Achmea Solvency and Financial Condition Report 2017

achmea

Achmea 2017

Solvency and Financial Condition Report

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1. SUMMARY

1.1. INTRODUCTION

Achmea B.V. is incorporated in the Netherlands and has its seat in Zeist. Its head office is located at Handelsweg 2 in Zeist. The Achmea Group (hereinafter referred to as Achmea) comprises Achmea B.V. and the entities in which it has dominant influence.

Pursuant to the Solvency II legislation, Achmea discloses its solvency position, governance and risk management practices by means of a Single Group-Wide Solvency and Financial Condition Report (SGWSFCR[1]). The information in the SGWSFCR consists of the solvency position of Achmea B.V., the supervised insurance and reinsurance entities and all other legal entities belonging to Achmea. Where relevant, the circumstances or characteristics of the individual supervised insurance entities are presented.

The SGWSFCR of Achmea consists of an Executive Summary, the main body of the SGWSFCR, which complies with the requirements laid down in the Directive 2009/138/EC, Regulation 2015/35 and the national interpretations provided by local supervisory authorities of the member states where Achmea has its activities.

In the annexes, Achmea discloses the public Quantitative Reporting Templates per individual supervised legal entity. Access to the annexes is provided through hyperlinks. The information is also presented separately on the website of Achmea or on the websites of the foreign supervised insurance entities (in their own languages). In another annex Achmea has also included a glossary of the terminology used in the context of Solvency II.

Achmea has determined the Solvency position by means of a Partial Internal Model (PIM). The scope of the Internal Model (IM) is:

- Non-Life Premium and Reserve Risk stemming from the Greek and Dutch Non-life insurance activities. Achmea Reinsurance Company N.V. does not use an internal model for Non-Life Premium and Reserve Risk;
- NSLT Health Premium and Reserve Risk stemming from the Greek and Dutch Non-Life insurance activities;
- Non-Life Natural Catastrophe Risk stemming from the Greek and Dutch insurance activities;
- Health Risk SLT stemming from the Dutch Non-Life insurance activities.

Achmea uses a mixture of the default correlation approach and implicit correlation approach. At a very granular level (where the Standard Formula does not provide any correlations) own correlations are used.

Other risks and risk types are calculated using the Standard Formula.

All amounts in this report and in the tables are presented in millions of euros (€ million), unless stated otherwise. Due to this, rounding errors may occur. These rounding errors have no material impact.

1.2. KEY SOLVENCY FIGURES

As of year-end 2017, the solvency ratio is 184%, an increase of 3%-point (2016: 181%). This is after planned dividends, coupons on hybrids and the announced buy-back of Achmea shares. The improved capital position is the result of a combination of an increase in the Eligible Own Funds of €41million to €8,386 million (2016: €8,345 million) and a decrease in the Solvency Capital Requirement of €68 million to €4,555 million (2016: €4,623 million).

The following table presents the solvency ratio of Achmea at year-end 2017 and year-end 2016 using the Partial Internal Model (PIM).

SOLVENCY RATIO OF GROUP

€ MLN.

	2017	2016	Δ
Eligible Own Funds	8,386	8,345	41
Required Capital	4,555	4,623	-68
Surplus	**3,831**	**3,722**	**109**
Ratio (%)	184%	181%	3%

[1] The foreign supervised legal entities have submitted their own Solvency & Financial Condition reports and have published these on their websites in their own languages. This report includes some of the information from those reports in English.

1.2.1. ELIGIBLE OWN FUNDS

The Eligible Own Funds increased by €41 million to €8,386 million. The increase is due to the positive technical results in the Non-Life and Pensions & Life insurance business, an increase in value caused by the financial markets and the refinement of cost assumptions. This is partially compensated by the use of capital to limit the increase in health insurance premiums in 2018, planned dividends and the coupons on hybrids relating to the positive annual results and the announced buy-back of Achmea shares.

ELIGIBLE OWN FUNDS – GROUP

€ MLN.

	2017	2016	Δ
Tier 1	6,363	6,295	68
Tier 2	1,340	1,356	-16
Tier 3	683	693	-10
Total Eligible Own Funds	**8,386**	**8,345**	**41**

Capital instruments and grandfathering

The Eligible Own Funds include several capital instruments which were issued before the Solvency II legislation became effective. Based on the requirements of the Solvency II legislation and after endorsement by the Dutch supervisors, these capital instruments are classified into the various tiers within the Eligible Own Funds.

Through grandfathering, Achmea has classified two instruments as part of the restricted Tier 1:

- Tier 1 Capital securities 6% (€600 million);
- Preference shares 5.5% (€311 million).

Within Tier 2 Achmea has classified two capital instruments:

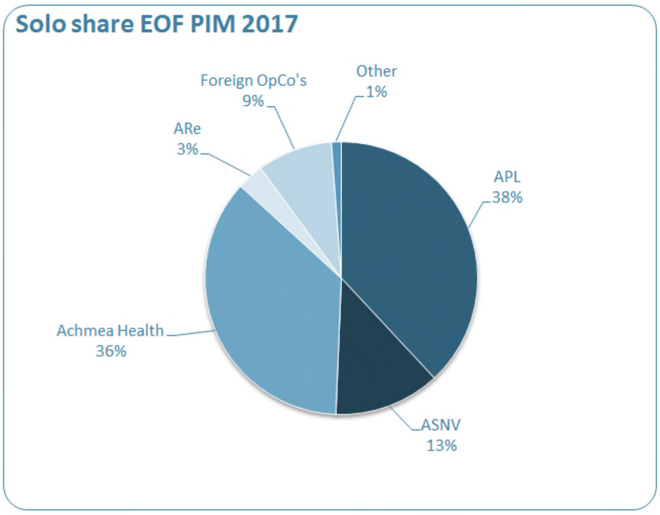
- Tier 2 notes 6% (€553 million, with a nominal value of €500 million, due to grandfathering);
- Tier 2 notes 4.25% (€786 million, with a nominal value of €750 million).

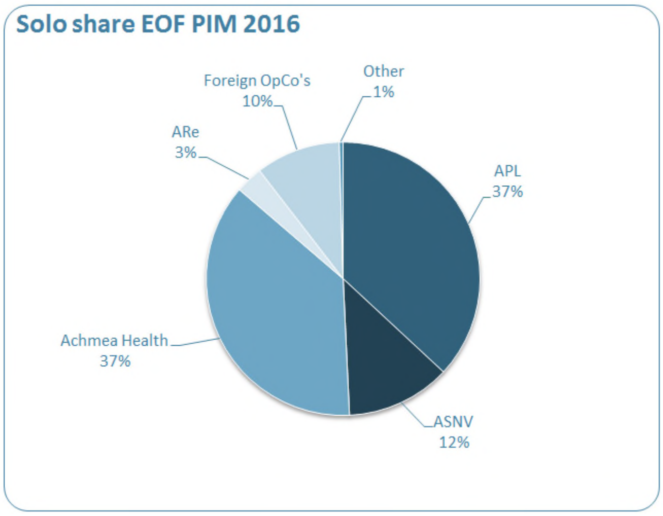
The capital instruments are revalued to their economic value. Currently, this has no impact on the Eligible Own Funds.

Tier 3 and Relegation of the eligibility of Tier 3

Within tier 3 Achmea includes the value of the net Deferred Tax Assets as recognised on the Economic Balance Sheet. For Achmea Group not all net Deferred Tax assets can be recognised as Eligible Own Funds, as the limit for Tier 3 is 15% of the SCR. Any amounts exceeding this threshold are considered not eligible for covering the SCR. For 2017 an amount of €53 million is not recognised as part of the Eligible Own Funds (2016: €123 million).

The Eligible Own Funds can be subdivided to the various legal entities of Achmea[2]:

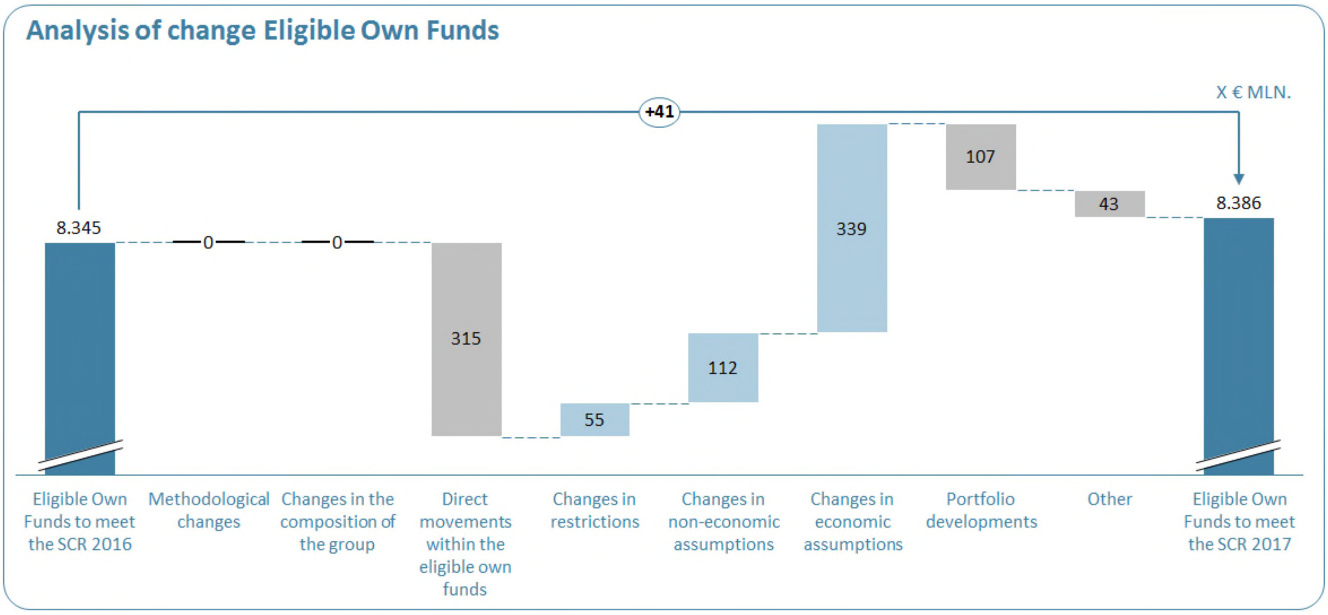




Analysis of Change of the Eligible Own Funds

The Eligible Own Funds increased by €41 million.

The change in the Eligible Own Funds can be attributed to the following causes:



Direct movements within the Eligible Own Funds (€-315 million)

The foreseeable dividends on ordinary shares (€-124 million) and coupon payments in 2017 on preference shares (€-17 million) and on hybrid capital (€-73 million), result in a decrease in Own Funds. The General Meeting held in February 2018 agreed on a repurchase of shares (€100 million) which is also classified as a foreseeable distribution towards shareholders.

[2] ARe = Achmea Reinsurance Company N.V.; Achmea Health = All entities in The Netherlands selling Basic or Supplementary Health insurance; ASNV = Achmea Schadeverzekeringen N.V.; AP&L = Achmea Pensioen- en Levensverzekeringen N.V.; Foreign OpCo's = supervised insurance entities outside The Netherlands.

Impact of changes in restrictions (€55 million) including relegation of Tier 3

Not all elements of the Available Own Funds can be taken into account when determining the Eligible Own Funds in accordance with the Solvency II legislation.

Compared to 2016, the Relegation of Tier 3 decreased by €70 million due to lower net Deferred Tax Assets. This results in an increase in Own Funds.

The Other Non – available Own Funds restrictions increased by €15 million, lowering the Own Funds. This is mainly caused by the restrictions related to our Australian activities (€14 million). Other impacts were caused by the restrictions of the pension provisions of Friends First Life Assurance Company DAC (€3 million), Ring Fenced Funds of Friends First Life Assurance Company DAC (€1 million), partly compensated by a decrease of the restriction related to the Dutch care administration offices (€-2 million).

Impact of changes in non-economic assumptions (€112 million)

The impact on the Own Funds from changes in non-economic assumptions mainly comes from the refinement of cost and mortality assumptions at Achmea Pensioen- en Levensverzekeringen N.V. In total this has a positive impact on the Eligible Own Funds. Furthermore an improvement in the determination of the Best Estimate of Interamerican Property & Casualty Insurance Company S.A. leads to a positive impact. Finally, an adjustment in contract boundary at Friends First and the change in recognition at Achmea Schadeverzekeringen N.V. leads to a positive change. These non-economic assumptions lead to an increase in Own Funds of €112 million.

Impact of changes in economic assumptions (€339 million)

Developments in the financial markets contribute significantly to the movement in Own Funds. During 2017 interest rates and equity indices increased and country and credit spreads decreased. These economic developments led to an increase in Own Funds with €339 million.

Impact of portfolio developments (€-107 million)[3]

The decrease in Eligible Own Funds due to portfolio developments of €-107 million can be attributed to the following underlying entities and causes:

- Achmea Zorgverzekeringen N.V. (€-164 million). The premiums for 2018 are set below cost price, which resulted provisions for expected losses. In combination with the adjustment of the claims assessment for old accident years and lower budget contributions, this led to a decrease in Own Funds.
    - Achmea Pensioen- en Levensverzekeringen N.V. (€-69 million). A negative result on costs and an addition to the provision for premium waivers in case of disability. These negative impacts are partially offset by the impact of the portfolio run-off, which decreases the risk margin.
    - Achmea Schadeverzekeringen N.V. (€44 million). Improvement measures such as premium increases, claims management and cost saving as well as the absence of large catastrophes in 2017 resulted in a positive contribution to the Own Funds.
    - The positive technical result (€25 million) in 2017 of N.V. Hagelunie resulted in a positive contribution to the Own Funds.
    - The positive results over the first half year of Achmea Reinsurance Company N.V. are offset by global catastrophes and by adjustments in the cash flow patterns for the calculation of the risk margin. In total this resulted in a negative contribution (€-15 million) to the Own Funds.
    - During 2017, the banking activities of Staal Beheer N.V. (previous Staalbankiers N.V.) were dismantled. Subsequently the banking licence was revoked resulting in an increase of the Own Funds by €45 million.
    - Other entities provide for an increase of €27 million.

[3] Portfolio developments also includes tax effects related to changes in economic assumptions and portfolio developments.

1.2.2. SOLVENCY CAPITAL REQUIREMENT

The Solvency Capital Requirement has decreased with €68 million to €4,555 million. The Capital Requirements decreased mainly due to a decrease in Market and Life Underwriting Risks. The Market Risk is lower as a result of the capital hedge introduced within the Achmea Pensioen- en Levensverzekeringen N.V. The capital hedge reduces the volatility in the solvency ratio caused by interest rate developments. The Life Underwriting Risk has decreased due to several effects that mainly have an impact on the Longevity, Expenses and Lapse risks. The decrease in the Solvency Capital Requirement is partly compensated by a decrease in the Loss Absorbing Capacity of Deferred Taxes (LACDT).

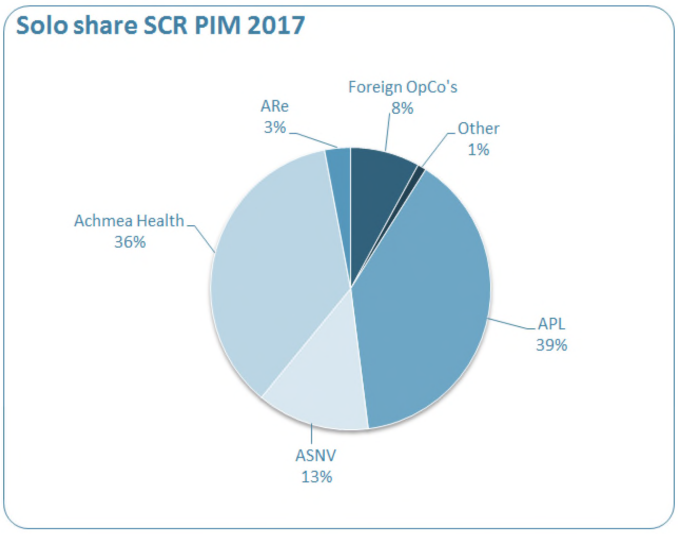
SOLVENCY CAPITAL REQUIREMENT

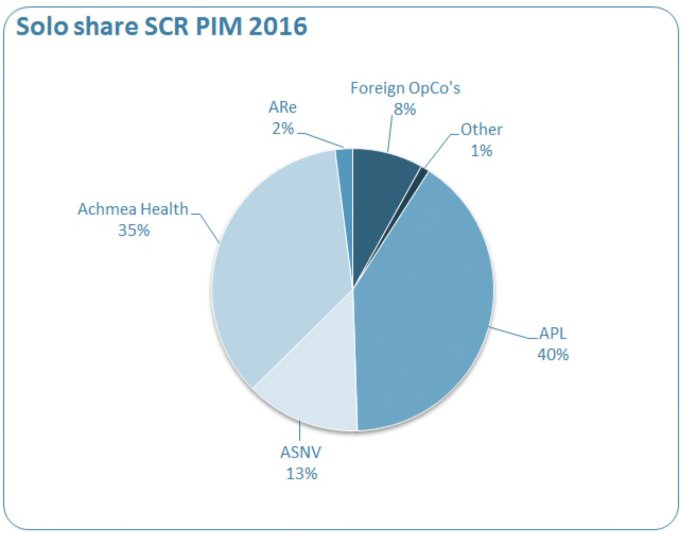
€ MLN.

	2017	2016	Δ
Market Risk	2,075	2,291	-216
Counterparty Default Risk	643	560	83
Life Underwriting Risk	1,760	1,861	-100
Health Underwriting Risk	1,889	1,861	28
Non-Life Underwriting Risk	816	770	46
Diversification	-2,632	-2,645	12
Intangible Asset Risk	1	4	-3
Basic Solvency Capital Requirement	**4,552**	**4,702**	**-149**
Operational Risk	586	596	-11
Loss-Absorbing Capacity of Expected Profits	-57	-65	8
Loss-Absorbing Capacity of Technical Provisions	-0	-0	0
Loss-Absorbing Capacity of Deferred Taxes	-560	-641	81
Solvency Capital Requirement (Cons)	**4,522**	**4,592**	**-70**
SCR Other Financial Sectors & Other Entities	33	31	3
Solvency Capital Requirement	**4,555**	**4,623**	**-68**

Solvency capital Requirement per major legal entity

The SCR is determined by aggregation of the Solvency Capital Requirement from the various legal entities of Achmea[4]:





The contribution from the main legal entities is fairly stable compared to 2016.

[4] ARe = Achmea Reinsurance Company N.V.; Achmea Health = All entities in The Netherlands selling Basic or Supplementary Health insurance; ASNV = Achmea Schadeverzekeringen N.V.; AP&L = Achmea Pensioen- en Levensverzekeringen N.V.; Foreign OpCo's = supervised insurance entities outside The Netherlands.

In determining the Group Solvency Capital Requirements, Achmea uses the “consolidated approach”. According to this approach, Achmea assumes that all entities within the Group hypothetical consists of one economic entity. For this economic entity, an Economic Balance Sheet is determined, based on which the Solvency Capital Requirement is calculated. Where required, Achmea applies the “look through” approach. This approach entails that Achmea assesses the underlying asset classes of all investment funds in which Achmea has invested.

Achmea categorises the legal entities into “supervised entities”, “holding entities”, “ancillary service entities (which provides services on behalf of the supervised entities)” and “other entities”. The “other entities”, regardless whether these are under control of Achmea or not, are presented as “participation” and stressed according to the “Equity Risk module”. The capital requirements are presented as part of “SCR Other Financial Sector and Other entities”. Under this heading, Achmea also presents the local capital requirement of the locally supervised entity Union Zdravotna Poist’ovna A.S.

The following section provides more details regarding the components of the Solvency Capital Requirements of Achmea.

MARKET RISK

The capital requirements for Market Risk are based on the Standard Formula added with a "capital correction” for Inflation Risk. This correction, within the Interest Rate Risk, is related to Non-Life technical provisions where (parts of) the Underwriting risk is calculated using an internal model.

The following table shows the SCR Market Risk and its components as at the end of 2017 and 2016.

MARKET RISK € MLN.

	2017	2016	Δ
Interest Rate Risk	418	817	-400
Equity Risk	990	1,086	-97
Property Risk	399	396	3
Spread Risk	827	788	39
Market Concentration Risk	0	0	0
Currency Risk	111	216	-105
Diversification	-669	-1,013	344
SCR Market Risk	**2,075**	**2,291**	**-216**

Interest Rate Risk

The Interest Rate Risk includes a capital correction for Inflation risk within Non-Life Underwriting Risk. Under our partial internal model this is removed from the Best Estimate of the Non-Life liabilities for the Dutch and Greek legal entities as it is considered part of the Market Risk.

