALENTS

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Bank balances | 154 | 65 |
| **Balance at 31 December** | **154** | **65** |

The cash and cash equivalents are at the free disposal of Achmea Schadeverzekeringen N.V. They comprise bank balances. Liquidity management is performed at Achmea B.V. Group level. Current account positions in Achmea B.V.'s cash pool that are payable on demand constitute an integral part of this liquidity management, and accordingly constitute part of the cash and cash equivalents of Achmea Schadeverzekeringen N.V.

Please refer to Note 14 'Cash and cash equivalents' in the consolidated financial statements for accounting policies.

### 15. EQUITY

For more information please refer to Note 15 'Equity' in the consolidated financial statements.

### 16. OTHER PROVISIONS

For more information please refer to Note 16 'Other provisions' in the consolidated financial statements.

### 17. FINANCIAL LIABILITIES

OTHER LIABILITIES

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Liabilities out of direct insurance | | |
| Policyholders | 93 | 71 |
| Intermediars | 35 | 90 |
| Prepaid premiums | 3 | 4 |
| Liabilities to credit institutions | 11 | 75 |
| Investment liabilities | | 4 |
| Reinsurance liabilities | 1 | 27 |
| Liabilities to group companies | 32 | 24 |
| Taxes and social security premiums | 46 | 46 |
| Accruals and deferred income | 49 | 26 |
| Other | 24 | 14 |
| | **294** | **381** |

For a list of the Liabilities to group companies, please see Note 27 Related party transactions in the consolidated financial statements. Please refer to Note 17 'Financial liabilities' in the consolidated financial statements for key assumptions and accounting policies.

## OTHER INCOME STATEMENT

### 18. OTHER INCOME

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Income from sales transactions | 13 | |
| Fee income pooling and captives | 5 | 6 |
| Reversal of bad debts | | 3 |
| Other income | 4 | 5 |
| **Total** | **22** | **14** |

Other income includes from sales transactions (€13 million) relating to the sale of self-developed customer files.

### 19. OTHER EXPENSES

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Holding company cost charged on | 20 | 18 |
| Change in provision for onerous contracts | | 15 |
| Impairments on receivables | 5 | |
| Other expenses | 5 | 7 |
| **Total** | **30** | **40** |

Both restructuring charges (2017: €3 million; 2016: €1 million) and charges relating to Achmea B.V.'s capital management (2017: €17 million; 2016: €17 million) are charged to Other expenses. For further information relate to note 27 Related party transactions in the consolidated financial statements.

### 20. INCOME TAX EXPENSES

RECONCILIATION OF EFFECTIVE TAX RATE

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| | | |
| Result before tax[1] | 122 | −205 |
| | | |
| Corporation tax rate | 25.0% | 25.0% |
| Income tax using the corporation tax rate[2] | 37 | −51 |
| Participation exemption | −4 | −2 |
| Other movements | −4 | 7 |
| **Effective tax amount[1]** | **29** | **−46** |

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 23,8% (2016: 21,9%).

SPECIFICATION OF THE CURRENT AN THE DEFERRED INCOME TAX

(€ MILLION)

| | 2017 | 2016 |
|---|---|---|
| Current income tax | | |
| Current year | 72 | −68 |
| | **72** | **−68** |
| Deferred income tax | | |
| Current year | −43 | 22 |
| **Total Income tax expense in Income Statement** | **29** | **−46** |

Please refer to Note 20 ‘Income tax expenses’ in the consolidated financial statements for accounting policies.