In 2017 the capital correction for inflation risk for Achmea Schadeverzekeringen N.V. is calculated using the information from the new Partial Internal Model for Market Risk. At year end €135 million (2016: €217 million) inflation risk is included under Interest Rate Risk of which €116 million related to Achmea Schadeverzekeringen N.V. (2016: €199 million) and €19 million to Interamerican Property & Casualty Insurance Company S.A. (2016: €18 million). The total decrease in inflation risk was €82 million of which the effect from the change in methodology was €83 million.

Achmea is sensitive to an upward interest rate shock. When interest rates increase, the capital of Achmea will decline by €418 million (2016: €817 million). A downward interest rate shock would result in a €415 million loss for Achmea (2016: €632 million). In both the upward and in the downward interest shock scenario, the SCR includes the capital correction for Inflation Risk.

Among Achmea Group the applicable interest rate scenario (downward or upward) varies due to the entity specific characteristics of assets and liabilities. Achmea Pensioen- en Levensverzekeringen N.V., which is sensitive to an upward interest rate shock, is dominant for the level of Interest Rate Risk for Achmea Group due the size and long durations of the pension and life portfolio. Interest Rate Risk for the other insurance entities is relatively small and thus has a limited impact on the total Interest Rate Risk. Most insurance legal entities are sensitive to an upward shock. Eureko Sigorta A.S., Interamerican Property and Casualty Insurance Company S.A. and Friends First Life Assurance Company DAC are sensitive to a downward shock.

In 2017, Achmea decided to use another strategy by which the interest rate sensitivity is managed for Achmea Pensioen- en Levensverzekeringen N.V. By further allowing the perspective of the prudential regime in the hedging strategy, Achmea aims at a stable solvency ratio. This is called the “capital hedge”.

Equity Risk

Equity Risk fell €97 million to €990 million in 2017. The reclassification of Senior Secured Loans from Equity Risk to Spread Risk results in a decrease of €-110 million. The reclassification is the result of applying the look through principle, which shows that the underlying risks belong to Spread Risk instead of Equity Risk. In addition, the application of the Equity Transitional for Unlisted Property ensures an additional decrease of €-28 million and the sale of commodities leads to a decrease of €-94 million. These developments are partly compensated by a decrease in the Equity Dampener[5] and decreased benefits of the Equity Transitional of €147 million.

The capital requirements for Equity Risk is an aggregation of those equity investments where the Equity Transitional is used and those equity investments where the Equity Transitional is not used since the investments were purchased after 31 December 2015 or the Equity Transitional is not used at individual legal entity level. Without the Equity Transitional the Equity Risk would rise from €990 million to €1,296 million.

The capital requirement with respect to participations classified as “Other entities” is presented in a separate component, SCR Other. This is presented as a separate line item part of the Solvency Capital Requirement. The Capital requirement is added to the Solvency Capital requirement, no diversification effects are recognised

Property Risk

Property Risk remained almost constant at €399 million. Higher property prices compensated a net disinvestment.

Spread Risk

In 2017, the capital requirement for Spread Risk increased by €39 million to €827 million mainly due the reclassification of Senior Secured Loans from Equity to Spread Risk and a shift from government bonds to spread bearing categories such as commercial paper and corporate bonds.

Market Concentration Risk

At the end of 2017, Achmea has no exposure to any counterparty that exceeds the Concentration Risk threshold. Therefore the SCR Market Concentration remains zero.

Currency risk

The capital requirement for Currency Risk decreased by €105 million to €111 million at the end of 2017. This decrease of Currency Risk is caused by an adjustment of clauses in the pension scheme of De Friesland Zorgverzekeraar N.V. at the beginning of 2017, which classifies the arrangement as a Defined Contribution Scheme (€-23 million) and the sale of part of the equity portfolio both with exposures in foreign currencies, the implementation of a currency hedge at Achmea B.V. (€-46 million) and the sale of commodities of which the Currency Risk was (partly) not covered (€-33 million).

[5] Equity dampener changes from -1.4% at year-end 2016 to +1.9% at year-end 2017.

COUNTERPARTY DEFAULT RISK

The Counterpart Default Risk (CDR) increased by €83 million to €643 million in 2017.

The following table specifies the solvency capital requirement for Counterparty Default Risk.

COUNTERPARTY DEFAULT RISK

€ MLN.

	2017	2016	Δ
Reinsurance	30	26	5
Derivatives	69	33	36
Other non-risk mitigating exposures	90	42	47
Legal Commitments	54	79	-25
Diversification	-18	-15	-4
SCR CDR on Type 1 Exposures	**225**	**166**	**60**
Receivables Intermediates and Other	140	132	8
Mortgage loans	316	293	23
SCR CDR on Type 2 Exposures	**457**	**425**	**32**
Diversification	-39	-31	-8
SCR Counterparty Default Risk	**643**	**560**	**83**

The overall derivatives position declined by €391 million to €1,783 million in 2017 as did the related collateral position. The capital requirements related to derivatives increased by €36 million due to a higher risk mitigating effect. The risk mitigating effect is calculated as the difference in the capital requirement for Market Risk with and without a derivative based on a single name exposure.

The CDR type 1 for Other non-risk mitigating exposures increased by €42 million due to the start of a securities lending programme in the third quarter for Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V.

The SCR CDR type 2 increased by €32 million to €457 million. This is mainly due to an increase of the Mortgage portfolio within Achmea Pensioen- en Levensverzekeringen N.V and Achmea Schadeverzekeringen N.V.

LIFE UNDERWRITING RISK

Life Underwriting Risk has decreased by €100 million from €1,861 million to €1,760 million. The increase of the yield curve in 2017 leads to a lower Best Estimate which results in lower capital requirements were the Best Estimate is used as volume factor.

The capital requirements for Life Underwriting Risk consists of predefined scenarios for several identified sub risk types. The capital requirements on the level of Achmea are determined by aggregating the Life Underwriting Risk capital requirements of each Life insurance entity part of Achmea with the exception of Life lapse Risk. For this risk type the scenario is recalculated based on the concept of Achmea being one economic entity. Achmea uses the Standard Formula for calculating Life Underwriting Risk.

LIFE UNDERWRITING RISK

€ MLN.

	2017	2016	Δ
Mortality Risk	211	234	-22
Longevity Risk	1,155	1,195	-40
Disability/ Morbidity Risk	35	37	-2
Lapse Risk	495	523	-27
Expense Risk	641	706	-65
Revision Risk	0	0	0
Catastrophe Risk	142	147	-4
Diversification	-920	-980	61
SCR Life Underwriting Risk	**1,760**	**1,861**	**-100**

Mortality Risk

The increase is mainly driven by Achmea Pensioen- en Levensverzekeringen N.V. which used the most recent population mortality table and included experience mortality rates. Mortality rates were updated, leading to lower rates and therefore a lower absolute mortality risk shock. The SCR for Mortality Risk has decreased by €22 million to €211 million. Within Friends First Life Assurance Company DAC Mortality Risk increased by €2 million mainly due to a change of contract boundaries on Unit linked protection business. The contract boundary is extended to the end term of the contract.

Longevity Risk

The SCR for Longevity Risk shows a decrease by €-40 million from €1,195 million to €1,155 million. The decrease in Longevity Risk in The Netherlands is mainly caused by an update of the mortality rates (€-10 million) and experienced variance/portfolio developments (€-31 million).

Disability/Morbidity Risk

For the Disability/Morbidity Risk of Achmea Pensioen- en Levensverzekeringen N.V. the capital requirements are determined using an approximation. This is based on information provided by Achmea Schadeverzekeringen N.V. for portfolios with a similar risk type. The information is adjusted for differences in contract conditions and the portfolio. The disability shock is lower than last year mainly due to the closed book character of the portfolio. The applied shock rate decreased from 13.9% to 10.6% due to the decreasing Incidence Risk, while the provision for premium waivers in case of disability increased due to an additional provision. The combination of these effects led to a decrease of €-2 million of Disability/ Morbidity Risk.

Lapse Risk

Lapse Risk is determined by the most onerous of the up, down and mass lapse scenario.

LAPSE RISK - LIFE

€ MLN.

	2017	2016	Δ
Lapse increase	177	224	-47
Lapse decrease	72	83	-11
Mass lapse	495	523	-27
Scenario used	**Mass**	**Mass**	

In line with recent years mass lapse is the dominant scenario for most life portfolios on the level of the Group. For the solo legal entities, Interamerican Hellenic Life Insurance company S.A. and Union Poist'ovna A.S. the decrease scenario is most dominant.

The outcome of the Mass lapse scenario has decreased with €-27 million. This is mainly due to an update of the lapse assumptions in The Netherlands. The Best Estimate increased due to the new lapse assumptions, causing a decrease in mass lapse by €-19 million. Within Interamerican Hellenic Life Insurance Company S.A. Lapse Risk decreased by €-8 million due to the increased yield curve in combination with the portfolio's maturity.

Expense Risk

The Expense Risk decreased with €-65 million to €641 million. The decrease is mainly caused by changes in non-economic assumptions (€-36 million) as a result of refinement of expense assumptions at Achmea Pensioen- en Levensverzekeringen N.V., model changes (€-14 million) and experience variance/portfolio developments (€-19 million).

The increase of Expense Risk within Friends First Life Assurance Company DAC by €5 million is due to the change of contract boundaries on Unit linked protection business.

Revision Risk

Revision Risk only applies to annuity payments related to claims for damage insurance. There are no such insurances in the Achmea portfolio. Accordingly, the risk is zero.

Catastrophe Risk

Catastrophe Risk is mainly driven by developments within The Netherlands. For the individual model the Catastrophe Risk is calculated according to a simplification, which is 0.15% of the Capital at Risk. For the Group model it is calculated according to prescribed method, namely increasing the mortality in the first year by 0.15%.

Catastrophe Risk decreased by €-4 million to €142 million in line with the portfolio development.

HEALTH UNDERWRITING RISK

The capital requirement increased by €28 million to €1,889 million.

HEALTH UNDERWRITING RISK

€ MLN.

	2017	2016	Δ
Mortality Risk	0	0	0
Longevity Risk	26	19	7
Disability/Morbidity/Revision Risk	294	308	-14
SLT Lapse Risk	38	33	4
Expense Risk	31	28	3
Diversification	-104	-111	6
SCR Health SLT Underwriting Risk	**284**	**278**	**7**
NSLT Lapse Risk	16	17	-1
Premium and Reserve Risk	1,712	1,685	28
Diversification	-16	-17	1
SCR Health NSLT Underwriting Risk	**1,712**	**1,685**	**28**
Health Catastrophe Risk	65	76	-11
Diversification	-172	-177	5
SCR Health Underwriting Risk	**1,889**	**1,861**	**28**

Health SLT (Similar to Life)

The Health SLT portfolio uses internal models for the Dutch disability portfolio for Disability/Morbidity and Revision Risk. This only concerns the legal entity Achmea Schadeverzekeringen N.V.

Longevity Risk SLT

Longevity Risk increased by €7 million to €26 million due to updated mortality rates of the Dutch Association of Insurers taken into account. These rates apply specifically to the Group Disability ('WIA') excess-of-loss portfolio.

Disability/Morbidity/Recovery Risk SLT

Health SLT Disability/Morbidity Risk (incidence + recovery) decreased by €-14 million to €294 million.

Within Achmea Schadeverzekeringen N.V. risk decreased due to lower claim levels partly compensated by the impact of higher disability probabilities in the WIA portfolio. Within Friends First Life Assurance Company DAC, Disability/Morbidity Risk decreased by €-2 million, primarily as a result of a lower IBNR (incurred but not reported) provision. Within Interamerican Hellenic Life Insurance Company S.A. risk decreased due to portfolio maturity.

Lapse Risk SLT

Lapse Risk increased by €4 million mainly due to higher profitability within Achmea Schadeverzekeringen N.V. This is partially compensated by lower fixed costs.

LAPSE RISK - HEALTH SLT

€ MLN.

	2017	2016	Δ
Lapse increase	14	12	2
Lapse decrease	12	7	5
Mass lapse	38	33	4
Scenario used	**Mass**	**Mass**	

In line with recent years the "discontinuance mass lapse scenario of 40%" is the dominant scenario for Lapse Risk Health SLT on Group level. On solo legal entity level, the most dominant scenario for Interamerican Hellenic Life Insurance Company S.A. is the decrease scenario

Expense Risk SLT

Expense Risk SLT increased by €3 million to €31 million due to a higher claim handling provision in The Netherlands.

Health NSLT

Health NSLT consists of three lines of business, Medical Expenses, Income Protection and Workers' compensation. Achmea applies an Internal Model for Income Protection. Medical Expenses accounts for the vast majority of the required capital of Health NSLT.

Lapse Risk NSLT (Non-Similar to Life)

NSLT Lapse Risk is equal to the expected loss due to a mass lapse scenario of 40% decline in the number of policies at once. Lapse Health NSLT decreased €1 million to €16 million, this is caused mainly within Achmea Schadeverzekeringen N.V. In this scenario Achmea Schadeverzekeringen N.V. makes less profit than expected and loses coverage on the fixed costs.

Premium and Reserve Risk Health NSLT

The capital requirement increased by €28 million to €1,712 million. Health NSLT Premium and Reserve Risk is mainly driven by the developments within the Health insurance business in The Netherlands.

The aggregated Premium and Reserve Risk is affected by an increase of the Best Estimate claims provision as well as an increase of the expected premium volumes (due to a higher premium per insured, but a slightly lower number of insured as compared to 2017). This results in an increase of the SCR Premium and Reserve Risk by €25 million.

Health Catastrophe Risk

HEALTH CATASTROPHE RISK

€ MLN.

	2017	2016	Δ
Mass Accident Risk	20	19	2
Accident Concentration Risk	42	34	9
Pandemic Risk	44	43	1
Diversification	-42	-20	-23
SCR Health Catastrophe Risk	**65**	**76**	**-11**

Accident Concentration Risk increased mainly due to new contracts within Achmea Reinsurance Company N.V.

Health Catastrophe Risk decreased by €-11 million to €65 million due to an improved method taking into account diversification between the underlying sub risks and entities on Group level. In this method Achmea is considered being one legal entity which has business in multiple countries instead of the sum of the capital requirements of the several legal entities.

NON-LIFE UNDERWRITING RISK

The capital requirement increased by €46 million to €816 million.

NON-LIFE UNDERWRITING RISK

€ MLN.

	2017	2016	Δ
Lapse Risk	143	141	2
Premium and Reserve Risk	550	516	34
Catastrophe Risk	464	440	24
Diversification	-341	-327	-14
SCR Non-Life Underwriting Risk	**816**	**770**	**46**

Lapse Risk

The SCR of Non-life Lapse Risk increased by €2 million from €141 million to €143 million. In The Netherlands Lapse Risk increased mainly due to higher fixed costs and (expected) profit margins within Achmea Schadeverzekeringen N.V. Lapse Risk within Eureko Sigorta A.S. decreased slightly due to the devaluation of the Turkish Lira.

Premium and Reserve Risk

Premium and Reserve Risk is modelled according to the Partial Internal Model of Achmea and increased by €34 million to €550 million. The increase in The Netherlands is caused by a higher provision for injuries and two large fire claims. In Slovakia, Premium and Reserve Risk increased due to the growing motor business.

Catastrophe Risk

Non-Life Catastrophe Risk increased by €24 million in 2017 to €464 million due to the fact that Eureko Sigorta's reinsurance program has not fully been taken into account due to the low rating (below CQS 3) of the applicable Turkish reinsurers (€47 million). This is partly compensated by the impact of a lower retention of Achmea Reinsurance Company N.V. (€-37 million) on reinsurance renewals per 1 July 2017 from €120 million to €90 million. Catastrophe Risk increased by €14 million due to a higher exposures.

INTANGIBLE ASSET RISK

Intangible Asset Risk decreased by €3 million to €1 million due to a reduction in economic value of activated software.

OPERATIONAL RISK

Operational Risk is calculated based on the most onerous of an earned premiums scenario or a scenario based on the technical provisions, plus a component based on Unit Linked expenses. Achmea is sensitive for a scenario based on earned premiums.

Operational Risk decreased by €10 million to €586 million due to the decrease in total earned premiums and lower Unit Linked expenses.

LOSS ABSORBING CAPACITY OF EXPECTED PROFITS

The impact of the Loss Absorbing Capacity of Expected Profits decreased by €8 million to €57 million. This decrease is due to an improved recognition-methodology (moment of recognition of an insurance contract on SII regulations) partly compensated by higher expected profits within the Dutch Non-Life business.

LOSS ABSORBING CAPACITY OF DEFERRED TAXES

The impact of the adjustment Loss Absorbing Capacity of Deferred Taxes (LACDT) decreased by €81 million to €560 million as a result of a decrease in capital requirements (LACDT shock). The amount recognised as LACDT has been based on the Solvency II legislation and local additional guidance submitted by National Supervisory Authorities including the Q&A issued by the Dutch supervisor on 3 February 2017.

DIVERSIFICATION

Achmea provides services within several countries, legal entities and Lines of business and is therefore well diversified. The total SCR diversification impact on Group level is equal to €2,632 million and is stable compared to 2016 (€2,645 million).

1.2.3. MINIMUM CAPITAL REQUIREMENT

The following table presents the Minimum Capital Requirement (MCR) of Achmea ("Consolidated part") at the end of 2017 and 2016.

MINIMUM CAPITAL REQUIREMENT PIM (EXCL. D&A/OFS) € MLN.

	2017	2016	Δ
SCR	4,522	4,592	-70
MCR	2,373	2,428	-55
MCR/SCR (%)	52%	53%	-0%

The MCR for Achmea Group is equal to the sum of the solo MCR's of all insurance entities (excluding Deduction & Aggregation entities and Other Financial sectors). No diversification effects between the insurance entities are taken into account, as is done in the case of the Achmea Group SCR calculations. The MCR decreased by €55 million to €2,373 million.

Achmea has not eliminated the intra-group positions (with regards to premiums and technical provisions) influencing the volume-factors with regards to the solo MCR calculations.

The MCR Group decreased by €55 million and is mainly caused by a decrease in the underlying MCR of Achmea Pensioen- en Levensverzekeringen N.V. by €38 million due to changes in the composition of the Best Estimate, a decrease of the MCR of Achmea Zorgverzekeringen N.V. by €10 million due to a lower combined Best Estimate Technical Provisions (decrease) and volume measure for premium (increase) and a decrease of the MCR of Eureko Sigorta A.S. by €10 million due to a decrease of the Solvency capital requirement due to a change in scenario of Eureko Sigorta's reinsurance programme which was applied under the Catastrophe risk.

1.3. ALTERNATIVE SCENARIOS

SOLVENCY POSITION EXCLUDING THE USE OF THE VOLATILITY ADJUSTMENT

Achmea uses the Volatility Adjustment. The use of the Volatility Adjustment (VA) ensures that the artificial mismatch[6] between the asset and liability portfolio on the Economic Balance Sheet is smaller by adjusting the relevant Risk-free interest rate used to discount the Best Estimate. This has a positive effect on the Solvency position.

The Volatility Adjustment is not used by the Dutch Health insurance legal entities, Achmea Reinsurance Company N.V. and Interamerican Property and Casualty Insurance Company S.A. The Volatility Adjustment is not used for proportionality reasons. Using the Volatility Adjustment in Turkey is not allowed in accordance with the applicable Solvency II Regulation.

IMPACT OF VOLATILITY ADJUSTMENT ON SOLVENCY RATIO € MLN.

	INCLUDING VOLATILITY ADJUSTMENT	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Eligible Own Funds	8,386	8,258	128
Required Capital	4,555	4,693	−138
Surplus	**3,831**	**3,565**	**266**
Ratio (%)	184%	176%	8%

The Volatility Adjustment is published by EIOPA and endorsed by the European Commission. Ultimo 2017, a Volatility Adjustment of 4%-bps (2016: 13%-bps) has been used. The impact of the Volatility Adjustment is 8%-pt on the Solvency II ratio of Achmea (2016: 13%-pt).

The use of the Volatility Adjustment has an impact on the value of the Best Estimate. Not using the Volatility Adjustment results in a higher value of the Best Estimate and therefore on the Eligible Own Funds. The capital requirements where the Best Estimate is used as a volume factor will be lower. If the Volatility Adjustment is not used the most dominant interest rate scenario changes to downward which increases the capital requirement for Market Risk.

[6] The artificial mismatch exists because of a difference between the curves used to discount the assets and liabilities as prescribed by Solvency II legislation.