## 21. NET OTHER COMPREHENSIVE INCOME

(€ MILLION)

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | OTHER COMPREHEN-SIVE INCOME BEFORE TAX | INCOME TAX EXPENSE | NET OTHER COMPREHENSIVE INCOME | OTHER COMPREHEN-SIVE INCOME BEFORE TAX | INCOME TAX EXPENSE | NET OTHER COMPREHENSIV E INCOME |
| Unrealised gains and losses on financial instruments 'Available for sale' | 44 | −11 | 33 | 143 | −35 | 108 |
| Share in other comprehensive income of Subsidiaries, associates and joint ventures | 5 | −1 | 4 | 11 | −3 | 8 |
| Gains and losses on financial instruments 'Available for sale' reclassified to the Income Statement on disposal | −52 | 13 | −39 | −90 | 22 | −68 |
| Impairment charges on financial instruments 'Available for sale' reclassified to the Income Statement on disposal | 4 | −1 | 3 | 4 | −1 | 3 |
| **Total other comprehensive income for the period** | **1** | | **1** | **68** | **−17** | **51** |

OTHER NOTES

## 22. HEDGE-ACCOUNTING

Achmea Schadeverzekeringen N.V. applies fair value hedge accounting for the portfolios exposed to foreign currency risk. 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.

Foreign exchange contracts 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 €1 million (31 December 2016: €-3 million). The fair value of a foreign exchange contract 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: €4 million).

RESULTS ON HEDGE ACCOUNTING

(€ MILLION)

| FOREIGN CURRENCY FAIR VALUE HEDGES | 2017 | 2016 |
|---|---|---|
| Fair value changes of the hedged item attributable to the hedged risk | 19 | −3 |
| Fair value changes of the related derivatives (including discontinuation) | −15 | 7 |
| **Fair value changes of the hedging instrument - ineffective portion** | **4** | **4** |

## 23. CONTINGENCIES

### Legal procedures

Achmea Schadeverzekeringen N.V. and companies forming part of Achmea Schadeverzekeringen N.V. are involved in lawsuits and arbitration proceedings. These proceedings relate to claims instituted by and against these companies arising from ordinary operations, including the activities carried out in their capacity as insurer, investor and tax payer. Although it is not possible to predict or define the outcome of pending or imminent legal proceedings, the Management Board believes that it is unlikely that the outcome of the actions will have a material, negative impact on the financial position of Achmea Schadeverzekeringen N.V.

### Contingent liabilities

(€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Guarantees | 47 | 46 |
| | **47** | **46** |

The Netherlands-based insurance companies of Achmea Schadeverzekeringen N.V. provided the 'Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V.' with guarantees to a maximum of €15 million (2016: €14 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 Schadeverzekeringen N.V. has provided a guarantee for two facilities taken out by Wagenplan B.V. These contain a €60 million lease facility with ABN AMRO Lease N.V. and a €4 million overdraft facility with ABN AMRO Bank N.V. Achmea Schadeverzekeringen N.V. has given financial commitment to 50% of Wagenplan B.V.'s liabilities with regard to these facilities to ABN AMRO Lease N.V. (up to a maximum of €30 million) and to ABN AMRO Bank N.V. (up to a maximum of €2 million). Wagenplan B.V. is a joint venture between Achmea Schadeverzekeringen N.V. and Athlon Car Lease Nederland B.V.

Achmea Schadeverzekeringen N.V. has provided Vereniging Achmea and Coöperatieve Rabobank U.A., in their capacity as shareholder in the ultimate parent company (Achmea B.V.) of Achmea Schadeverzekeringen N.V., with an indemnity for damages suffered by them as a consequence of additional obligations and responsibilities relating to the Australian branch of Achmea Schadeverzekeringen N.V. No material losses are expected in respect of this indemnity. Due to its nature, this indemnity is not to be quantified.

### Niet in de balans opgenomen contractuele verplichtingen

UNRECOGNISED CONTRACTUAL COMMITMENTS (€ MILLION)

| | 31 DECEMBER 2017 | 31 DECEMBER 2016 |
|---|---|---|
| Commitments related to investments | 15 | 20 |
| | **15** | **20** |

The other commitments are liabilities not yet met based on investments in, including private equity, real estate funds and infrastructure funds.

### Tax entity

Regarding the value-added tax (VAT) and Corporate income tax, Achmea Schadeverzekeringen N.V. is part of the tax fiscal unity within Achmea B.V. and therefore is jointly and severally liable for the obligations of the fiscal unity.

## 24. 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 | 1,509 | 447 | 856 | 1,082 | 1,736 | 71 | 28 | 5,729 |
| Derivatives | | | | 2 | 2 | 2 | 14 | 20 |
| Amounts ceded to reinsurers | | | 11 | 117 | | 1 | 82 | 211 |
| Receivables and accruals | | | | | | | 1,114 | 1,114 |
| Cash and cash equivalents | | | 40 | 113 | | | 1 | 154 |

### EXTERNAL CREDIT RATING ASSETS

(€ MILLION)

| 31 DECEMBER 2016 | AAA SOVEREIGN | AAA | AA | A | BBB | BELOW BBB | NOT RATED | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Investments | | | | | | | | |
| Fixed income investments | 2,187 | 331 | 843 | 715 | 1,420 | 60 | 35 | 5,591 |
| Derivatives | | | | | | | 11 | 11 |
| Amounts ceded to reinsurers | | | 3 | 102 | 1 | | 69 | 175 |
| Receivables and accruals | | | | | | | 1,185 | 1,185 |
| Cash and cash equivalents | | | | 64 | | | 1 | 65 |

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)

| 2017 | NEITHER PAST DUE NOR IMPAIRMENT | | | | IMPAIRED ASSETS |
|---|---|---|---|---|---|
| | 0 - 3 MONTHS | 3 MONTHS - 1 YEAR | MORE THAN ONE YEAR PAST DUE | AMOUNT OVERDUE | CARRYING AMOUNT AFTER IMPAIRMENT |
| Investments | | | | | |
| Fixed income investments | | | | | 2 |

### FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED

(€ MILLION)

| 2016 | NEITHER PAST DUE NOR IMPAIRMENT | | | | IMPAIRED ASSETS |
|---|---|---|---|---|---|
| | 0 - 3 MONTHS | 3 MONTHS - 1 YEAR | MORE THAN ONE YEAR PAST DUE | AMOUNT OVERDUE | CARRYING AMOUNT AFTER IMPAIRMENT |
| Investments | | | | | |
| Fixed income investments | | | | | 2 |

The table below provides an overview of asset and liabilities subject to offsetting, enforceable Master Netting Agreements and similar agreements.

FINANCIAL ASSETS SUBJECT OF OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

(€ MILLION)

| | GROSS AMOUNTS OF RECOGNISED FINANCIAL ASSETS | GROSS AMOUNTS OF RECOGNISED FINANCIAL LIABILITIES | 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 |
|---|---|---|---|---|---|---|
| 2017 | | | | | | |
| Derivatives assets | 20 | | | | | |
| Derivatives liabilities | | 8 | | | | |
| **Net** | | | **12** | **−2** | **5** | **9** |
| | | | | | | |
| Cash and cash equivalents | 893 | 830 | | | | |
| Liabilities to credit institutions | 407 | 418 | | | | |
| **Net** | | | **52** | | | **52** |
| | | | | | | |
| 2016 | | | | | | |
| Derivatives assets | 11 | | | | | |
| Derivatives liabilities | | 15 | | | | |
| **Net** | | | **−4** | | | **−4** |
| | | | | | | |
| Cash and cash equivalents | 239 | 238 | | | | |
| Liabilities to credit institutions | 661 | 721 | | | | |
| **Net** | | | **−59** | | | **−59** |

## 25. TRANSFERS OF FINANCIAL ASSETS AND SECURITIES

For more information please refer to Note 25 ‘Transfer of financial assets and securities’ in the consolidated financial statements.

## 26. RELATED PARTY TRANSACTIONS

For more information, remuneration of the Management Board and Supervisory Board please refer to Note 27 ‘Related party transactions’ in the consolidated financial statements.

## 27. STATUTORY DOMICILE

Achmea Schadeverzekeringen N.V. is domiciled in Apeldoorn, the Netherlands, with its principal place of business at Laan van Malkenschoten 20 in Apeldoorn, and registered at the Chamber of Commerce, trade register 08053410.