SOLVENCY POSITION EXCLUDING THE USE OF THE EQUITY TRANSITIONAL

When determining the Solvency position, Achmea uses the mandatory Equity Transitional. This transitional results in lower stresses on equity investment which were recognised on the Economic Balance Sheet on or before 31 December 2015. The Equity Transitional is not used for exposures stemming from investment portfolios of Friends First Life Assurance Company DAC, Eureko Sigorta A.S., N.V. Hagelunie, De Friesland Zorgverzekeraar N.V., FBTO Zorgverzekeringen N.V. and the former portfolio of De Friesland Particuliere Ziektekostenverzekeringen N.V. (now part of Achmea Zorgverzekeringen N.V.).

IMPACT EQUITY TRANSITIONAL SOLVENCY RATIO

€ MLN.

	INCLUDING EQUITY TRANSITIONAL	EXCLUDING EQUITY TRANSITIONAL	IMPACT EQUITY TRANSITIONAL
Eligible Own Funds	8,386	8,413	–27
Required Capital	4,555	4,733	–178
Surplus	**3,831**	**3,680**	**151**
Ratio (%)	184%	178%	6%

If Achmea would not use the Equity Transitional, the capital requirement for Market Risk would increase by €288 million to €2,363 million. This results in an increase of the SCR of €178 million (2016: €263 million) and an increase of €27 million of the Eligible Own Funds due to a lower relegation of Tier 3. The impact on the Solvency II ratio of Achmea is 6%-pt.

SOLVENCY POSITION EXCLUDING THE USE OF THE ULTIMATE FORWARD RATE

The Ultimate Forward Rate is part of the relevant Risk-free interest rate used to discount the Best Estimate. In the calculations per 31 December 2017 an Ultimate Forward Rate (UFR) of 4.2% is used. The UFR will be lowered to 4.05% per 1 January 2018. As part of risk management activities the sensitivity of the Solvency position related to the underlying assumptions of the relevant Risk-free interest discount rate is assessed (UFR 4.05%; UFR 3.65%, no UFR, Last Liquid Point 30 years).

The impact on the Solvency ratio of not using the Ultimate Forward Rate, using 3.65% or 4.05% is presented below. 4.05% is the UFR that will be applicable from 1 January 2018 once the European Commission has endorsed the new methodology as put forward by EIOPA.

IMPACT UFR SOLVENCY RATIO

€ MLN.

	ULTIMATE FORWARD RATE 4.2%	ULTIMATE FORWARD RATE 4.05%	ULTIMATE FORWARD RATE 3.65%	NO ULTIMATE FORWARD RATE
Eligible Own Funds	8,386	8,335	8,139	7,329
Required Capital	4,555	4,567	4,588	5,114
Surplus	**3,831**	**3,768**	**3,551**	**2,215**
Ratio (%)	184%	182%	177%	143%

The impact of not using the Ultimate Forward Rate (“no ultimate forward rate”) is 41%-pt on the Solvency II ratio of Achmea (2016: 52%-pt). The Solvency position of Achmea is calculated based on an extrapolation of the relevant Risk-free interest rate up to 20 years after which the “constant forward” is used as technique to derive the discount rate beyond the last liquid point of 20 years. In the calculations Achmea uses the Volatility Adjustment as published by EIOPA and endorsed by the European Commission of 4 basis points per 31 December 2017.

Using an Ultimate Forward Rate of 3.65% / 4.05% (or “constant forward” Ultimate Forward Rate) results in a higher value of the Best Estimate, a higher Solvency Capital requirement and consequently an increase of the Risk Margin. This affects the Eligible Own Funds as well.

1.4. SOLVENCY POSITIONS SUPERVISED LEGAL ENTITIES

The group Solvency position is determined by using the consolidated approach. In this approach Achmea is deemed to be one economic entity. Based on the consolidated Economic Balance Sheet, the Solvency Capital Requirement for Achmea is determined. For each solo supervised legal entity, Achmea determines the Solvency position. In summary, the following Solvency positions are calculated for the supervised entities of Achmea.

LIFE INSURANCE ENTITIES

Achmea Pensioen- en Levensverzekeringen N.V. (APL)

The Solvency Capital Requirement of APL is determined using the Standard Formula. APL uses the Volatility Adjustment when determining the Best Estimate of the insurance obligations.

SOLVENCY RATIO € MLN.

	2017	2016	Δ
Eligible Own Funds	3,194	3,113	81
Required Capital	2,255	2,389	-134
Surplus	**938**	**724**	**215**
Ratio (%)	142%	130%	12%

The Solvency Ratio increased by 12%-points to 142% compared to 2016.

The Eligible Own Funds increased by €81 million compared to 2016. Positive economic developments, changes in non-economic assumptions and lower restrictions due to a decrease in net deferred tax assets were partly offset by a change in mortality, lapse and inflation assumptions and a foreseeable dividend.

The Solvency Capital Requirement decreased by €134 million compared to 2016 mainly as a result of the full implementation of the capital hedge. The change in the underwriting risk is visible on all sub risks, the most relevant decrease is expense risk due to regular update of expense assumptions and both mortality and longevity risk due to an update of mortality rate assumptions.

Friends First Life Assurance Company DAC (FFLAC)

The Solvency Capital Requirement of FFLAC is determined using the Standard Formula. FFLAC uses the Volatility Adjustment when determining the Best Estimate of the insurance obligations.

FFLAC has two Ring Fenced Funds for which notional Solvency Capital Requirements are determined. In 2017, the activities of Friends First Managed Pension Funds merged with Friends First Finance and the insurance license of Friends First Managed Pension Funds was revoked.

SOLVENCY RATIO € MLN.

	2017	2016	Δ
Eligible Own Funds	253	309	-57
Required Capital	160	163	-3
Surplus	**92**	**146**	**-54**
Ratio (%)	158%	189%	-31%

The Solvency ratio of FFLAC decreased by 31%-points to 158%.

The decrease in Eligible Own Funds is mainly caused by a dividend payment to Friends First Holding Company. This is partially compensated by an improvement in the contract boundary on the Unit linked portfolio. Furthermore a decrease of the Defined Benefit Obligation due to increased interest rates also resulted in a decrease of the Best Estimate.

The decline in the SCR is mainly caused by a decrease in the Counterparty Default Risk. FFLAC has had an outgoing reinsurance contract with FFMPF which ended in 2017 following the merger of FFMPF and FFLAC.

Friends First Managed Pension Funds DAC (FFMPF)

As of 12 December 2017, the Central Bank of Ireland revoked the insurance license of Friends First Managed Pension Fund DAC, as a result of which FFMPF is no longer subject to Solvency II regulations as a solo insurance entity.

NON-LIFE INSURANCE ENTITIES

Achmea Schadeverzekeringen N.V. (ASNV)

The SCR of ASNV is determined using a Partial Internal Model (PIM). For the Non-Life Premium- and reserve Risk, Natural Catastrophe Risk and for the SLT Health Risk (with the exception of SLT Health Mortality, Longevity, Expense Risk) ASNV has developed an internal model. ASNV uses the Volatility Adjustment when determining the Best Estimate of the insurance obligations.

Due to the use of the internal model, ASNV also recognises Inflation Risk which is included as a capital correction within the Interest Rate Risk module. The capital correction for Inflation Risk was €116 million (2016: €199 million). ASNV has a branch selling insurance contracts in Australia.

SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	1,054	1,029	24
Required Capital	754	750	4
Surplus	**299**	**279**	**20**
Ratio (%)	140%	137%	3%

The Solvency Ratio increased by 3%-points to 140% compared to 2016.

The Eligible Own Funds increased by €24 million compared to 2016. The increase in Eligible Own Funds is caused by positive technical results in 2017 as a result of premium measures, claims management and cost savings, as well as the absence of large catastrophes. High investment returns during 2017 contributed to the increase in the Own Funds. A dividend payment and a local restriction on capital, to comply with Australian law, partly compensated the increase in the Eligible Own Funds.

Compared to 2017, the Solvency Capital Requirement slightly increased. This increase is mainly caused by an increase in Underwriting Risk Health, due to higher provisions for bodily injury claims and accidents. This is partly offset by a decline in Market Risk driven by a decrease in Interest Rate Risk caused by an updated approximation of Inflation Risk. In December 2017, Achmea put forward for endorsement a new Partial Internal Model for Market Risk. This model is already used for the calculation of Inflation Risk as part of Market Risk.

N.V. Hagelunie (HU)

The Solvency Capital Requirement of HU is determined using a Partial Internal Model. HU has developed an internal model for Non-Life Premium and Reserve Risk and Natural Catastrophe Risk. HU uses the Volatility Adjustment when determining the Best Estimate.

SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	183	173	11
Required Capital	64	63	1
Surplus	**119**	**109**	**10**
Ratio (%)	285%	273%	12%

The Solvency ratio increased by 12%-points to 285% due to an increase in the Eligible Own Funds, mainly as a result of positive results which are partially offset by foreseeable dividend. The required capital nearly remained stable compared to 2016.

Eureko Sigorta A.S. (ES)

Eureko Sigorta A.S. is an insurance legal entity which sells insurance contracts outside the European Union. Turkey is considered to be a non-equivalent Third country. For Group purposes Achmea translates the balance sheet towards Solvency II principles and applies the Solvency II requirements to determine the contribution to the Group Solvency position.

The capital requirements are based on Turkish prudential regime which is risk-based based. The various exposures identified are based on the local balance sheet and multiplied by a predetermined percentage (factor based approach). Turkish prudential regulation identified the following risk types: Asset Risk, Reinsurance Risk, Excessive Premium Increase Risk, Outstanding claim Risk, Underwriting Risk and Foreign Currency Risk. The sum of all these identified Risks is the Required Capital.

LOCAL SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	140	151	-11
Required Capital	79	86	-7
Surplus	**62**	**65**	**-4**
Ratio (%)	178%	176%	2%

The Solvency ratio based on Turkish prudential legislation increases 2%-points to 178%.

In 2017 the Eligible Own Funds increased in local currency, mainly as result of legislative changes. Since the third quarter of 2017 the Turkish Ministry of Finance now requires reserves to be discounted. The total impact of the legislative amendment is approximately +12%-points. This increase is partially offset by the impact of local catastrophes (floods and heavy hail) that occurred in the third quarter of 2017.

The Capital Requirement measured in local currency increased due to an increase in local Reinsurance Risk and Premium Risk. The increase in the required capital is partially compensated by a legislative amendment in the second quarter of 2017 which stipulates that it is no longer needed to maintain capital for Unexpected Premium Increase Risk.

Due to the devaluation of the Turkish Lira the Eligible Own Funds and the Required Capital measured in Euros decreased.

Interamerican Property & Casualty Insurance Company S.A. (IAGPC)

The Solvency Capital Requirement of IAGPC is determined using a Partial Internal Model. For the Non-Life Premium- and reserve Risk and Natural Catastrophe Risk, IAGPC has developed an internal model. IAGPC uses the Volatility Adjustment when determining the Best Estimate of the insurance obligations. IAGPC is the parent of Interamerican Assistance General Insurance Company S.A. This insurance company is presented as participation on the Economic Balance Sheet. IAGPC is a subsidiary of Interamerican Hellenic Life Insurance Company S.A.

SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	133	127	6
Required Capital	77	68	9
Surplus	**56**	**59**	**-3**
Ratio (%)	173%	186%	-13%

The Solvency ratio decreased by 13%-points to 183%.

The Eligible Own Funds increased by €6 million due to positive technical results which are partially compensated by a foreseeable dividend to IAG Life.

The Solvency Capital Requirement increased by €9 million. The increase in the required capital is the result of an increased Market Risk (change of the interest rate scenario from an upward to a downward scenario), Counterparty Default Risk (adjusted allocation of cash), Underwriting Risk (higher volume factor) and a decrease of the LACDT.

Interamerican Assistance General Insurance Company S.A (IAGR)

The Solvency Capital Requirement of IAGR is determined using the Standard Formula. IAGR uses the Volatility Adjustment when determining the Best Estimate.

SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	14	13	1
Required Capital	11	10	1
Surplus	**3**	**3**	**0**
Ratio (%)	124%	130%	-6%

The Solvency Ratio (Standard Formula) of IAG Assistance decreased by 6%-points to 124%. The Eligible Own Funds increased due to an improved technical result. In September 2017 a dividend was paid out to IAGPC. The Capital Requirement increased due to a higher Underwriting Risk Non-Life caused by higher premium volumes.

HEALTH INSURANCE ENTITIES

Achmea Zorgverzekeringen N.V. (Consolidated)

In The Netherlands basic and supplementary health insurance are sold via dedicated legal entities. At the end of 2017 Achmea has restructured the legal structure of the Dutch health legal entities. In the new structure as of 31 December 2017, Achmea manages these entities as one division (Division Zilveren Kruis), which includes the activities of the former Division De Friesland.

Achmea Zorgverzekeringen is the parent legal entity of the following subsidiaries arranging basic health insurance activities: Zilveren Kruis Zorgverzekeringen N.V., Avéro Achmea Zorgverzekeringen N.V., Interpolis Zorgverzekeringen N.V, FBTO Zorgverzekeringen N.V and De Friesland Zorgverzekeraar N.V.

Achmea Zorgverzekeringen N.V. sells the supplementary health insurance.

The Solvency Capital Requirement is calculated with the Standard Formula. No Volatility Adjustment has been applied.

SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	3,032	3,252	-220
Required Capital	2,132	2,106	26
Surplus	**900**	**1,146**	**-246**
Ratio (%)	142%	154%	-12%

The Solvency Ratio decreased by 12%-points to 142%, mainly as a result of a decrease in Eligible Own Funds.

The decrease in Eligible Own Funds is caused by higher claims incurred (including costs) than premiums written, and lower budget contributions in 2016 and 2017 than expected. In addition, a decrease in technical provisions was recognised due to an expected result in 2018 being less negative than last year resulting in lower Best Estimate. Compensated by an increase of the Risk Margin, as a result of a methodological change.

The Solvency Capital Requirement increased by €26 million to €2,132 million. Both Underwriting Risk, Counterparty Default Risk and Operational Risk increased, while Market Risk decreased.

Summary

Find below the Solvency ratios of the individual insurance legal entities of Achmea Zorgverzekeringen:

SOLVENCY RATIO

	2017	2016
Achmea Zorgverzekeringen N.V. (non-consolidated)	365%	n.m.*
Zilveren Kruis Zorgverzekeringen N.V. (former OZF Zorgverzekeringen N.V.)	126%	n.m.*
Avéro Zorgverzekeringen N.V.	196%	249%
Interpolis Zorgverzekeringen N.V.	191%	171%
FBTO Zorgverzekeringen N.V.	152%	88%
De Friesland Zorgverzekaar N.V.	144%	155%

* not meaningful

Achmea Zorgverzekeringen N.V. (solo)

As a result of the restructuring all supplementary health insurance activities are now handled by Achmea Zorgverzekeringen N.V. The 2017 results are based on the situation as at 31 December 2017, including mergers and portfolio transfers. Due to the legal restructuring, including portfolio transfers, comparable numbers for Achmea Zorgverzekeringen N.V. are not meaningful.

Zilveren Kruis Zorgverzekeringen N.V. (former OZF Zorgverzekeringen N.V.)

As a result of the restructuring all supplementary health insurance activities are now handled by Achmea Zorgverzekeringen N.V., which is the parent company of Zilveren Kruis Zorgverzekeringen N.V.

The 2017 results are based on the situation as at 31 December 2017, after the change in legal structure. Due to the legal restructuring including portfolio transfers comparable numbers for Zilveren Kruis Zorgverzekeringen N.V. (former OZF Zorgverzekeringen N.V.) are not meaningful.

The restructuring resulted in a decrease of the solvency percentage of Zilveren Kruis Zorgverzekeringen N.V. At the end of January 2018 a capital contribution was made to improve the ratio of Zilveren Kruis Zorgverzekeringen N.V.

Avéro Achmea Zorgverzekeringen N.V.

The Solvency ratio decreased by 53%-points to 196%. The increase in required capital is primarily due to growth of the total expected claims for accident year 2017 and a delay in the settlement of claims for accident year 2017.

Part of the decrease in Eligible Own Funds is the negative result in 2017 and the expected negative result for 2018 which is charged to the Eligible Own Funds in 2017 based on the recognition criteria.

Interpolis Zorgverzekeringen N.V.

The Solvency ratio increased by 20%-points to 191% mostly due to an increase in Eligible Own Funds. This is partly due to a higher result for 2017 than previously expected and partly due to the expected positive result for 2018 which is added to the Eligible Own Funds for 2017 based on the recognition criteria.

FBTO Zorgverzekeringen N.V.

The Solvency ratio increased by 64%-points from 88% to 152%. This is mainly caused by an increase in the Eligible Own Funds through a received subordinated loan, a share premium payment.

De Friesland Zorgverzekeraar N.V.

The Solvency ratio decreased by -11%-points to 144% compared to 2016. This is mainly caused by a strong decline in Eligible Own Funds through the issue of a subordinated loan to FBTO Zorgverzekeringen N.V.

COMPOSITE INSURANCE ENTITY

Interamerican Hellenic Life Insurance Company S.A. (IAGL)

The Solvency Capital Requirement of IAGL is determined using the Standard Formula. IAGL uses the Volatility Adjustment when determining the Best Estimate of the insurance obligations. IAGL is the parent of Interamerican Property & Casualty Insurance Company S.A. This insurance company is presented as participation on the Economic Balance Sheet.

SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	175	158	17
Required Capital	95	101	-6
Surplus	**81**	**57**	**24**
Ratio (%)	185%	156%	29%

The Solvency-ratio increased by 29%-point to 185%. The Eligible Own Funds increased due to good performance that led to an increase in the participation value of Interamerican Property & Casualty Insurance Company S.A. and due to a positive court order concerning withholding tax for the years 2001-2009. The Eligible Own Funds decreased due to a dividend payment to the parent.

The Capital Requirement decreased by €-6 million. This is mainly caused by a decrease in Underwriting Risk Life due to a decline in Lapse Risk as a result of increased interest rates. Also Counterparty Default Risk declined due to lower Receivables past due.

Union Poist'ovňa A.S. (UN)

The Slovakian insurer is a composite insurer selling both Life and Non-Life insurance products. The Solvency Capital Requirement of UN is determined using the Standard Formula. UN uses the Volatility Adjustment when determining the Best Estimate.

SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	28	29	-1
Required Capital	16	13	3
Surplus	**12**	**17**	**-5**
Ratio (%)	173%	229%	-56%

The Solvency ratio decreased by 56%-points from 229% to 173%.

The decrease in the Eligible Own Funds is caused by an increase in the Best Estimate of the motor portfolio.

The Capital Requirement increased due to an increased Underwriting Risk Non-Life, as a result of the growth of the loss making motor portfolio and a decrease in the Loss Absorbing Capacity of Deferred Taxes (LACDT), as the potential LACDT cannot be completely recovered due to the projected less profitable forecast for 2018. An increase in Market Risk (Interest rate and Spread risk) is recognised due to the purchase of new bonds with a longer duration and an increase in Counterparty Default Risk due to a temporary higher bank position following the sales of matured bonds and investments.

REINSURANCE ENTITY

Achmea Reinsurance Company N.V. (ARe)

Achmea Reinsurance Company is the internal reinsurer for Achmea and accepts incoming reinsurance contracts from parties outside of Achmea Group. The Solvency Capital Requirement of ARe is determined using a Partial Internal Model. ARe has developed an internal model for Natural Catastrophe Risk. ARe does not use the Volatility Adjustment when determining the Best Estimate.

SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	264	273	-9
Required Capital	138	129	10
Surplus	**126**	**144**	**-19**
Ratio (%)	191%	212%	-21%

The Solvency ratio decreased by 21%-points to 191%.

The Eligible Own Funds decreased by €9 million. Positive results in the insurance portfolio during the first half year and the investment portfolio are offset by the worldwide catastrophes, the use of more suitable cash flows for Risk Margin calculations and a dividend payment.

The Capital Requirement increased by €10 million. Market risk increased due to higher investment volumes in emerging markets equity. Underwriting Risk increased because of higher volume factors as a result of the worldwide catastrophes in the second half of 2017. Operational Risk decreased as the Canadian Mortality Business contracts were not renewed which lowered the volume factor.

SOLVENCY POSITION LEGAL ENTITIES SUBJECT TO THE CAPITAL REQUIREMENTS DIRECTIVE

Within Achmea, three legal entities are subject to requirements of the Capital Requirements Directive (CRD): Achmea Bank N.V. as credit institution, and two as asset managers (Syntrus Achmea Real estate & Finance B.V. and Achmea Investment Management N.V.).

Within the Achmea Group Solvency position, the Own Funds determined following the sectoral rules are deducted from the Tier 1 capital. This deduction is based on a local temporary requirement from the Dutch supervisor. Under the application of the CRD, another Group construction would have been required since Achmea B.V. is a Mixed Financial Holding Company. This would imply that Achmea B.V. would be subject to triple Group supervision (Solvency II, Financial Conglomerate and CRD IV/CRR) with its own requirements. Achmea still assesses the Group from a total perspective for strategic, tactical and operational purposes.

CRD RATIO'S 2017

€ MLN.

ENTITY	RWA	TCR	CET 1-RATIO	CAPITAL REQUIREMENTS	OWN FUNDS
Syntrus Achmea Real Estate & Finance B.V.	163	21.6%	21.6%	13	35
Achmea Investment Management B.V.	227	16.8%	16.8%	18	38
Achmea Bank N.V.	4,024	20.5%	20.4%	559	825

The license of Staalbankiers N.V. has been revoked during 2017.

CRD RATIO'S 2016

€ MLN.

ENTITY	RWA	TCR	CET 1-RATIO	CAPITAL REQUIREMENTS	OWN FUNDS
Syntrus Achmea Real Estate & Finance B.V.	182	17.2%	17.2%	15	31
Achmea Investment Management B.V.	196	18.3%	18.3%	16	36
Achmea Bank N.V.	4,237	19.2%	19.1%	339	813
Staalbankiers N.V.	98	47.8%	47.8%	8	47

SOLVENCY POSITION OF LEGAL ENTITIES SUBJECT TO THE IORP OR SIMILAR ENTITIES

In Slovakia, Achmea has two subsidiaries: Union Poisťovňa A.S. and Union Zdravotna Poist'ovna A.S. The first is the composite insurer as described above, the second is a legal entity dedicated to Health insurance. The local Slovakian Ministry of Finance has decided that this entity (and similar entities within Slovakia) is not subject to Solvency II legislation but to local capital requirement as under Slovakian law.

Union Zdravotna Poist'ovna A.S. (UZ)

At year-end 2017, the Own Funds maintained with UZ were €31.2 million (2016: €23.7 million). The local capital requirements for 2017 were €16.6 million (2016: €16.6 million).

NOTIONAL SOLVENCY POSITION

For any Mixed Financial Holding Company, Insurance Holding Company or Financial Holding Company a notional capital requirement is to be calculated. These holding companies are individually not subject to supervision. However, they are subject to group supervision.

The notional capital position is calculated, based on the company Economic Balance Sheet and resulting notional Solvency Capital Requirement as if the Solvency II legislation would be used. In this approach all subsidiaries are presented as participations and intragroup positions are not eliminated.

Achmea B.V.

NOTIONAL SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	8,386	8,345	41
Required Capital	2,291	2,265	25
Surplus	**6,095**	**6,079**	**16**
Ratio (%)	366%	368%	-2%

Friends First Holding DAC

NOTIONAL SOLVENCY RATIO

€ MLN.

	2017	2016	Δ
Eligible Own Funds	327	309	17
Required Capital	57	69	-12
Surplus	**270**	**241**	**29**
Ratio (%)	577%	450%	127%

1.5. MATERIAL CHANGES TO GOVERNANCE OR RISK MANAGEMENT SYSTEM

Internal Model Market Risk

In December 2017, Achmea started the application process for approval by the Dutch Central Bank (DNB) of its internal Market Risk models for Achmea Group and the Dutch Non-Life and Life legal entities (starting from Q2 2018). These models are considered a better reflection of the Market Risks of Achmea compared to the Standard Formula.

Business developments

Per 31 December 2017 a restructuring of the legal structure of Achmea Zorgverzekeringen N.V. took place, resulting in a reduction of capital restrictions in the supplementary health insurance entity which formally was a subsidiary of Achmea Zorgverzekeringen N.V. In addition, a merger took place in which the former De Friesland's basic health insurance entities became subsidiaries of Achmea Zorgverzekeringen N.V., and the De Friesland's supplementary health insurance entity was merged with Achmea Zorgverzekeringen N.V. The restructuring will impact the solvency levels of the Health insurance legal entities, but will not impact the Group consolidated solvency position.

System of governance and risk profile

At 2016 year-end, solvency levels of FBTO Zorgverzekeringen N.V. were below 100% SCR. A subordinated loan was arranged to restore the solvency position above the legally required level (100% SCR). Afterwards a capital injection took place to improve the solvency position above the target level as defined in the Capital Adequacy Policy. Subsequently Achmea decided to merge the two Health divisions (Zilveren Kruis, De Friesland). The mergers and portfolio transfers took place at 30 December 2017 and 31 December 2017.

1.6. MATERIALITY AND SUBSEQUENT EVENTS

Any events which occur after the reference date (31 December 2017) and before the issue date of the Solvency information, which could have an impact on the Solvency position as presented at 31 December 2017 are assessed by Achmea. If deemed to be material these events are either adjusted (Adjusting event) in the Solvency position as calculated or are disclosed as a Non-adjusting event (similar to International Financial reporting Standard IAS10 requirements).

In the period between the reference date and the issue date the following events have occurred:

- Achmea did publish a Group Solvency position on 22 March 2018 during the presentation of the 2017 Financial Position. The data for the Group were based on the Solvency position of the underlying insurance legal entities. However, one of these legal entities used approximations for several sub risk types. In the meantime the full calculation has become available. The differences between the approximations and the final outcomes are not material and therefore no update took place in the Group figures. The outcome per legal entity is based on full calculations, not on the approximations used for Group purposes.
- During 2017 a legislation proposal was approved by the House of Representatives to restrict profit distribution from Health insurers. The Senate did not approve this regulation and asked the House of Representatives to amend the proposed legislation. In the coalition agreement of the acting government parties agreed that capital in the health insurance business must remain in the Health domain. No specific measures have been defined. The calculations per 31 December 2017 still take into account the restrictions of the former health insurance fund (€621 million capital from the former health insurance system) that are no longer applicable from 1 January 2018.
- On 9 February 2018 the Executive Board, mandated by the General Meeting, decided to repurchase Achmea ordinary shares. The Executive Board has been granted a mandate to repurchase shares up to an amount of €100 million. This amount had already been deducted from Solvency II Eligible Own Funds as at 31 December 2017 and included in the presented Solvency position.

A. BUSINESS AND PERFORMANCE

A.1. BUSINESS

LEGAL FORM

Achmea B.V. is incorporated in the Netherlands and has its seat in Zeist. Its head office is located at Handelsweg 2 in Zeist, The Netherlands.

De Nederlandsche Bank is responsible for the Group prudential supervision of Achmea. Each supervised legal entity does have a local prudential supervisor. The supervisors of the various Member States where Achmea has its activities, are organised in a “College of Supervisors”.

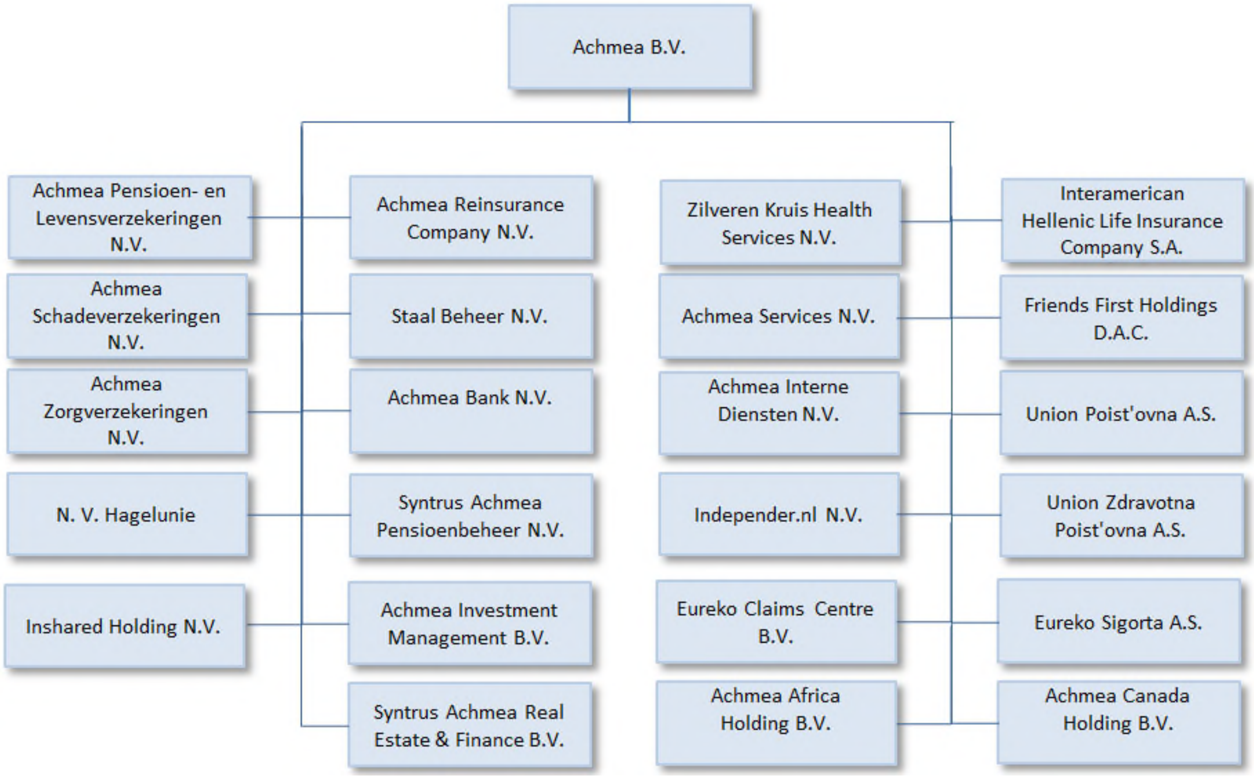
The external auditor of the Group Achmea is PricewaterhouseCoopers (PwC). PwC was appointed as auditors of Achmea B.V. on 29 April 2011 by the Executive Board following the passing of a resolution by the shareholders at the Annual General Meeting held on 6 April 2011 and this appointment was renewed by the shareholders in 2015 representing a total period of uninterrupted engagement appointment of 7 years. The external auditor's mandate does not cover an audit on the information disclosed in this SFCR and hence the information in this SFCR is unaudited.

ACHMEA SHAREHOLDERS AS AT 31 DECEMBER 2017

COMPANY	COUNTRY	NUMBER OF SHARES	SHARE % (ORDINARY)	SHARE % (INCL. PREFS)
Vereniging Achmea directly and via Stichting Administratie-Kantoor Achmea	The Netherlands	261,537,249	65.30%	61.63%
Coöperatieve Rabobank U.A.	The Netherlands	116,993,237	29.21%	27.57%
Fundo de Pensões de Grupo Banco Comercial Português	Portugal	11,077,699	2.77%	2.61%
Stichting Beheer Aandelen Achmea	The Netherlands	3,665,253	0.92%	0.86%
Gothaer Allgemeine Versicherung AG	Germany	2,072,055	0.52%	0.49%
Gothaer Finanz Holding AG	Germany	2,370,153	0.59%	0.56%
Schweizerische Mobiliar Holding AG	Switzerland	2,769,246	0.69%	0.65%
Total ordinary shares		**400,484,892**	**100.00%**	
Achmea Tussenholding B.V. (preference shares)	The Netherlands	23,904,060		5.63%
Total ordinary shares and preference shares		**424,388,952**		**100.00%**

Legal Structure

GROUP STRUCTURE ACHMEA (SUMMARY)



OBJECTIVES AND STRATEGY

Roadmap

Our strategy focuses on strengthening our current business models and developing new products, services and business models. Achmea is evolving from its traditional role as an insurance company that focused purely on risk insurance to one that focuses more on services. In addition to insurance products, we are also in the process of extending our range of services, including those relating to prevention. We offer our customers insights and solutions relating to the uncertainties in their lives. This is the basis for keeping customer satisfaction scores high and securing the continuity of our services. In doing so, we apply short to medium-term and long-term planning. 2017 was the first year of the three-year short-term planning period under the 'Delivering Together' motto. More information on this is given in the next section. First, we deal with our portfolio, profile and the four pillars of our strategy.

Portfolio

We target retail customers, businesses and collectivities, primarily for non-life, health insurance and (supplementary) services through the direct and banking channels. Customers decide how they wish to communicate with us: personally, digitally or by mobile phone. We are expanding our activities to include retirement services, asset management and international activities.

Profile

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. We 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.

Consolidating our current position

The essence 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-increasing expectations. For this reason, we increasingly offer more personalised interaction, including the option to switch between channels or devices without a problem. Peers also form a frame of reference for customers. 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 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.

BUSINESS DEVELOPMENT

FOCUS IN ACTIVITIES

We are now a year into 'Delivering Together', our strategic direction for the planning period covering 2017 up to and including 2019.

STRATEGIC THEMES

Domains in which we take a prominent role

Over the past year, we have selected themes that have an impact on our customers and society. We are concentrating on four themes, as these are relevant to society. Sustainability is a leading motive in these four themes. The themes are:

- Health closer to everyone;
- Clean, safe and smart mobility;
- Safe home and taking action;
- Financial solutions for now, tomorrow and later.

With these, we provide direction to our (future) activities and our innovation. In these themes, we aim to be market leaders, together with selected partners.

In order to be successful, we are creating capacity to experiment. This sometimes requires patience and we can only achieve this through cooperation with carefully selected partners. In addition, in the short term focus is on further strengthening our financial position by structurally improving results.

FOCUS VIA MARKET-ORIENTED VALUE CHAINS

In order to provide the best possible services to our customers, we work in five market-oriented value chains. With the value chains Non-Life, Health, Retirement Services, Pension & Life and International, we have structured ourselves as efficiently as possible to meet our customers' needs via the propositions offered by our brands and segments. In these, we emphasise the following accents in the coming period.

The Non-Life value chain operates via brands such as Centraal Beheer, Interpolis, FBTO, Avéro Achmea and InShared. With these, we have a leading market position in non-life insurance and a third place in income protection. Customer appreciation is high for direct online distribution and distribution via Rabobank. We are investing quality improvements and growth by further renewing our services and innovative solutions for safe home and working environments and clean, safe and smart mobility. This value chain delivers a decisive contribution to the group's results. Claims cost control, reductions in expenses and setting sustainable premiums are important factors here.

The Health value chain works to bring good health to everyone, including via Zilveren Kruis and De Friesland Zorgverzekeraar. Affordability and accessibility are key words here. The value chain focuses on the balance between solidarity, market share and solvency. The brands in this chain create added value for their customers by investing in services aimed at prevention. They distinguish themselves in their service delivery by providing good health care and innovation relating to healthy living, vitality and employability, including via Actify for retail customers and Gezond Ondernemen (Healthy Enterprise) for employers.

Within the Retirement Services value chain the Centraal Beheer Algemeen Pensioenfonds (APF, General Pension Fund) plays a major role. The Centraal Beheer APF provides innovative pension solutions for employers and offers a good range of products for company pension funds in a consolidating market. Achmea Pension Services and Achmea Investment Management (AIM) are the outsourcing partners of the Centraal Beheer APF. They provide an innovative, digital pension platform and, among other things, fulfil a fiduciary role in asset management. In this value chain, Centraal Beheer is evolving into a broad financial service provider, with direct distribution and via brokers. We offer customers the option of saving, investing, arranging a mortgage and term life insurance. In addition, we offer our customers insight into their financial position. We are aiming for growth in volume at pension services and an increase in the assets under management at Achmea Investment Management, both for institutional clients via the Centraal Beheer APF and for retail customers. We offer third and fourth pillar products from Achmea Bank and Achmea Investment Management. At Pension Services we are focusing on further reducing expenses and on customer retention and we also active in company and sector pension funds.

The Pension & Life value chain is our service organisation for existing customers with pensions or life insurance policies. We have made a strategic decision on growth in the group pension market via the Centraal Beheer APF. The existing portfolio is therefore no longer growing, but services to customers will remain at a high level for many years to come. In doing so, the value chain provides a significant contribution to our capital position and results. In addition to stability, this value chain also offers growth in term life insurance policies via e.g. Interpolis and Rabobank, and the range of individual pension annuities.

The fifth value chain is our International chain, which is an integral part of our group strategy. The International value chain is growing via use of our knowledge and experience of non-life and health insurance products distributed via direct and banking channels. We use these core competencies in countries in which we identify strategic opportunities in the insurance markets. This applies to e.g. Turkey, Greece, Slovakia, Australia and a partnership in Canada by using the InShared platform. Initially, Onlia is targeted towards Homes and Cars. We will sell the policies through authorised agents. Where it reinforces our position, we work internationally with strategic partners, such as Rabobank in the Netherlands and Australia and Garanti Bank in Turkey.

A.2. UNDERWRITING PERFORMANCE

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

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

Gross operating expenses amounted to €2,137 million in 2017 (2016: €2,445 million). The lower gross operating expenses are mainly due to a decrease in the number of internal employees by over 800 and the resulting lower personnel expenses. We also realised savings through a more efficient use of marketing and further rationalisation within IT. The cost savings are partly due to one-off effects, such as the winding down of Staalbankiers activities, the reorganizational provision made in 2016 and the amendment to the pension scheme in a health entity in 2017. When adjusted with these effects, the decrease in expenses amounts to 5%.

At the same time we continue to invest in innovation and digitisation in our company, with the development of innovative concepts and our strategic programmes, including the roll-out of the Retirement Services strategy, the commercial alliance with Rabobank and international growth.

At the end of 2016, we announced that we expected the number of internal employees in the Netherlands to decrease with approximately 2,000 up to 2020. The total number of internal employees in the Netherlands was reduced with over 800 to 14,484 in 2017 (2016: 15,293) as a result of continuing efficiency improvements within our company and a different approach to work. Versatility and flexibility are essential to us in order to be able to adapt to the increasingly rapid changes and needs of our customers. Our ‘agile’ concept and working in market-oriented supply chains support this. We are adjusting our offices accordingly, in which our activities will be concentrated in five key locations: Apeldoorn, Leeuwarden, Leiden, Tilburg and Zeist.

Internationally, the number of internal employees remained more or less stable at 2,946 in 2017 (2016: 2,983).

DEVELOPMENTS IN NON-LIFE INSURANCE IN THE NETHERLANDS (IFRS ACCOUNTING)

INCOME STATEMENT NON-LIFE NETHERLANDS

€ MLN.	2017	2016
Gross written premiums	3,290	3,191
Reinsurance premiums	-152	-109
Changes in the provision for unearned premiums and current risks (net of reinsurance)	22	6
Net earned premiums	**3,160**	**3,088**
Investment income	111	160
Other income	16	15
Total income	**3,287**	**3,263**
Net expenses from insurance contracts	2,286	2,531
Operating expenses related to insurance activities	798	871
Other operating expenses	20	21
Interest and similar expenses	3	3
Other expenses	14	22
Total expenses	**3,121**	**3,448**
Operational result	**166**	**-185**

The non-life insurance business in the Netherlands consists of the entities Achmea Schadeverzekeringen N.V. and N.V. Hagelunie.

Business and performance

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

Gross written premiums

Gross premium revenues increased with €99 million to €3,290 million in 2017 (2016: €3,191 million). Gross written premiums from our property & casualty insurance business increased to €2,690 million (2016: €2,601 million) due to the growth of the retail customer portfolio and improvement measures within both the retail customer and commercial property & casualty insurance portfolios. Gross written 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 (BeZaVa[11]).

Operating expenses

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

Results

Over 2017, the operational result was €166 million (2016: €-185 million). When adjusted for the cost of claims arising from the severe hail calamity in June 2016 (impact: €132 million), the operational result was €219 million higher in 2017.

This higher result is partly due to measures applied to premiums, claims management and cost savings. In implementing these measures, we have structurally improved the fundamentals of our property & casualty and income protection activities. The improved fundamentals can also be seen from the combined ratio and claims ratio at overall level, which are 95.5% (2016: 106.9%) and 70.5% respectively (2016: 79.0%).

Property & Casualty

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

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

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

Income Protection

The income protection business in the Netherlands consists entirely of the entity Achmea Schadeverzekeringen N.V.

The operational result for our Income Protection insurance products totalled €47 million (2016: €53 million). In more recent years, in line with the national trend, we have seen an increase in inflow into the WIA disability act. We take this into account in setting our premiums.

At the same time, the continuing focus on claims management means that we see smaller 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%).

BREAKDOWN OF NET PROFIT ASNV AND HU

€ MLN.