## 28. PROPOSAL FOR APPROPRIATION OF RESULT

### Profit appropriation at year-end 2016

The 2016 financial statements were adopted in the General Meeting held on 31 May 2017. The General Meeting charged the net result of €-162 million at year-end 2016 to the Retained earnings. As a result of changes in accounting policies as set out in Note 1E Changes in accounting policies of the consolidated financial statements the adjusted 2016 net result is €-159 million.

### Proposal profit appropriation at year-end 2017

The Management Board proposes to the General Meeting to add the net result at year-end 2017 of €93 million entirely to the Retained earnings. This proposal has not yet been incorporated in the financial statements.

## AUTHORISATION OF THE COMPANY FINANCIAL STATEMENTS

Zeist, 10 April 2018

Management Board of Achmea Schadeverzekeringen N.V.,

M.G. Delfos

F.J. Schuurman

Members of the Supervisory Board of Achmea Schadeverzekeringen N.V.,

A.J.A.M. Vermeer
Chairman

A.W. Veenman

R.Th. Wijmenga

R. Otto

## OTHER INFORMATION

## PROVISIONS IN THE ARTICLES OF ASSOCIATION REGARDING PROFIT APPROPRIATION

Article 30 of the company's articles of association contains the following provisions on profit appropriation:

30.1. Distribution of profit pursuant to this Article will be made after adoption of the financial statements showing that this is permissible.

30.2. The profit is at the disposal of the General Meeting; If a vote on distribution of profits is tied, the relevant profits will not be distributed.

30.3. The company may make distributions to shareholders and others entitled to the distributable profits only insofar as the company's equity exceeds the amount of the issued capital plus the reserves required to be maintained by law;

30.4. A deficit may only be offset against the reserves required to be maintained by law to the extent that this is permitted by law.

### Branches

Achmea Schadeverzekeringen N.V. has a branch in Australia operating under the name of Achmea Australia.

INDEPENDANT AUDITOR'S REPORT

# Independent auditor's report

To: the general meeting and Supervisory Board of Achmea Schadeverzekeringen N.V.

## Report on the financial statements 2017

### Our opinion

In our opinion Achmea Schadeverzekeringen N.V.'s financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2017, and of its result and its 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.

#### What we have audited

We have audited the accompanying financial statements 2017 of Achmea Schadeverzekeringen N.V., Apeldoorn ('the Company'). The financial statements include the consolidated financial statements of Achmea Schadeverzekeringen N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The financial statements comprise:

- the consolidated and company statement of financial position as at 31 December 2017;
- the following statements for 2017: the consolidated and company income statement, the consolidated and company statement of comprehensive income, the consolidated and company statement of changes in equity and the consolidated and company statement of cash flows; and
- the notes, comprising a summary of the significant 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.

### 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 Schadeverzekeringen N.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

The activities of Achmea Schadeverzekeringen N.V. comprise mainly of insurance operations. The group comprises of several components and activities, and therefore we considered our group audit scope and approach as set out in 'the scope of our group audit' section. We paid specific attention to the areas of focus driven by the operations of the group, such as testing the provisions for open injury claims, assumptions on future incidence and recovery in disability and worker compensation insurance, data quality in insurance technical systems and reconciliations between financial administration and insurance technical systems. Furthermore, we paid specific attention to the audit of the capital position based on Solvency II regulations.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the management board made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events 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. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of assets and liabilities arising from insurance contracts and the valuation of assets and liabilities measured at fair value for which no listed price in an active market is available, we considered these to be key audit matters as set out in the section ‘Key audit matters’ of this report. Furthermore, we identified the disclosures on the capital position based on Solvency II regulations as key audit matter because of significant judgements that need to be made in determining the available and required capital position and the related complex valuation models.

Because the business operations and financial processes of the group are highly automated, the IT General Controls (‘ITGC’) were particularly important in our audit but were not considered to be a key audit matter. We therefore addressed in our audit the continued proper operation of policies and procedures that are used to manage the IT activities.

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 and activities levels included the appropriate skills and competences which are needed for the audit of an insurance company. We therefore included specialists in the areas of valuation of financial instruments, insurance liabilities, IT and taxes in our team.

The outline of our audit approach was as follows:


***Materiality***

- Overall materiality: € 20 million.

***Audit scope***

- We conducted audit work in The Netherlands.
- Audit instructions have been sent to the audit teams responsible for the audit of components and activities as part of the audit of the consolidated financial statements.
- Activities on investments, tax and expenses are centrally performed and administrated within the Achmea group. The audit of these activities is performed by separate engagement teams. We performed work on the activities of these other auditors of parts of the group by reviewing their audit files, reviewing their reports and discussing with the teams the outcome of their work.
- Audit coverage: 100% of consolidated revenue and 100% 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
- 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*** | €20 million (2016: €20 million). |
| ***Basis for determining materiality*** | We used our professional judgment to determine overall materiality. As a basis for our judgement, we used the lower of 2.5% of equity and the materiality allocated by the group auditor of Achmea B.V. for group reporting purposes. We used the allocated group materiality as this results in a lower overall materiality compared to the statutory materiality calculated for Achmea Schadeverzekeringen N.V. of €24 million. |
| ***Rationale for benchmark applied*** | We have applied 2.5% of total equity, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that total equity is an important metric for the financial performance of the Group.<br>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 a undetected difference in the Solvency Capital Requirement (SCR) ratio is 5% at maximum. We assessed the appropriateness of this consideration by comparing the determined materiality with the materiality amount allocated to our audit for shareholder reporting purposes by the auditors of Achmea B.V. for group consolidation purposes to reflect the shareholders perspective, and adjusted the applied materiality accordingly.<br>The materiality level applied represents less than 2.1% of the equity of the Achmea Schadeverzekeringen group, and less than 0.3% of the balance sheet total. The profit before tax, because of its relative level compared 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 €3 million and €6 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 €1 million (2016: €1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## *The scope of our group audit*

Achmea Schadeverzekeringen N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Achmea Schadeverzekeringen N.V.

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 focussed on the significant components, which are all located in The Netherlands. Five components were subjected to audits of their complete financial information as those components are individually significant to the group. The audit of investments is performed on a consolidated basis in which all investments, including the investments of the three subsidiaries, were audited as one total population and results have been shared with us. The remaining two components were audited by ourselves.

Activities on investments, tax and expenses are centrally performed and administrated within the Achmea group. The audit of these activities of the Achmea Schadeverzekeringen group is performed by separate engagement teams. Where the work on these activities was performed by separate engagement teams, 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 audit teams involved in the audit of components and activities as part of the audit of the statutory financial statements of Achmea Schadeverzekeringen N.V.

The Achmea Schadeverzekeringen group engagement team has evaluated the results of the audit procedures related to those areas with an increased risk of material misstatements, where these procedures were performed by auditors that were involved in the group audit of components and activities. Due to the significance of the investments we performed a review on the work performed by the engagement team responsible for the audit of investments.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

| | |
|---|---|
| ***Revenue*** | 100% |
| ***Total assets*** | 100% |
| ***Profit before tax*** | 100% |

The group consolidation, financial statement disclosures and a number of complex items are audited by the Achmea Schadeverzekeringen group engagement team, such as the disclosures on the capital position based on Solvency II regulations.

By performing the procedures above at components and activities, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group’s financial information, as a whole, to provide a basis for our opinion on the 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, and in forming our opinion thereon. 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.