	2017		2016	
	ASNV	HAGELUNIE	ASNV	HAGELUNIE
Gross written premiums	3,250	81	3,154	68
Reinsurers' share	148	37	108	28
Net written premiums	**3,102**	**44**	**3,047**	**40**
Change in provision unearned premiums	-18	-3	-7	2
Net earned premiums	**3,120**	**47**	**3,054**	**38**
Gross claims incurred	2,341	15	2,605	153
Reinsurers' share	63	2	107	118
Net claims incurred	**2,278**	**13**	**2,498**	**35**
Investment income technical account	4	0	4	0
Other technical income/ expenses	11	0	-9	-0
Profit sharing and rebates	2	0	5	0
Operating expenses	823	9	892	6
Result on technical account	**32**	**25**	**-346**	**-3**
Investment income non-technical account	109	2	157	2
Other income and expenses	-19	-0	-17	-0
Profit before tax	122	27	-206	-1
Taxes	29	7	-46	-0
Net profit	**93**	**20**	**-160**	**-1**

* *For a breakdown of premiums, claims and expenses per major line of business see appendix 3*

DEVELOPMENTS IN HEALTH INSURANCE IN THE NETHERLANDS (IFRS ACCOUNTING)

INCOME STATEMENT HEALTH NETHERLANDS

€ MLN.

	2017	2016
Gross written premiums	13,184	13,092
Reinsurance premiums	8	228
Changes in the provision for unearned premiums and current risks (net of reinsurance)	326	47
Net earned premiums	13,518	13,367
Investment income	47	37
Other income	107	118
Total income	13,672	13,522
Net expenses from insurance contracts	13,278	13,160
Operating expenses related to insurance activities	475	529
Other operating expenses	7	6
Interest and similar expenses	1	1
Other expenses	39	22
Total expenses	13,800	13,718
Operational result	-128	-196

For the contribution of the several health insurance entities to the total result on health insurance in the Netherlands we refer to the breakdown of net profit health insurance.

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

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

Gross written premiums

Gross premium revenues from basic and supplemental health insurance increased to €13,184 million (2016: €13,092 million). Gross written premiums from basic health insurance amounted to €11,869 million (2016: €11,779 million). The increase in gross written premiums is due to a higher number of policyholders and higher premiums in 2017.

Gross written premiums from supplemental health insurance amounted to €1,315 million (2016: €1,313 million). The number of customers taking out supplementary health insurance[13] remains stable at about 80%.

Operating expenses

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

Operational result

Over 2017, the operational result for basic health insurance was €-175 million (2016: €-215 million). The result comprises the result from the current book year, the result from previous years and a provision for premiums below cost price for 2018. The last two components form the incidental result.

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

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

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

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

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

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

BREAKDOWN OF NET PROFIT HEALTH INSURANCE

€ MLN.

	2017					
	ZILVEREN KRUIS ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	AVÉRO ZORGVERZEKERINGEN	ACHMEA ZORGVERZEKERINGEN	FBTO ZORGVERZEKERINGEN	DE FRIESLAND ZORGVERZEKERINGEN
Gross written premiums	128	443	799	9,899	619	1,297
Reinsurers' share	0	0	1	9	0	-18
Net written premiums	**128**	**443**	**798**	**9,890**	**619**	**1,315**
Change in provision unearned premiums	-4	-19	-7	-182	-36	-44
Net earned premiums	**132**	**462**	**805**	**10,072**	**655**	**1,359**
Gross claims incurred	128	433	818	9,982	620	1,329
Reinsurers' share	-0	0	1	8	0	-17
Net claims incurred	**128**	**433**	**817**	**9,974**	**621**	**1,346**
Investment income technical account	0	0	0	3	0	5
Other technical income/ expenses	-1	-1	0	-18	-1	0
Profit sharing and rebates	0	0	0	0	0	0
Operating expenses	5	15	37	333	16	24
Result on technical account	**-1**	**14**	**-49**	**-251**	**17**	**-5**
Investment income non-technical account	0	1	3	31	-0	4
Other income and expenses	-0	-0	-1	-4	1	0
Net profit	**-1**	**15**	**-47**	**-224**	**18**	**-0**

BREAKDOWN OF NET PROFIT HEALTH INSURANCE

€ MLN.

	2016					
	ZILVEREN KRUIS ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	AVÉRO ZORGVERZEKERINGEN	ACHMEA ZORGVERZEKERINGEN	FBTO ZORGVERZEKERINGEN	DE FRIESLAND ZORGVERZEKERINGEN
Gross written premiums	0	407	711	9,933	618	1,298
Reinsurers' share	-0	-8	-14	-174	-12	-30
Net written premiums	**0**	**415**	**725**	**10,107**	**630**	**1,328**
Change in provision unearned premiums	0	4	1	-71	4	-15
Net earned premiums	**0**	**411**	**724**	**10,178**	**626**	**1,343**
Gross claims incurred	0	403	720	9,664	643	1,292
Reinsurers' share	-	-10	-14	-161	-13	-31
Net claims incurred	**0**	**413**	**733**	**9,826**	**655**	**1,322**
Investment income technical account	0	0	0	2	0	5
Other technical income/ expenses	-0	0	1	-3	-3	-6
Profit sharing and rebates	0	0	0	0	0	0
Operating expenses	0	17	37	364	22	24
Result on technical account	**-0**	**-19**	**-46**	**-13**	**-54**	**-5**
Investment income non-technical account	0	1	2	-95	1	5
Other income and expenses	0	0	0	8	1	0
Net profit	**-0**	**-18**	**-43**	**-99**	**-53**	**-0**

DEVELOPMENTS IN PENSION AND LIFE INSURANCE IN THE NETHERLANDS (IFRS ACCOUNTING)

INCOME STATEMENT PENSION AND LIFE NETHERLANDS

€ MLN.	2017	2016
INCOME		
Gross written premiums	1,569	1,794
Reinsurance premiums	-32	-43
Net earned premiums	**1,537**	**1,751**
Income from associates and joint ventures	4	1
Investment income	1,464	3,248
Other income	18	17
Total income	**3,023**	**5,017**
EXPENSES		
Net expenses from insurance contracts	2,481	4,499
Operating expenses related to insurance activities	172	212
Interest and similar expenses	9	4
Other expenses	19	17
Total expenses	**2,681**	**4,732**
Operational result	**342**	**285**

The pension and life insurance business in the Netherlands consists fully of the entity Achmea Pensioen- en Levensverzekeringen N.V.

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

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

Gross written premiums

Gross premium revenues decreased by 13% to €1,569 million in 2017 (2016: €1,794 million).

Gross written premiums from the closed-book pension portfolio decreased with about 20% to €490 million in 2017 (2016: €617 million). This is a direct consequence of the transition to a closed-book strategy for this portfolio, whereby no new pension insurance contracts are being sold or existing contracts extended. In line with our strategy, gross written premiums from Pensions will therefore continue to decrease. However, the size of the portfolio will only decline slowly due to the long-term nature of the liabilities. Gross written premiums from the closed-book life insurance portfolio amounted to €831 million in 2017 (2016: €898 million). At 8.0%, premium lapse is at a comparable level as the same period last year. The decline in the size of our portfolio as a result of expiration is evolving in line with our expectations.

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

Operating expenses

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

Operational result

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

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

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

BREAKDOWN OF NET PROFIT ACHMEA PENSIOEN- EN LEVENSVERZEKERINGEN N.V. € MLN.

	2017	2016
Gross Written Premiums	1,569	1,794
Reinsurers' Share	32	43
Net Written Premiums	**1,537**	**1,751**
Gross Claims Incurred and Changes in Insurance Liabilities	3,098	3,160
Reinsurers' Share	10	17
Net Claims Incurred and Changes in Insurance Liabilities	**3,088**	**3,143**
Investment Income Technical Account	912	3,056
Other Technical Income/ Expenses	24	25
Profit Sharing and Rebates	-580	1,352
Operating Expenses	189	237
Result on Technical Account	**-224**	**100**
Investment Income Non-Technical Account	535	167
Other Income and Expenses	-57	-49
Profit Before Tax	**254**	**218**
Taxes	38	32
Net Profit	**216**	**186**

* *For a breakdown of premiums, claims and expenses per major line of business see appendix 3*

INTERNATIONAL ACTIVITIES

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

In November 2017, we reached an agreement on the sale of Irish life insurance company Friends First to Aviva. Friends First is a solid company but its activities are no longer aligned with our core activities.

INCOME STATEMENT INTERNATIONAL

€ MLN.

	2017	2016
Gross written premiums	1,206	1,192
Reinsurance premiums	-205	-204
Changes in the provision for unearned premiums and current risks (net of reinsurance)	3	-29
Net earned premiums	**1,004**	**959**
Income from associates and joint ventures	7	9
Investment income	202	223
Other income	50	47
Total income	**1,263**	**1,238**
Net expenses from insurance contracts	755	806
Fair value changes and benefits credited to investment contracts	150	93
Operating expenses related to insurance activities	271	272
Other operating expenses	36	12
Interest and similar expenses		1
Other expenses	35	29
Total expenses	**1,247**	**1,213**
Operational result	**16**	**25**

Gross written premiums

Gross premium revenues increased by 1% to €1,206 million in 2017 (2016: €1,192 million), mainly driven by growth within our Property & Casualty and Health. When adjusted for foreign exchange effects, growth amounts to 8%.

In Turkey, gross premium revenue totalled €335 million in 2017 (2016: €368 million). Expressed in Turkish Lira, written premiums increased by 12% to TL1,379 million (2016: TL1,235 million) as a result of growth in all market segments. We gained market share in the key Home and Health segments.

Premiums from the online channel, set up in conjunction with Garanti Bank, display the highest growth.

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

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

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

Finally, our partnership with Rabobank in Australia is evolving successfully. Written premiums grew further to €17 million in 2017 (2016: €12 million), driven by high customer satisfaction and a strong retention rate (99%) in the existing portfolio.

Operating expenses

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

Operational result

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

Profitability has improved in Slovakia and Greece as a result of an improved result in Health and in Property & Casualty respectively.

ACHMEA REINSURANCE COMPANY N.V.

BREAKDOWN OF NET PROFIT ACHMEA REINSURANCE COMPANY N.V. € MLN.

	2017				2016			
	NON LIFE	LIFE	OTHER NON TECHNICAL	TOTAL	NON LIFE	LIFE	OTHER NON TECHNICAL	TOTAL
Gross written premiums	149	106	-	255	100	260	-	360
Reinsurance premiums	-91	-24	-	-116	-61	-37	-	-98
Movement in insurance liabilities for net unearned premiums	-10	0	-	-10	1	1	-	1
Net reinsurance premiums	**47**	**82**	**-**	**129**	**39**	**224**	**-**	**263**
Investment income	0	-21	14	-7	0	-106	8	-98
Other income	-	-	-0	-0	-	-	0	0
Total income	**47**	**61**	**13**	**121**	**39**	**118**	**8**	**166**
Net expenses from insurance contracts	49	2	-	51	26	-32	-	-6
Operating expenses	11	54	-	65	12	148	-	160
Other expenses	-	-	4	4	-	-	4	4
Total expenses	**60**	**57**	**4**	**121**	**37**	**116**	**4**	**158**
Result before taxes	**-13**	**4**	**9**	**0**	**2**	**2**	**4**	**8**
Taxes	-	-	0	0	-	-	2	2
Net profit	**-13**	**4**	**9**	**0**	**2**	**2**	**2**	**6**

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

The operational result over 2017 was €5 million (2016: €12 million) and remained positive in spite of the impact of €37 million caused by global catastrophes. The additional claims were partly compensated for by proceeds from new property & casualty and life contracts and higher investment results.

Gross premium revenues stood at €255 million in 2017 (2016: €360 million). This decrease is due to a number of contracts in the incoming Life reinsurance programme not being renewed.

A.3. INVESTMENT PERFORMANCE

In the table below, the direct investment income on the investment portfolio of Achmea is reported. The direct investment income is divided into three parts: received dividends on equity and similar investments, received rent on property and received interest on fixed income securities such as bonds and loans.

INVESTMENT INCOME

€ MLN

	2017	2016
Dividends	201	96
Rent	101	100
Interest	1,430	1,383
Bonds	605	705
Mortgages and loans	210	140
Derivatives	204	145
Other	411	393

The investment income can be divided to the several legal entities within Achmea Group.

The return on equities, presented as dividends, increased from €96 million in 2016 to €201 million in 2017. This is mainly caused by incidental dividend payments by participations Sprint B.V. (€63 million), Staal Beheer N.V. (€35 million) and Achmea Africa Holding B.V. former Eureko Eastern Europe Holding B.V. (€11 million). These dividend payments have a negative effect on the valuation of the participations. Dividend income consists of Achmea Pensioen- en Levensverzekeringen N.V. for €117 million, Achmea B.V. for €55 million and Achmea Schadeverzekeringen N.V. for €12 million.

Rental income remained stable compared to 2016. Rental income consists of Achmea Pensioen- en Levensverzekeringen N.V. for €63 million, Friends First Life Assurance Company DAC for €21 million and N.V. Interpolis Onroerend Goed for €18 million.

Although interest increased during 2017, earned interest continued to decrease in 2017 as a result of the derecognition of bonds (used to fund the mortgage portfolio of Achmea Woninghypotheken I, II and III B.V.) together with the derecognition of government bonds, caused the received interest on bonds to decrease from €705 million in 2016 to €605 million in 2017. Interest on loans increased from €140 million in 2016 to €210 million in 2017. This was mainly caused by received interest on mortgages (€189 million). Received interest on derivatives increased from €145 million in 2016 to €204 million in 2017. This is mainly caused by the derecognition of out of the money payer swaps where, as a result of declining interest rates in recent years, both the payer and receiver leg of the swap generated an outgoing cashflow. By selling these instruments, and buying back instruments which are in the money, earned interest on derivatives increased significantly in 2017. Interest income consists of Achmea Pensioen- en Levensverzekeringen N.V. for €1.165 million, Achmea Schadeverzekeringen N.V. for €117 million, Achmea Zorgverzekeringen for €47 million and Friends First Life Assurance Company DAC for €45 million.

The table below presents the investment gains and losses of Achmea. Both unrealized and realized net gains & losses are presented.

GAINS AND LOSSES

€ MLN

	2017	2016
Equity investments	840	65
Bonds	-762	841
Loans and Mortgages	-9	196
Other	41	97

Gains and losses in equity investments mainly comprise revaluations within legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€638 million), of which €662 million is attributable to investments held for unit linked and index linked funds.

Gains and losses on bonds originate from Achmea Pensioen- en Levensverzekeringen N.V. as well, for an amount of €-533 million. An amount of €-154 million originates from the bond portfolio of Achmea Schadeverzekeringen N.V.

Revaluations on Loans and mortgages originate from the portfolio of Achmea Pensioen- en Levensverzekeringen N.V. for an amount of €-8 million.

Finally, gains and losses on other investments (such as property, savings deposits and derivatives) are mainly attributable to Achmea Pensioen- en Levensverzekeringen N.V. as well, since the largest proportion of these investments are held by this legal entity. Revaluations of these products within Achmea Pensioen- en Levensverzekeringen N.V. sum up to a total of €-98 million. This is compensated by revaluations of other legal entities such as Achmea Schadeverzekeringen N.V. (€87 million) and the several Health insurance entities of Achmea (€30 million).

A.4. PERFORMANCE OF OTHER ACTIVITIES

Retirement Services

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

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

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

Achmea Bank

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

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

Achmea Investment Management

In 2017, Assets under Management (AuM) increased to €120 billion (2016: €116 billion). The growth in AuM is the result of the net inflow into the Centraal Beheer APF and positive market developments. Furthermore, agreement was reached with the Stichting Pensioenfonds Huisartsen (GP pension fund) in 2017. This will lead to further growth in the AuM when administration is transferred to Achmea in mid-2018.

Achmea Investment Management's contribution to the segment result is higher at €4 million in 2017 (2016: €2 million). This improvement can mainly be attributed to lower personnel expenses and consultancy fees.

Pension management activities

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

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

Other activities

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

As part of Achmea Group, Achmea Reinsurance provides reinsurance solutions for Non-Life, Pensions and Life internal. Additionally, Achmea Reinsurance accepts external reinsurance risks on a limited basis.

Syntrus Achmea Real Estate & Finance manages both the real estate portfolios of the insurance entities and those of external customers.

Customers can compare, take out and change insurance products via Independer.

The result of the Other Activities segment is determined to a large extent by the holding company expenses, interest expenses, and the results of the other operating companies. In 2017, the operational result was €-59 million (2016: €-230 million). The 2016 result was affected by an addition to the reorganisational provision of €82 million. The improved result is also attributed to the lower expenses for e.g. personnel, IT and office expenses, and the winding down of Staalbankiers' activities.

Syntrus Achmea Real Estate & Finance and Independer all added positively to the result.

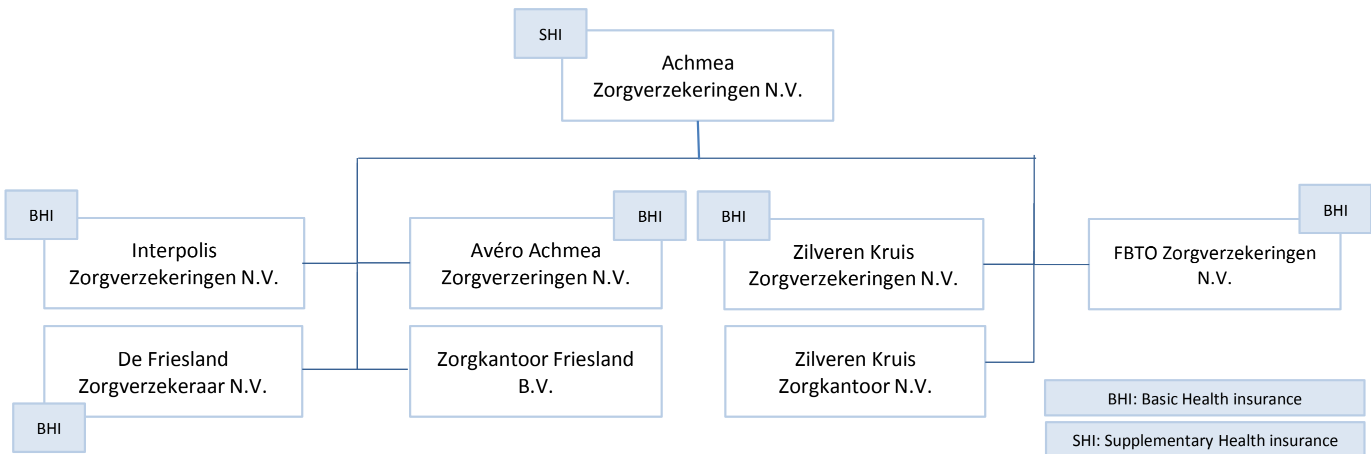
Syntrus Achmea Real Estate & Finance

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

A.5. ANY OTHER INFORMATION

LEGAL STRUCTURE ACHMEA ZORGVERZEKERINGEN N.V.

At the end of 2017 Achmea has restructured the legal structure of the Dutch health legal entities. The legal structure of Achmea Zorgverzekeringen N.V. is as follows:



TRANSACTIONS WITHIN THE GROUP

Equity-type transactions, debt and asset transfer

Achmea Bank N.V. originates mortgages to individuals. In prior years Achmea Bank N.V. also originated savings mortgages which had, a savings account. Due to changes in regulation, Achmea Bank N.V. has decided to no longer originate savings mortgages. The savings accounts of the savings mortgages originated before 2017 are on the balance sheet of Achmea Pensioen- en Levensverzekeringen N.V. At 31 December 2017, the market value of the mortgage savings was €752 million (2016: €895 million). A position of €150 million is reclassified to Assets held for index-linked and unit linked funds. The Achmea Bank savings can be split into a direct receivable on Achmea Bank N.V. (€526 million) and an indirect receivable on Achmea Bank N.V., which incorporates receivables on Dutch Mortgage Portfolio Loans (DMPL) (€226 million).

Achmea Pensioen- en Levensverzekeringen N.V. invests in DMPL issued by Achmea Bank N.V. At 31 December 2017, the value of the DMPL's was €952 million (€1,354 million). DMPL's are securitisation transactions for which Achmea Bank assigns a portfolio of mortgages to a special purpose vehicle which issues the notes.

Reinsurance

Achmea Reinsurance Company N.V. act as the (internal) reinsurance company of the Group.

The total internal reinsurance cover amounts to €6,315 million total (2016: €6,389 million). The largest internal cover is fire and other damage to property insurance (storm claims) of €5,191 million (2016: €5,256 million), general liability insurance of €504 million (2016: €504 million) and property insurance of €351 million (2016: €351 million).

The type of cover for the fire and other damage to property insurance (storm claims) insurance is mainly excess of loss per event €3,465 million (2016: €3,523 million) and excess of loss per risk €546 million (2016: €546 million) and facultative non-proportional €758 million (2016: €758 million).

Cost sharing

Within the Group the operational expenses are charged to the individual entities on the basis of amounts based on past experience with regards to time spent by employees, work carried out and transactions processed. These internal operational expenses can be listed as follows:

Achmea Pensioen- en Levensverzekeringen N.V. €166 million, Achmea Reinsurance Company N.V. €10 million, Achmea Schadeverzekeringen N.V. €410 million, Achmea Zorgverzekeringen N.V. €338 million and N.V. Hagelunie €8 million.

Other

In 2015 Achmea Pensioen- en Levensverzekeringen N.V. signed an 'asset switch' agreement with Achmea Bank N.V. Achmea Pensioen- en Levensverzekeringen N.V. switched the legal rights (not the economic) of government bonds against mortgage loans. Prior to the exchange there was a market value ratio of 100:110. Achmea Pensioen- en Levensverzekeringen N.V. receive a fee for the exchange which has been assessed on market conformity. At 31 December 2017, the value of the exchanged government bonds is €934 (31 December 2016: €968 million).

Achmea B.V. has given a guarantee for possible losses regarding the transfer of the loan portfolio from Staalbankiers N.V. to Achmea Bank N.V. The maximum possible value of this off balance contingent liability is €338 million (2016: €340 million).

Achmea B.V. has provided Achmea Bank N.V. with a credit facility of €200 million.

B. SYSTEM OF GOVERNANCE

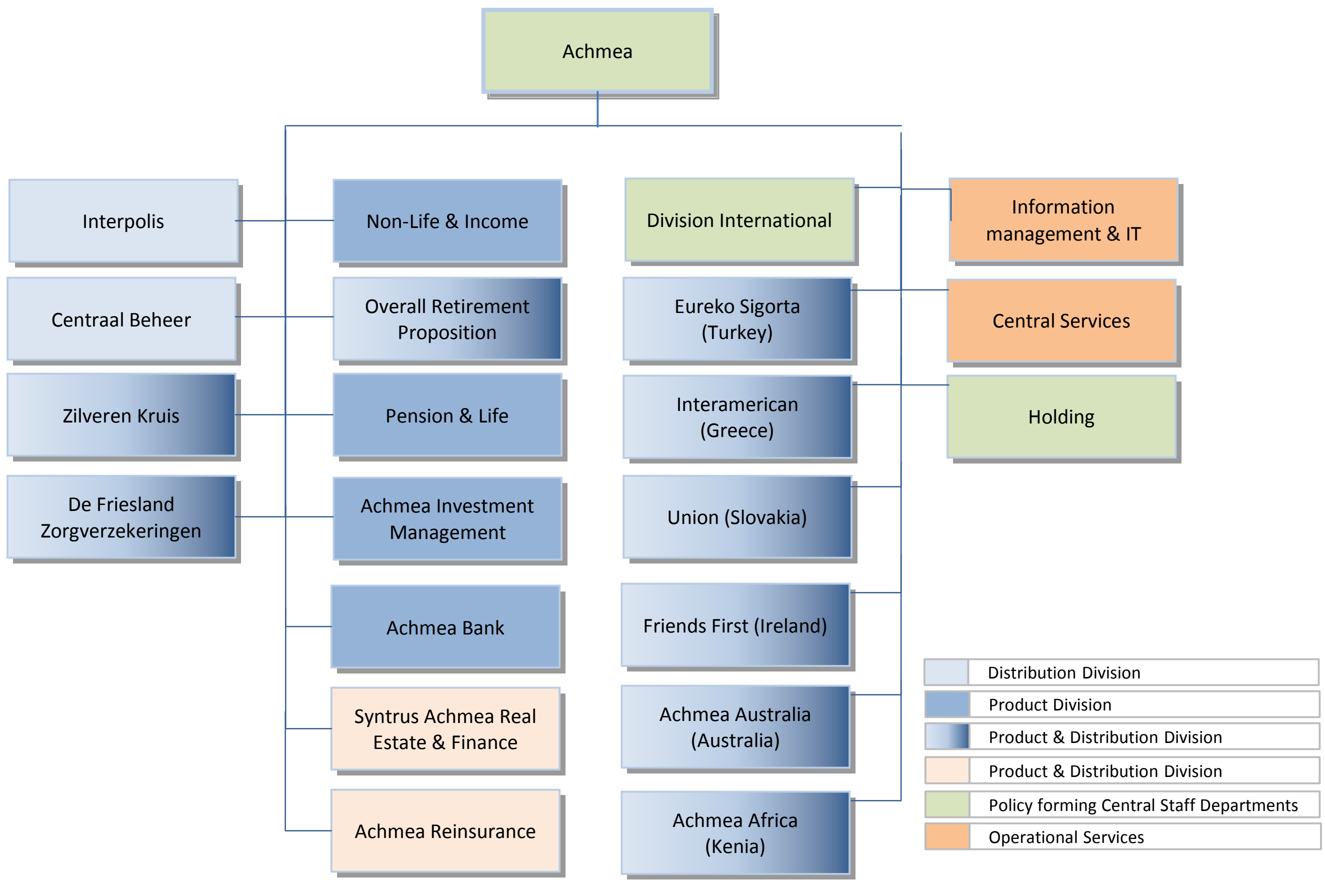
B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

ORGANISATIONAL STRUCTURE

Achmea has an organisational set-up with a divisional structure. This operational organisational model contains distribution divisions, product divisions, implementing services, policy-making departments and other business units that all report to the Achmea Executive Board. The divisions are organisational units within which the legal entities belonging to Achmea work together.

All activities of the distribution divisions, product divisions, implementing services, policy-making departments and other business units are carried out at the risk and expense of a legal entity. Critical and important functions/activities are being carried out on the basis of a cooperation agreement or an outsourcing agreement.

The figure below represents Achmea's general organisational model. The figure shows which distribution divisions, product divisions, executive departments, services and other business units are recognised in the organisational model.



MANAGEMENT WITHIN ACHMEA

The Achmea Executive Board is responsible for the management of Achmea Group on the basis of the operational model. Given their statutory responsibilities, the Management Boards of the Group companies within Achmea are responsible for the legal entities. In the organisational model the members of the Management Boards of the Group companies are usually members of the product division boards as well.

The legal management does not affect the management of Achmea by the Achmea Executive Board as detailed in the Main Outlines of the Organisation and Management of Achmea. The Achmea Executive Board manages Achmea both operationally and hierarchically. Business units (implementing services, policymaking departments and other business units) are part of a certain legal entity, but they carry out activities at the risk and expense of other legal entities. These business units must provide the Management Boards of the entities for which the activities are performed, with the information they need to take responsibility and render account, e.g. within the scope of the cooperation agreement or Service Level Agreement. In addition, those business units supply information to the Achmea Executive Board.

If there is a conflict of interests or positions between Group companies and business units, the Achmea Executive Board will facilitate a process that should lead to decision-making based on consensus between all the parties involved (including the Achmea Executive Board). If this proves impossible, the Achmea Executive Board has the decisive vote.

At strategic level, there are four supplementary management bodies:

- Group Committee ('GC'). The objective of the Group Committee is to increase Achmea's strength, to supervise the programmes and issues with significant strategic or financial impact that exceed the level of division or Group company and/or Supervised Company and to achieve coordinated management.
- Finance & Risk Committee ('FRC'). This committee safeguards risk, capital, liquidity and returns policy throughout Achmea with decisions being made based on powers specifically delegated by the Achmea Executive Board. At tactical level, decentralised Finance and Risk Committees ('dFRCs') have been set up that cover, where relevant, both the divisions and the Supervised Company or Supervised Companies concerned.
- Product Market Committees ('PMCs'). These committees manage the setting of priorities and the connection between distribution and product divisions in the chain of the Supervised Companies at division chairperson level. The objective is to manage and facilitate optimal cooperation between distribution and product divisions.
- Projects Committee ('PC'). This committee's objective is to complete projects in good time and at manageable expense by establishing and monitoring the Achmea (IT) Calendar of Change. At tactical level, division Projects Committees ('dPCs') are in place.

ACHMEA REMUNERATION

The members of the Executive Board are directors of Achmea B.V., holding key management positions at Group level.

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

Besides an annual (fixed) salary, the remuneration package of an Executive Board member includes elements of variable remuneration. The Supervisory Board decides, on the advice of the Remuneration Committee, on the granting of variable remuneration awards in the year after the performance. The granting of variable remuneration awards in any specific year therefore applies to previous performance years. Half of the variable remuneration is deferred for five years. These variable remuneration awards are included as part of the "Other long-term employee benefits". In addition to their salaries, the members of the Executive Board have a pension scheme. As of 1 January 2014, the conditions of the pension scheme for the board members have been aligned with the scheme for personnel covered by the collective labour agreement (CAO personnel). Since 1 January 2015 the pension scheme for the Executive Board members has been administered by Stichting Pensioenfonds Achmea. This means that both the conditions and the administration of the scheme are now aligned with the scheme for CAO personnel. The rights accrued up to and including 31 December 2014 remain in the insured pension plan of Achmea Pensioen- en Levensverzekeringen N.V. In addition to the accrual, the indexation of the rights accrued up to and including 31 December 2014 has, with effect from 1 January 2015, also been carried out by Stichting Pensioenfonds Achmea. An amount is paid to Stichting Pensioenfonds Achmea on an annual basis to purchase indexation of the accrued rights.

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD FOR THE FINANCIAL YEAR

€ MLN

	2017	2016
Short-term employee benefits	5.05	5.15
Post-employment benefits	2.39	2.09
Other long-term employee benefits	0	0.31
Termination benefits	0	0
Total	**7.44**	**7.55**

A total amount of €7.44 million was recognised for Executive Board remuneration in the reporting period 2017 (2016: €7.55 million). This total amount pertains to the performance year 2017, except for 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 had not yet been decided whether variable remuneration would be awarded for that performance year. When the Financial Statements for 2017 were adopted, it had not yet been decided to award variable remuneration for the performance year 2017. For the performance year 2016 no variable remuneration was awarded to the Executive Board.

Below is an overview of the remuneration of the members of the Executive Board for performance year 2017. The variable remuneration is presented in the performance year. This can differ from the year in which the expense is recognised, because the award of the variable remuneration can take place after adoption of the Financial Statements. This overview includes an aggregate comparison with 2016.

For the remuneration information of the individual Dutch legal entities reference is made to the public financial reports of these legal entities.

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD FOR THE CURRENT PERFORMANCE YEAR

Active board members as at 31 December 2017[1]	ANNUAL SALARY (SHORT-TERM EMPLOYEE BENEFITS)[2]	VARIABLE REMUNERATION AWARDED (OTHER SHORT-TERM EMPLOYEE BENEFITS)	VARIABLE REMUNERATIO N AWARDED (OTHER LONG-TERM EMPLOYEE BENEFITS)	POST-EMPLOYMENT BENEFITS (CAP €103,317)[3]	CONTRIBUTION NET POST-EMPLOYMENT BENEFITS (OVER €103,317)[3]	WAGE BENEFIT (OVER €103,317)[3]	TOTAL
W.A.J. (Willem) van Duin, Chairman	1,01	t.b.d.	t.b.d.	0,05	0,25	0,22	1,53
R. (Roelof) Konterman, Vice-Chairman	0,88	t.b.d.	t.b.d.	0,05	0,25	0,19	1,37
M.A.N. (Michel) Lamie, (CFO since 1/4/2017)	0,74	t.b.d.	t.b.d.	0,04	0,14	0,12	1,04
R. (Robert) Otto	0,75	t.b.d.	t.b.d.	0,04	0,12	0,12	1,03
B.E.M. (Bianca) Tetteroo	0,74	t.b.d.	t.b.d.	0,04	0,13	0,15	1,06
H. (Henk) Timmer, CRO	0,74	t.b.d.	t.b.d.	0,05	0,17	0,15	1,11
Total remuneration active board members as per 31 December 2017	**4,86**	t.b.d.	t.b.d.	**0,27**	**1,06**	**0,95**	**7,14**
Former board member							
H. (Huub) Arendse, CFO (untill 1/4/2017)	0,19	t.b.d.	t.b.d.	0,03	0,04	0.04	0,30
Total 2017	**5,05**	**t.b.d.**	**t.b.d.**	**0,30**	**1,10**	**0,99**	**7,44**
Total 2016	**4,84**	**0**	**0**	**0,26**	**0,97**	**0,86**	**6,93**
Average number of active and former Executive Board members 2017: 6.25							
Average number of active and former Executive Board members 2016: 6.0							

1 *All active board members were employed throughout 2017.*
2 *The definition of 'annual salary' has been modified in 2017 to include the benefit of private use of a lease car. The comparative figures have been adjusted in accordance with this definition.*
3 *The post employment benefits has as elements: the expense for the accrual of the maximum pensionable salary €103,317 (this is the fiscal cap 2017; 2016 €101,519), and the contribution to the net post-employment benefits over the fiscal cap based on the age-related 3% DC scale and the wage benefit over the fiscal cap. See the notes to post-employment benefits.*

Transactions with shareholders

Stichting Administratiekantoor Achmea is, amongst others, holder of the only A share issued by Achmea B.V. There are special rights entitled to the A share. Significant decisions of Achmea B.V.'s General Meeting can only be made with the approval of the holder of the A share. The Board members of Stichting Administratiekantoor Achmea are C.W. van der Waaij, E.M.H. Hirsch Ballin and I.C. van den Broek.

During 2017 no changes took place in the shareholdings in Achmea B.V. No external dividends were paid and no capital injections or capital issues took place.

B.2. FIT AND PROPER REQUIREMENTS

Statutes on supervision, such as the Dutch Financial Supervision Act (see ss. 3:8/3:9 and 4:9/4:10) and the Dutch Pension Act, require Supervised Companies to do the following before an appointment may actually be effectuated:

- Intended appointments of day-to-day policymakers, co-policymakers and members of supervisory bodies must be notified to the supervisory authorities the Dutch Central Bank ("DNB") and/or the Netherlands Authority for the Financial Markets ('AFM') (depending on which authority supervises the company); and
- the supervisory authorities DNB and/or AFM must ascertain the dependability of the day-to-day policymakers, co-policymakers and members of supervisory bodies;
- the supervisory authorities DNB and/or AFM must ascertain the suitability of day-to-day policymakers, co-policymakers and members of supervisory bodies; and
- the supervisory authorities DNB and/or AFM must ascertain the dependability of key officers (those with ultimate responsibility for key functions) and the institution itself must ascertain their suitability.

B.3. RISK MANAGEMENT SYSTEM INCLUDING THE OWN RISK AND SOLVENCY ASSESMENT

The Achmea risk management system including the Own Risk and Solvency Assessment (ORSA) sets out how the risks at Achmea level and for each main risk are managed. Capital management forms an integral part thereof.

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

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

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

RISK APPETITE

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

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 - Fixed Charge Coverage Ratio
CAPITAL	Achmea has a strong capital position.	- Solvency ratio Solvency II - Capital surplus S&P - 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.
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 - Counterparty limit exceeding's

NON-FINANCIAL	RISK APPETITE PRINCIPLES	KEY RISK INDICATORS
PRODUCT QUALITY AND SERVICES	Achmea offers a secure and transparent solution to clients that continuously meets the clients' needs, at a fair price.	- Certification Customer Oriented Insurer - Achmea KBC customer interest Dashboard - PARP Issue indicator
COMPLIANCE	Achmea complies with laws and regulations. Employees, clients, suppliers and other partners of Achmea operate with integrity.	- Violations and implementation of laws and regulations - Integrity violations
OPERATIONAL RISK / INTERNAL CONTROL	Achmea monitors the risks due to insufficient or failing internal processes or personnel and systems or external events.	- Internal Control Framework - Financial loss because of operational risks - Very urgent issues - Disruption of business-critical chains - 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 - Benchmark of the Duth Association of Investors for Sustainable Development (VBDO). - Inquiries of the 'Eerlijke Verzekeringswijzer'

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

THREE LINES OF DEFENCE MODEL

As stated in the principles of the risk strategy Achmea's governance structure is based on the "three lines of defence" model.

The first line is responsible for 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.

The staff department Risk & Compliance is the policy-setting staff unit with regard to risk management, actuarial services and compliance. Risk & Compliance consists of the departments Enterprise Risk Management (ERM), Insurance Risk Management (IRM) and Compliance & Operational Risk Management (CORM).

The risk management function, the actuarial function, the compliance function and the internal audit function have been set up.

Risk management function

For the risk management function for the insurance activities a distinction is made between the Group and the Dutch and foreign supervised undertakings:

- The director of Enterprise Risk Management is the Risk Management Function Holder at Group level and for the supervised undertakings in the Netherlands. The Risk Management Function Holder reports to the Chief Risk Officer in the Achmea Executive Board but also has direct access to the business, the entire Achmea 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.
- For the foreign supervised undertakings within the EEA the risk management function is implemented locally. The Risk Management Function Holder for the supervised undertaking/operating company has direct access to the business, the Achmea Executive Board, the Audit & Risk Committee and the Supervisory Board of the supervised undertaking. Eureko Sigorta A.S., as a non-EEA insurance entity, does not require an Risk Management Function Holder.

The key functions on compliance, internal audit and actuarial are described in more detail in respectively section B.4. Internal Control System, section B.5. Internal audit function and section B.6. Actuarial function.

Risk committees

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

At Group level, the Supervisory Board supervises the Executive Board. The Audit & Risk Committee (ARC) advises the Supervisory Board (SB) among other things on financial, administrative, organisational and compliance matters, as well as on the risk profile and the set-up of internal control systems. The presence of a Chief Risk Officer (CRO) on the Executive Board helps ensure a permanent focus on risk management in our business operations.

The Finance & Risk Committee (FRC) is an executive committee of the Achmea Executive Board. It is a platform that includes members of the Achmea Executive Board, (financial and risk) managers from the relevant staff departments and finance directors from several business units. The FRC focuses on discussing and deciding on financial, risk management, investment policy and actuarial issues as well as 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 and Product Review Committees (PRC) have been established for the Product Approval and Review Processes (PARP) within the business units.

Aligned with the FRC at Group level, Finance & Risk Committees within the business units discuss and manage risks, possibly complemented by specific committees such as the Underwriting Committee at Achmea Reinsurance and the Asset & Liability Committee and the Credit Committee at Achmea Bank.

Model management and validation

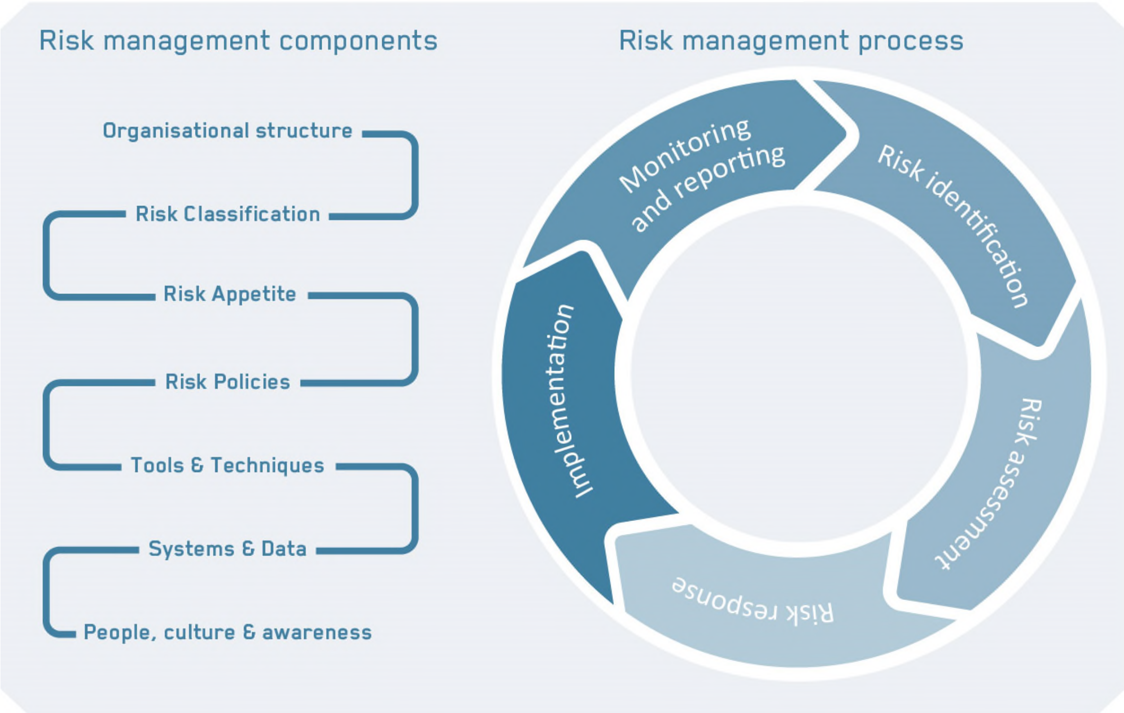
The development and management of models including the partial internal model is subject to strict model governance which ensures that the models are adequately managed. Models are assessed and the models with a high gross risk are documented, implemented, tested and periodically validated by a model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

Besides the approval in the Model Approval Committee the partial internal model is also approved by the Executive Board, the boards of the entities that use the partial internal model, the Audit & Risk Committee and the Supervisory Board. Once 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 Achmea's risk management system and sets out in more detail the completeness, consistency and efficiency of the aforementioned integrated approach for the management of risks as referred to in the risk strategy.