| *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> Management determines the required capital position to cover the risk exposure based on the Solvency II requirements. For some risks, the Company used a partial internal model approved by the college of supervisors to determine the capital requirements. For the other risks, the standard formula was applied. <br><br> When determining the available funds (€1,054 million) and required capital (€754 million) positions some important estimates and valuation models are applied in which input is used that is not observable in the market. <br><br> 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 analyses of future realisations <br> - the loss-absorbing capacity of deferred taxes 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. | We verified that the adjustments that were made to come from the IFRS balance sheet to the economic balance sheet, the basis for 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 claims, disability, recovery, lapse and future expenses) used to determine the cash flows to the observed historical developments in the reinsurance portfolio. Where the assumptions 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 the 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 calculations performed. <br><br> We tested the loss-absorbing capacity of deferred taxes that was taken into account. On the basis of this test, we evaluated the projections of future (fiscal) results. These projections are based upon approved budgets and forecasts. We performed backtesting on budgets and the previous year's forecasts and determined that the valuation differences between the fiscal and the Solvency II valuations were taken into account in the correct year of the projection. Furthermore, we focused 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 the correct application of regulations with respect to the offsetting of losses. We determined that management board's projections are supported by available audit evidence. <br><br> Furthermore we have assessed that the disclosures are adequate and in accordance with the framework of accounting. |
| ***Assets and liabilities measured at fair value for which no listed price in an active market is available*** <br> *Refer to note 7 to the financial statements.* <br> The group has assets (€1,306 million) and liabilities (€8 million) where no listed price in an active market is available and are measured at fair value. In measuring these assets and liabilities (derivatives, fixed income investments and equities and similar investments) not listed in an active market, market information and market unobservable inputs are used. <br> The valuation of these non-listed investments is important to our audit as it is highly dependent on estimates (various assumptions and techniques) which contain assumptions that | We tested the operating effectiveness of controls in place over the source data of these assets and liabilities. We conclude that, where relevant for our audit, we can rely on these internal controls. <br><br> In respect of the portfolio of investments in equities and similar investments, fixed income investments and derivatives 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. |

| *Key audit matter* | *How our audit addressed the matter* |
| --- | --- |
| are not observable in the market. The significance of management's estimates combined with the extent of the related assets and liabilities results in a higher risk of misstatements. | We assessed the adequacy of the disclosures, particularly on completeness and accuracy of the fair value hierarchy disclosures and related sensitivities, and we determined that these disclosure are in accordance with the framework of accounting. |
| ***Uncertainties in the valuation of assets and liabilities arising from insurance contracts*** <br> Refer to note 6 to the financial statements <br><br> The calculation of the assets and liabilities arising from reinsurance contracts is complex, highly judgemental and is based on assumptions which are affected by future economic and political conditions. <br><br> The assumptions used for non-life insurance liabilities of €6,476 million relate to the amount of the claim, the number of incurred but not yet reported claims, risks regarding incidence and recovery rates and future expenses 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 for the company from workers' compensations insurance (WIA/WGA). <br><br> The assumptions and uncertainties also apply to the reinsured part of €211 million. <br><br> The assumptions are mainly based upon the judgements of the management board. The Group has extensive procedures and internal controls to measure assets and liabilities from insurance contracts, and to test the liability adequacy of these technical provisions. The significance of management's estimates combined with the extent of the related liabilities and assets results in a higher risk of misstatements. We therefore considered this a key audit matter. | We tested 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. In a response, management had 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. <br><br> We tested the Company's procedures regarding the determination of the assumptions. We also compared these assumptions to observable market data. The quality of previously made estimates was tested by an actuarial analysis of the technical results of the Company 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 the assumptions on future incidence and recovery in disability and worker compensation insurance and testing the provisions related to open injury claims. We determined that management's assumptions are based upon available audit evidence and that the assumptions used are reasonable. <br><br> Furthermore we have assessed that the disclosures, especially the sensitivities, are adequate and in accordance with the framework of accounting. |

## *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:
report of the Management Board;
report of the Supervisory Board;
the other information.

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.

The management 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 Schadeverzekeringen N.V. on 29 April 2011 by the shareholder at the annual meeting held on 29 April 2011. This appointment has been renewed annually by the shareholder 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 11 to the financial statements.

## Responsibilities for the financial statements and the audit

### Responsibilities of the management board and the supervisory board for the financial statements

The management 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 management 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 management board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the management board should prepare the financial statements using the going-concern basis of accounting unless the management board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The management 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.

Rotterdam, 10 April 2018
PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by drs. M.P.A. Corver RA

# Appendix to our auditor's report on the financial statements 2017 of Achmea Schadeverzekeringen N.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 management board.
- Concluding on the appropriateness of the management 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 and activities 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 and activities 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.