RISK MANAGEMENT FRAMEWORK



Risk identification and risk assessment

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

- Qualitative risk assessments (Risk Self Assessments) focus on areas such as strategy, projects and operational risks. This includes, among other things, a qualitative risk assessment with the management of the business units and the Executive Board, in which the key risks are identified and assessed.
- Achmea uses risk models to make a quantitative estimate of its risk profile. These risk models are used in product development and pricing, determining the reinsurance programme, preparing the investment plan and capital management, among other things.
- 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, these are used to analyse the key risks in greater depth.

Monitoring and reporting

Achmea's risk profile is monitored periodically, based on which second and third line reports are prepared for the Executive Board, the Audit & Risk Committee and the Supervisory Board. For the main risk, line management periodically verifies whether the risk is still within the risk limits set which are derived from 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 Customer Centricity programme, the 'Customer oriented Insurance' (KKV) quality and the In Control Statement (ICS) that is issued internally as an important component of the internal risk management and internal control systems.

Own Risk & Solvency Assessment (ORSA)

In addition to the periodic monitoring of our risk profile, a group-wide Own Risk and Solvency Assessment (ORSA) report is prepared annually. The report is provided annually to the college of supervisors and local regulators for the non-Dutch entities.

The Single Group-Wide (SGW) Own Risk and Solvency Assessment (ORSA) report sheds light on and evaluates the company's current and future risk profile and movements in solvency and liquidity during the planning period. The ORSA is consistent with our regular processes and is the final stage in the process, as it looks for coherence between strategy, risk and capital. All these elements are combined in this report.

The ORSA tests whether the available capital and liquidity are sufficient during the planning period, given the future risk profile, capital required and risk appetite. The assessment is based on a projection of the required and available capital and liquidity, based on the Business Plan and Rolling Forecast. The assessment draws on the base case outlined in the Business Plan and the outcomes of a number of scenario and stress tests. The scenario and stress tests are based on the key risks identified in the integrated risk profile. The appropriateness of the Partial Internal Model is also assessed in the ORSA.

The information gathered during this process is used to assess what measures or actions (additional or otherwise) are required in the Business Plan and/or the risk and capital management process in order to improve Achmea's return, risk and capital profiles. Furthermore, it clarifies what mitigating measures might be taken if the negative events described in the scenario and stress tests were to occur ('Future Management Actions').

ORSA process
The ORSA is a process in which the coherence between the various risk and capital management processes is integrated in relation to the business strategy. The SGW ORSA report provides a comprehensive overview of the outcomes of our Risk and Solvency Assessment processes conducted over the past year.

As a process, the ORSA primarily relies on regular core processes such as:
- Integrated Risk Management Framework (Risk & Compliance charter and group policy documents ensuring an effective risk framework, including an annual update of the Risk Appetite)
- Integrated Risk Analysis (the identification of the key risks involved and any measures or additional measures to be taken)
- Regular Solvency II runs (developments in, and monitoring of, the quantitative risk profile)
- Capital and Liquidity Planning as part of the Rolling Forecast process (developments in future capital and liquidity adequacy in the base case and for the scenario and stress testing)
- Risk & Compliance Reports (monitoring of risk appetite, developments (measures) key risks and changes in the risk profile broken down by main risk type).

Within Achmea the process is primarily managed based on these underlying strategy, capital and risk management processes. The ORSA provides insight into the joint risk and capital processes and adds substance through further assessment by performing scenario and stress tests.

The SGW ORSA report is produced by order of and under the supervision of the Executive Board. They have delegated the responsibility for the coordination and implementation to Risk & Compliance. Risk & Compliance works with several business units and staff departments in producing a SGW ORSA report. The management boards of the supervised undertakings are also involved in this process. The Executive Summary of the SGW ORSA report has been extensively discussed and assessed in the Finance & Risk Committee, Executive Board and the Audit & Risk Committee.

For a description of the key risks identified and the strategy and main outcomes of the scenario- and stress testing reference is made to section C.6 Other Material Risks.

Recovery plan

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. Based on DNB recovery plan framework Achmea has determined severe scenario's like 'extreme volatility on financial markets' and 'extreme Windstorms'.

Monitoring triggers ORSA and crisis governance

As part of the ORSA policy and Recovery Plan Achmea has triggers and early warning indicators defined for a non-regular ORSA and/or crisis governance.
The monitoring of triggers takes place on an ongoing basis. It is based on actual and future capital and liquidity positions or specific potential future events. In 2017 a non-regular ORSA has been performed regarding the bill proposing a ban on profit distribution by health insurers.

B.4. INTERNAL CONTROL SYSTEM

Internal Control Framework

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.

On a quarterly basis the key controls included in the framework are tested by business management (first line) and monitored by the risk management and compliance function. The main findings are reported on in the quarterly risk & compliance reporting process. Each year the Internal Control Statement (ICS) that is issued internally as an important component of the risk management system is extracted from the framework and signed off by business management.

Compliance function

Compliance Risk is the risk of diminishing reputation or current of future threats 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.
As described in section B.3. the compliance function is part of the second line of defence in our three lines of defence system.

- On Group level the staff department Risk & Compliance covers the compliance function at Group level. The director of Compliance and Operational Risk Management (CORM, part of Risk & Compliance) is the Compliance Function Holder at Group level and for the supervised undertakings. This director reports to the Chief Risk Officer in the Achmea Executive Board but also has direct access to the business, the entire Achmea Executive Board, the Audit & Risk Committee and the Supervisory Board, as well as a formal escalation line to the chairpersons of the Achmea Executive Board, Audit & Risk Committee and Supervisory Board.
- A decentralised second-line compliance function has also been created for the supervised undertakings and business units. The way the local second-line function has been structured primarily follows the operational organisation model of Achmea and is represented by operational risk & compliance departments.

The reporting of the compliance function is part of the quarterly risk & compliance reporting process. Twice a year, specific compliance findings are looked at more deeply at group level. Annual risk analyses are performed to identify the compliance risks within Achmea. During the year risk analyses are conducted at various levels and on various topics.

With regards to compliance with laws, regulations and internal codes of conduct, the most important legal provisions are translated into risks, which are part of the Internal Control Framework.

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 the case of a profound impact on Achmea, the committee will advise the Executive Board to start a comprehensive implementation project.

Continued specific attention is given to the monitoring of 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 codes of conduct of Achmea are recorded. These general codes of conduct are applicable to all employees of Achmea. The Integrity & Fraud Policy contains an elaboration of the principles for addressing the integrity risks that are faced in operational management, such as: anti-corruption, gifts, side-line activities, contracting third parties and the periodic execution of the Integrity Risk Analysis.

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 is in place for this purpose.

B.5. INTERNAL AUDIT FUNCTION

As described in section B.3., the internal audit function is the third line of defence in the three lines of defence system. At Group level the staff department Internal Audit covers the internal audit function. The Internal Audit Director is the Internal Audit Function Holder at group level and reports to the chairman of the Achmea Executive Board, has a formal information- and escalation line to the chairpersons of the Audit & Risk Committee and Supervisory Board and direct, unlimited access to all business units. For the Dutch supervised undertakings the role of Internal Audit Function Holder is delegated to the senior manager responsible for Internal Audit. For the foreign supervised undertakings this role is executed locally.

Internal Audit is an independent department within Achmea. Its independence is guaranteed as Internal Audit does not form part of the (daily) internal control measures and safeguarding of assets/liabilities; instead, these are integrated into the various areas of the business processes and are the responsibility of the line management. Internal Audit is also not responsible for the design and implementation of measures related to risk management, compliance and internal control. Senior management may request Internal Audit to give an opinion on the internal control measures which are implemented or should be complied with.

After discussion with the management involved, Internal Audit reports on the outcome of its investigation directly to both the responsible management and/or the Achmea Executive Board or its Chairman depending on the circumstances. At least once a year, Internal Audit reports by means of the Audit Memorandum on the high risks, the most important findings noted in the recent period, the progress and adequacy of the implementation of the recommendations noted by Internal Audit, external accountant and/or regulators.

The internal audit function is defined in Achmea's Internal Audit Charter. In this charter Internal Audit's mission, function, independence, objectivity and expertise as well as the scope, authorities and responsibilities are defined. The charter also defines the applicable behaviour and professional conduct of rules and the relationship with external parties, as well as the current international standards for the professional practice of internal auditing and the requirements set by the external regulators for the internal audit function. The charter is reviewed annually and updated if necessary. Based on the most recent review, some minor adjustments have been made.

Internal Audit is a permanent, independent function that provides additional assurance to the Achmea Executive Board and the Audit & Risk Committee, and derived from this to the senior management of Achmea, concerning the internal control, effectiveness, efficiency and compliance of the business operations. To fulfil this task Internal Audit systematically evaluates the processes related to internal control, risk management and governance and thereby has a pro-active signalling role with regards to the risks. In this way Internal Audit contributes to the improvement of the business operations and the achievement of the strategic and other objectives of Achmea.

The assessment by Internal Audit focuses, against the background of the risk profile of Achmea, on the following:

- The defined risk appetite and the establishment thereof;
- The design and effectiveness of the governance, including the effectiveness of risk management. Within the framework of evaluating the functioning of the governance structure, the functioning of the Achmea Executive Board and senior management is evaluated. Here the example set by the directors ('tone at the top') is explicitly looked at. Where possible and desirable, the functioning of the Supervisory Board can also form part of the evaluation of the governance structure.
- The internal control over critical business processes and projects, in particular management of the identified key risks associated with these processes and/or projects by making use of the defined key controls.
- The effectiveness and reliability of data processing processes aimed specifically at the Achmea Executive Board, important (financial) management information for senior management and key (external) reporting.
- Compliance with laws and regulations including the functioning of the compliance function.
- Safeguarding of the assets of Achmea.

The scope of Internal Audit covers all entities and processes of Achmea, including outsourced activities. Internal Audit has a functional line with the local internal audit functions. In addition the areas of attention include the controls relevant to Achmea at external affiliated parties for example joint operations and organisations where activities are outsourced to. The scope also includes other independent functions for example risk management, actuarial and compliance functions which fall under the testing and assessment by Internal Audit. Internal Audit has no line responsibility for operational processes and systems. Line management is responsible for the design and implementation of internal controls and risk management frameworks.

B.6. ACTUARIAL FUNCTION

As described in section B.3. the actuarial function is part of the second line of defence in our three lines of defence system:

- The staff department Risk & Compliance at Group level covers the actuarial function for the Group and for the supervised undertakings (OTSO's) in the Netherlands. The actuarial function is combined with second-line insurance risk management within one department. The Director for Insurance Risk Management is the Actuarial Function Holder (AFH) at group level and senior managers are the AFH's for the supervised undertakings (OTSO's) in the Netherlands. The AFH has a formal escalation line to the chairpersons of the Achmea Executive Board, Audit & Risk Committee and Supervisory Board, based on the independent role of the actuarial function.
- For Achmea International entities within the EEA, the actuarial function is implemented locally. The Actuarial Function Holder for the supervised undertaking/operating company has direct access to the business, the Achmea Executive Board, the Audit & Risk Committee and the Supervisory Board of the supervised undertaking. Eureko Sigorta A.S., as a non-EEA insurance entity, does not require an AFH.

The Group actuarial function provides advice and an actuarial opinion on: Underwriting Risks of the group, asset-liability aspects, the Group's solvency position, the Group's prospective solvency position, such as stress tests and scenario tests in the area of technical provisions and ALM, distribution of dividends in relation to discretionary benefits, underwriting policies, reinsurance arrangements and other forms of risk transfer or risk mitigation techniques for Underwriting Risks and the adequacy, fairness of premiums and discretionary benefits, or the methodology to determine the same.

The actuarial function prepares a report on the Solvency II results on a quarterly basis. On an annual basis an Actuarial Function Holder Report is prepared at Group level and for the supervised undertakings. This report provides an overview of the actuarial work performed and the main findings. Actuarial findings are also recorded in the quarterly Risk & Compliance Report.

The actuarial function is defined in Achmea's Actuarial Function Policy. This policy defines the scope, duties, responsibilities and position of the actuarial function, with reference to methods, techniques and processes. The actuarial function works closely with the risk management function in designing the models for quantifying Underwriting Risks. The focus is on the degree of consistency with the models for valuing the technical provisions, because the models for the Best Estimate of the insurance obligations and the models for the Underwriting Risks are related.

In line with Solvency II the actuarial function has four tasks:

1. Coordination and supervision of the calculation of the technical provisions, including the following specific tasks:
    - Ensuring the appropriateness of the methodologies and underlying models used and of the assumptions made in the calculation of technical provisions
    - Assessing the sufficiency and quality of the data used in the calculation of technical provisions
    - Comparing Best Estimates with actual outcomes, making checks in the form of back-testing
    - Sensitivity testing and change analysis
    - Expressing an opinion on the reliability and adequacy of the calculation of the technical provisions
2. Expressing an opinion on the overall underwriting policy
3. Expressing an opinion on the reinsurance policy and programme
4. Contributing to the effective implementation of the risk management system, in particular with regard to calculation of the SCR, MCR and ORSA.

B.7. OUTSOURCING

Achmea has an outsourcing policy that applies to all Dutch businesses, international entities and majority interests of Achmea. A distinction is made between Critical or Important Outsourced functions or processes (COI), standard outsourcing or no outsourcing. The policy applies to internal and external outsourcing.

For all outsourcings to service providers a procedure within the Achmea outsourcing policy is in place that must be followed:

- Each of Achmea process / activity which it is intended to be outsourced has a contract owner (Sourcing Director). In consultation with Legal Affairs contracts are to be classified as: COI, Standard or Purchase.
- Depending on the categorisation, requirements are applicable to the outsourcing.
- An outsourcing goes through four phases: analysis, initiation, transfer and management.
- In the analysis phase, a business case has to be made, a risk assessment has to be carried out and a service provider has to be selected.
- During the initiation phase, the different parties have to agree on the contract, a security and compliance agreement and a Service Level Agreement. In addition, the preparations for a business continuity plan and a possible exit plan have to be made.
- In the transfer and management phase the above mentioned agreements are monitored on a regular basis.

As mentioned in section B.1 Achmea has outsourced a number of internal operations. The main reasons for outsourcing are: efficiency, specialisation or quality considerations of long-term services. The requirements imposed on internal outsourcing are in line with those applicable to external outsourcing, but Group relations should be taken into account where the service provider is under control or influence may be executed on its actions. For this purpose policy documents are used that are applicable Achmea-wide. Furthermore, a central administration of the contracts provides information for reporting on outsourcings.

B.8. ANY OTHER INFORMATION

Our system of governance is assessed periodically and if necessary adjustments are made. In particular, all policies of our risk management system are reviewed and adjusted if necessary at least once per year, with a view to every substantial change in the external environment or in the field that it pertains to.

There is no other material information regarding our system of governance that should be explicitly mentioned in this section.

C. RISK PROFILE

Within the Dutch Health entities, Achmea Pensioen- en Levensverzekeringen N.V., Union Poistóvna A.S., Friends First Life Assurance Company DAC, Eureko Sigorta A.S. and Interamerican Hellenic Life Insurance Company S.A. the Standard Formula is applied to determine the risk profile. Within Achmea Reinsurance Company N.V. the Non-Life Underwriting Natural Catastrophe Risk is calculated using an internal model. For Achmea Schadeverzekeringen N.V., N.V. Hagelunie and Interamerican Property & Casualty Insurance Company S.A. (with the exception of health SLT) the taxonomy as presented in the graph in chapter E.2.2 is used.

C.1. UNDERWRITING RISK

Underwriting Risk is the risk of loss, or of adverse change in the value of liabilities related to insurance contracts, resulting from inadequate pricing and provisioning assumptions. It encompasses Life Underwriting Risk, Non-Life Underwriting Risk and Health Underwriting Risk. Catastrophe Risk and Concentration Risk, if present, are included separately in the risk types mentioned.
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 Underwriting Risk. Below and in the sections on life, Non-Life and Health risks, these phases are explained in more detail.

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 customer. In addition the periodic 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 is described in more detail in section C.6.3. Use of reinsurance and financial mitigation techniques.

C.1.1. LIFE UNDERWRITING RISK

Life Underwriting Risk is the risk of loss, or of adverse change in the value of liabilities related to insurance contracts, resulting from:

- the changes in the level, trend or volatility of the underlying risk drivers (mortality rates, expenses, lapse rates)
- the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events.

It encompasses Mortality, Longevity, Lapse and Expense risk.

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

The Life portfolio consists of life insurance with profit participation, unit-linked insurance and other life insurance:

- Life insurance products with profit participation are traditional Life products with profit participations, such as saving products and group contracts. These products create an exposure to Mortality / Longevity Risk and to Market Risk for Achmea.
- For unit-linked insurance the policyholders bear the investment risks.

- Other Life insurance consists of traditional products without profit participation such as term insurance, both stand-alone and linked to mortgages (Mortality Risk).

Longevity risk is predominant in Life Risk and therefore this exposure is monitored closely. For Life, concentration risks concern an unexpected increase in life expectancy and a pandemic. A pandemic is also referred to as a catastrophe risk.

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

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

C.1.2. NON-LIFE UNDERWRITING RISK

Non-Life Underwriting Risk is the risk of loss or of adverse change in the value of Technical provisions 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.

The Netherlands is the main market where Achmea is exposed to Non-Life Underwriting Risk. Greece (Interamerican), Turkey (Eureko Sigorta A.S.), Slovakia (Union) and Australia are the Non-Life markets outside the Netherlands where Achmea operates. In addition to the Netherlands, N.V. Hagelunie is also active in Belgium, France, England, Ireland, Spain, Portugal, Germany and Canada.

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

Catastrophe Risk is a large risk within Non-Life Underwriting Risk. The property and motor hull insurance lines are particularly exposed to Catastrophe Risk. The predominant natural perils are Windstorm and Hail in the Netherlands and earthquake risk in our entities in Greece (Interamerican) and Turkey (Eureko Sigorta A.S.). 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.

Acceptance guidelines, premium position and prevention are important management measures with regard to the risks insured. In the Netherlands Achmea does not underwrite heavy industrial risks such as airports or power plants. In Turkey, these types of risks are underwritten from a strategic viewpoint. The risks are either 100% fronted via reinsurers or accepted with a very minimal retention.

For most products, claim settlements take place in a short timeframe. In motor liability and general liability insurance, long period settlements could occur. Claims are determined on a case-by-case basis or statistically.

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 whether this risk should be covered.

C.1.3. HEALTH UNDERWRITING RISK

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

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

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

Disability products cover the risk of a reduction in income resulting from inability to work due to disability (long-term, Health SLT).

- In the Netherlands, Achmea offers disability products based on local regulatory requirements. In the Dutch regulations there is a distinction between employers (including the self-employed) and employees. For employers and the self-employed there is no public insurance and 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 or WIA*) which consists of two types of cover: 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 under the WGA, since a company can choose to bear the WGA risk itself and exit the public insurance scheme. The main uncertainties in the WGA insurance cover are the inflow and duration of the disability.
- In Ireland, disability insurance is an important business line written on a standalone basis, but these products are also offered as part of life insurance products (Permanent Health Insurance, PHI). The PHI contracts guarantee the premium rates for the duration of the contract for individual policyholders and for a limited period in the case of group contracts.

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

The Netherlands is the main market where Achmea offers health insurance. The health insurance system consists of two components: a basic health insurance system and supplementary health insurance.

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

The uncertainties for a health insurer are specifically in basic health care, and occur for various reasons:

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

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

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

Achmea has taken a number of measures to mitigate the uncertainties in health costs. Claim estimates are generated periodically in order to gain insight into relevant developments and the adequacy of technical provisions. In addition to these measures, there is more information available at national level about macro claims, which is also used to assess the estimates. Furthermore Achmea has reduced the upward potential of specialised medical care, mental healthcare and district nursing by agreeing ceiling arrangements with healthcare providers. Achmea limits counterparty risk by periodic monitoring and stopping payments exceeding contractual arrangements.

C.2. 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 and Concentration Risk. Inflation Risk is included in Interest Rate Risk.

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

The Market Risk Policy describes how this type of risk is managed:

- For its Dutch insurance companies, Achmea manages Market Risk positions within a Market Risk process consisting of an Asset & Liability Management (ALM) process and an investment plan process. The key objective is to ensure that the Market Risk profile in combination with Counterparty Risk remains within the defined risk appetite. The total investment portfolio is split into a matching-portfolio and a return-portfolio. The matching-portfolio must ensure proper matching with the technical provisions with regard to Market Risk, within the agreed framework. The return portfolio focuses on generating investment income by taking Market Risks. Within the limits of the risk appetite a risk budget for Market Risk is set based on the ALM study. In the portfolio optimisation different asset mixes are tested for their effect on expected long-term return and the limits of the risk appetite. This research is executed at least once a year. Following this an optimal return portfolio (the strategic investment mix) is determined that fits the set Market Risk budget and provides the highest return given additional restrictions on, for example, liquidity and minimum size per asset class. The Market Risk is monitored periodically, focusing on deviations from the strategic mix, and managing the interest rate exposure.
- For the insurance entities outside the Netherlands, an ALM and investment plan process is followed, based on guidance from the group. The general principle within Achmea with regard to Market Risk incurred by the non-Dutch entities is that this risk should be limited and that the investment portfolio must replicate the liabilities through a portfolio consisting of low-risk bonds and deposits and cash for short-term investments.

The Market Risk process uses the partial internal model under Solvency II, where the Market Risk is calculated using the standard formula, as well as an additional internal risk model. In 2017 Achmea completed the development of an internal model for Market Risk under Solvency II, after which it has been submitted for approval to De Nederlandsche Bank. The objective is to use this internal model from 2018 for capital and risk management purposes.

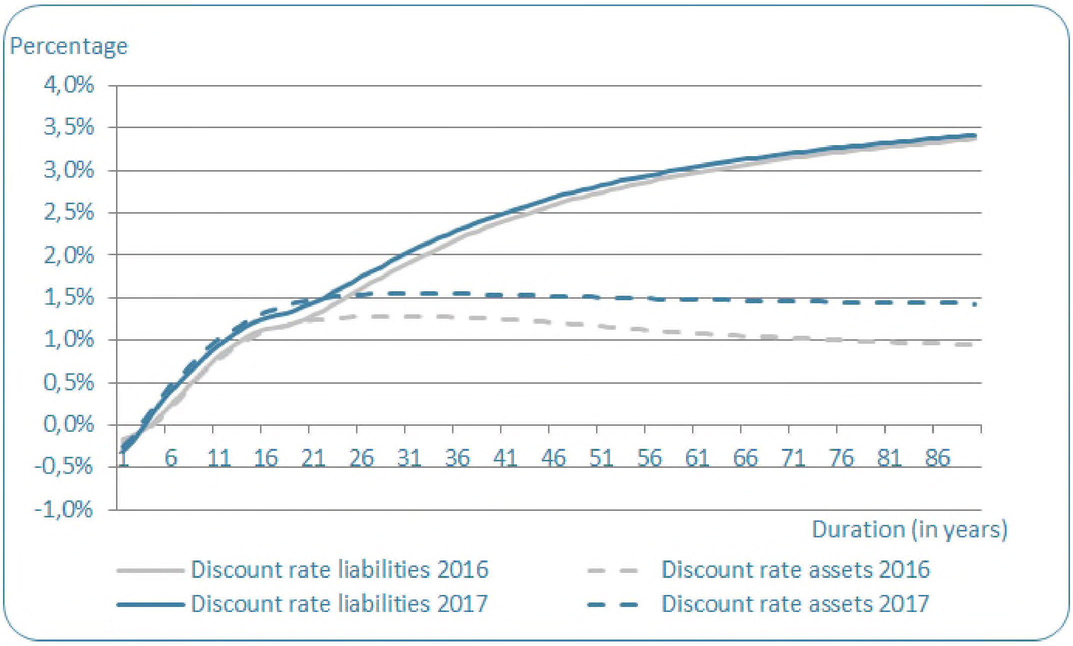
C.2.1. PRUDENT PERSON PRINCIPLE

Achmea complies with the “prudent person principles” as set out by EIOPA in its guidelines.

C.2.2. 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.

A change in interest rates will not have the same effect on the value of the liabilities as on the value of the assets, due to use of different discount rates. This is illustrated by comparing the relevant discount rates for the liabilities and the discount rates for the assets for 2016 and 2017.



The Market Risk Policy describes how this Interest Rate Risk is managed:

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

INTEREST RATE POLICY

ENTITY	INTEREST RATE POLICY
Dutch supervised undertakings	- Parallel shocks are applied to the interest curves: o AP&L: Solvency II solvency ratio o Other entities: economic Interest Rate Risk - AP&L: Interest rate volatility hedge
Friends First	- Solvency II interest rate shock
Union	- interest rate shock on SCR Market Risk
Interamerican Greece	- Duration matching
Eureko Sigorta A.S.	- Duration matching

The Interest Rate Risk is hedged by means of an overlay management process that makes use of interest rate derivatives (swaps and swaptions).

Sensitivities

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

SENSITIVITIES

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO 2017	SOLVENCY RATIO 2016
Baseline	8,386	4,555	184%	181%
Without Volatility Adjustment	8,258	4,693	176%	168%
No Ultimate Forward Rate	7,329	5,114	143%	130%
Last liquid point 30 years	7,537	5,064	149%	153%

The effect of interest rate movements on an economic basis may be different compared to the effects on a regulatory basis. One important factor causing this difference is the UFR. The UFR impacts the interest rate sensitivity of liabilities for maturities beyond 20 year. Since the UFR is only applied to liabilities, assets and liabilities with maturity larger than 20 years react differently to the same curve movements.

SENSITIVITIES INTEREST

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	8,386	4,555	184%
Interest -50bp	8,536	4,836	177%
Interest +50bp	8,274	4,546	182%

In annex 2 the relevant sensitivities per insurance legal entity are presented.

C.2.3. 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.

Dutch supervised undertakings

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

Foreign supervised undertakings

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

Achmea does not use equity derivatives for trading or hedging purposes. The only equity derivatives presented are the "equity conversion features" part of convertible obligations.

SENSITIVITIES EQUITY

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO 2017	SOLVENCY RATIO 2016
Baseline	8,386	4,555	184%	181%
No Equity Transitional	8,413	4,733	178%	172%
Equity prices -20%	7,815	4,374	179%	170%

C.2.4. 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.

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.

There are no limits on the total level of Property Risk and Equity Risk in the Market Risk Policy, such as for the Interest Rate Risk. The exposures are managed as part of the Investment Plan. Limits are set for the investment volume in a number of alternative investment categories, for which no representative benchmark can be set.

SENSITIVITIES PROPERTY

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO 2017	SOLVENCY RATIO 2016
Baseline	8,386	4,555	184%	181%
Property Prices - 20%	8,076	4,523	179%	176%

C.2.5. 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.

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 detailed description of the framework. Achmea mitigates the Spread Risk through a conservative investment strategy that balances the exposure types (corporates, financials, covered bonds, government related bonds and asset backed securities), the credit rating, the maturity profile and the regional allocation.

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

SENSITIVITIES SPREAD

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO 2017
Baseline	8,386	4,555	184%
Credit Spread -50 bp	8,454	4,729	179%
Credit Spread +50 bp	8,392	4,543	185%
Spreads Government -50 bp	8,862	4,579	194%
Spreads Government +50 bp	8,006	4,694	171%

C.2.6. MARKET CONCENTRATION RISK

Achmea has no material Market Concentration Risk. On a solo level Market Concentration Risk is recognised mainly due to intragroup positions between the insurance undertaking and Achmea’s banking entities.

C.2.7. CURRENCY RISK

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

Achmea is exposed to Currency Risk, specifically in US dollars, as part of the regular investment portfolio (equities, fixed-income investments and listed real estate) and non-Dutch reinsurance contracts denominated in foreign currency. Other significant exposures are the Swiss franc (CHF), through the issued CHF notes and the Turkish lira, through the investments in Eureko Sigorta A.S. and Garanti Emeklilik.

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

Foreign exchange contracts are used as hedging instruments.

C.2.8. LOAN PORTFOLIO

For detailed information on the loan portfolio reference is made to Chapter D.1.6. Under the Loan portfolio Achmea includes loans and mortgages provided to individuals and companies. The loan portfolio recognised on the Economic Balance Sheet is backing the cash flows of the technical provisions.

C.2.9. COLLATERAL ARRANGEMENT

Within Achmea all derivative transactions and the related collateral postings have to adhere to the requirements and restrictions of the Counterparty Risk Policy. This policy is frequently updated and in line with the current EMIR-regulation regulation (European Market Infrastructure Regulation). In practice this means that Achmea is engaged mostly in bilateral OTC-agreements (ISDA contracts including CSA's) with financial institutions and only recently entered into business through a Central Counterparty (LCH-Clearnet) and some appointed banks as Clearing Members. For further details on collateral management, see also C.3. Counterparty Default Risk.

Concerning mortgages, Achmea receives collateral in the form of residential property.

The total amount of Collateral Held is €18,901 million and the total amount of Collateral Delivered is €344 million.

C.2.10. SECURITIES LENDING

In June 2017 Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V. started a security lending programme. From June to December 2017 €3.8 billion, mostly government bonds, were lent to selected counterparties (for example Royal Bank of Scotland and J.P. Morgan).

C.2.11. BORROWING TRANSACTIONS

Achmea did not enter in new borrowing transactions in 2017.

C.2.12. OTHER MARKET RISKS

There are no other Market Risks identified within Achmea.

C.3. CREDIT RISK

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

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

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

Limits per rating

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

MAXIMUM GROUP-LEVEL EXPOSURE

€ MLN.

	SUPRA NATIONALS AND GOVERNMENTS	OTHER COUNTERPARTIES
AAA	(no limit)	(no limit)
AA+, AA, AA-	500	500
A+, A, A-	300	300
BBB+	200	200
BBB	150	150
BBB-	75	75

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

Only ratings given by the following Credit Rating Agencies (ECAI) are used within Achmea which are endorsed by the European Authorities: S&P, Moody’s, Fitch, DBRS and AM Best.

Within Achmea ratings are expressed in the S&P rating taxonomy.

The effective counterparty rating used within Achmea is the second best rating of a set of ratings:

- Where only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the capital requirements for that item;
- Where two credit assessments are available from nominated ECAIs and they correspond to different parameters for a rated item, the assessment generating the higher capital requirement shall be used;
- Where more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest capital requirements shall be used. If the two lowest capital requirements are different, the assessment generating the higher capital requirement of those two credit assessments shall be used. If the two lowest capital requirements are the same, the assessment generating that capital requirement shall be used.
- If only one eligible CRA rating available, then the maximum group-level exposure to this counterparty is only 75% of the corresponding amounts given in the table above.

Mortgages

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

Reinsurers

At Achmea Reinsurance, the Underwriting Committee decides on the composition of the panel of reinsurers. Counterparty risk is monitored each quarter by the Finance & Risk Committee of Achmea Reinsurance.

Policyholders

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

Derivatives are described in more detail in section C.6.2. Use of derivatives.

General rules for initiating transactions with new counterparties

Approval is not required before transactions start, if all following conditions are satisfied:

- A counterparty satisfies all “Group-level Exposure Limit Rules” conditions,
- A counterparty has its registered office is in an AAA-country, OECD-country, or EEA-country,
- A counterparty is rated by at least two eligible nominated credit rating agencies,
- A counterparty must have at least an investment grade rating (BBB- or stronger),
- The exposure may not exceed 50% of the limit in the first 2 months after the initial transaction,
- For transactions with a duration dependency (e.g. deposits), the contract should end in less than 2 months’ time after the next Finance & Risk Committee (FRC) meeting,
- Within two months after transactions started, the FRC will be asked to approve each new counterparty. FRC approval implies revoking the above mentioned restrictions (5) and (6).

A “Counterparty Credit Assessment (CCA) Memo” is mandatory for each new counterparty below investment grade (<BBB-).

The two paragraphs above are not applicable for:

- Counterparties –other than derivative issuers- for which authorisation is managed by the approved Investment Plans of Group Investment Office;
- Counterparties –other than derivative issuers- for which authorisation is managed by the approved Investment Plans of each foreign supervised undertaking;
- Reinsurance counterparties which are authorised in the yearly renewal process of Achmea Reinsurance Company N.V. and foreign supervised undertakings.

In all other situations approval is required before transactions start.

C.4. 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.

Achmea is exposed to Liquidity Risk at Group level and with regard to its insurance and banking activities. From the perspective of the insurance activities this is related to catastrophes such as extreme storms and hail.

The Liquidity Risk Policy describes how Liquidity Risk is managed. Achmea has defined metrics for each of its legal entities as well as the holding company. The metrics provide insight into 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.

Insurance-specific Liquidity Risk is managed by the entities. In their liquidity planning, cash inflows and outflows from insurance activities are taken into account. Huge distortions could arise in case of a catastrophe, when payments to customers have to be made, while corresponding payments are not yet received from reinsurers and from health pooling organisations in the Netherlands. Liquidity Risk within Achmea’s insurance operations is mitigated through the availability of cash, credit facilities and a high level of investments in liquid assets.

An important measure in the management of Liquidity Risk at Achmea Reinsurance is alignment of the payment conditions in the reinsurance contracts of the incoming and outgoing reinsurance contract.

Expected profits in future premiums

EPIFP

€ MLN.	2017	2016
Achmea Pensioen- en Levensverzekeringen N.V.	1,084	1,222
Achmea Schadeverzekeringen N.V.	54	41
Achmea Zorgverzekeringen N.V.	60	24
Friends First Life Assurance Company DAC	70	69
Interamerican Hellenic Life Insurance Company S.A.	29	33
Union Poist'ovna A.S.	5	11
Group EPIFP	**1,302**	**1,400**
EPIFP % Tier 1 Eligible Own Funds	21%	22%

Expected profits in future premiums (EPIFP) is defined as that part of future premiums Achmea expects to obtain from the policyholders over the remaining duration of the contracts which relates to the profit margin. If the policyholder lapses or discontinues the contractual relationship before maturity Achmea will not receive any of these profits. In principle the EPIFP exists only for those contracts which have a recurring premium over the duration of the contract.

The EPIFP is calculated by assessing the impact on profitability if no more premiums are received. For mortgages the calculation is done by setting the premium at 0 and by assuming that in the event of death the value of the policy will be paid out. For risk products the lapse rates are set to 100%.

C.5. 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.

The main risks include risks related to information security and cybercrime, risk related to the IT change programme 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, due to a changing IT environment and changing hacking techniques. The risk of irresponsible behaviour in 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. All activities performed by an insurer are judged from a social perspective.

Annual 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 to information security and Solvency II are included in the framework. An Internal Control Statement is compiled annually based on the Control Framework.

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

- Information security: all activities aimed at the realisation of a continuously optimal level of availability, integrity and confidentiality of information and information systems to ensure business continuity, protect customers' interests, prevent financial loss and reputational damage and comply with laws and regulations;
- Business Continuity Management (BCM): 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.

C.6. OTHER MATERIAL RISKS

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

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

- Innovation

Developments in financial services are occurring at a rapid pace. It is important that Achmea innovates its processes and products/services fast enough in response to these new developments. A particular point of attention is the possibility of disruptive change arising from new entrants and/or new products/services. Together with specific developments such as self-driving cars and home automation, this mainly plays a role in non-life insurance.

- Digitisation

The current pace of digitisation presents great opportunities but also threats. It is important that Achmea focuses on continued digitisation of its processes, supported by IT systems, to respond to changing customer needs.

- Consistently low interest rates

If interest rates remain low for an extended period of time this will result in lower investment returns. Particular attention will be paid to the valuation of the technical provisions under Solvency II and the Liability Adequacy Test. This is, because with a continued low interest rate it will not be possible to earn without taking risk the interest used in the valuation curve after 20 years (due to the use of the Ultimate Forward Rate).

- Competitive costs

As major financial services provider, Achmea has the advantage of economies of scale, but also the disadvantage of a large-sized organisation. The implementation of changes requires greater efforts than for other market parties, which are able to operate on a lower cost base - most importantly with regards to service-related activities.

- Distribution partners

Achmea makes use of several distribution partners for the sale of its products, such as Rabobank. It is important to consistently align the parties’ mutual expectations to ensure that the products and services developed match with what the distribution partners wish to sell.

- Public policy and legislation

Laws and regulations have a significant impact on Achmea as a company. There is a risk that Achmea’s revenue model will be affected by public policy and changes in laws and (tax) regulations, as well as changing solidarity in society. This risk mainly concerns health, pensions and income protection.

- Competencies and talents

Specific competencies and talents are important to the realisation of Achmea’s corporate objectives. Extra attention is given to business acumen, working in an international context, required expertise and appropriate remuneration.

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

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

- Volatility in the financial markets

  As a financial service provider with an investment portfolio, products with minimum guarantees and profit sharing conditions, Achmea has a large exposure to the financial markets. Major financial shocks including significant developments in interest rates and/or credit spreads and a drop in the stock markets have occurred in the past and may occur again. This market risk is actively managed by means of a diversified investment portfolio and active management of the different financial positions.

- Longevity risk and catastrophes

  Important insurance-related risks Achmea is exposed to are longevity risk and catastrophe risk. An unexpected further increase in life expectancy, for example because of breakthroughs in medical science, could have a significant impact on the pay-out level of the life and pension activities. Catastrophes such as earthquakes and storms always have a significant impact, and the risk of these occurring appears to be increasing as a result of climate developments. Longevity risk is actively managed by diversification of the life and pension portfolio, and transfer of the risk. Catastrophe risk is largely mitigated by reinsurance.

- Operational and compliance risks

  Key recognised operational and compliance risks are information security and cybercrime, liability claims and reputational risk. The risks related to cybercrime are high, especially as a result of malware and ransomware attacks using rapidly changing technologies. Risks surrounding the security of websites and privacy sensitive information also remain high, due to a changing IT environment and changing hacking techniques. The risk of the irresponsible handling of big data is increasing in a world where data become increasingly important. The reputation of insurers as part of the financial sector is still under pressure. All activities performed by an insurer are 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.

C.6.1. USE OF DERIVATIVES

Achmea makes use of interest rate derivatives (swaps and swaptions) for the mitigation of Interest Rate Risk and foreign exchange contracts for the mitigation of Currency Risk, see also the chapters C2.2 and C2.7.

Derivative transactions are only initiated with counterparties that meet Achmea’s rating 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 reduce the Counterparty Default Risk.

C.6.2. USE OF REINSURANCE AND FINANCIAL MITIGATION TECHNIQUES

Achmea Reinsurance Company N.V.

Achmea Reinsurance Company N.V. (hereinafter referred to as “Achmea Reinsurance”) is the group’s reinsurance company that fulfils three roles: advisor, risk carrier and purchaser. Achmea Reinsurance provides reinsurance cover for the Achmea entities. To this end it enters into reinsurance contracts with the Achmea entities, including the non-Dutch entities, and third parties. Through retrocession the contracts are partially placed with external reinsurers. Achmea Reinsurance is exposed to Life, Non-Life and Health Risk, where reinsurance does not play a role in health insurance in The Netherlands.

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

Achmea Reinsurance carries the risk in most programmes of the non-Dutch entities.

In general, catastrophe risks and large individual risks are covered by excess-of-loss reinsurance treaties. Individual risks that exceed the treaty limit of the “per risk” programmes are covered on a facultative basis. The reinsurance programme consists of several layers so that the programme can be placed as efficiently as possible. In 2017 the catastrophe programme was the main programme with regard to the retention of Achmea Reinsurance. Furthermore Achmea uses insurance-linked securities (catastrophe bonds) on a limited scale.

In addition to its own reinsurance programme Achmea Reinsurance has entered into a reinsurance contract with a financial character and a number of incoming reinsurance contracts with strategic partners, Eurapco partners and other external insurers and reinsurers.

- For the reinsurance contract with a financial character liquidity was provided at the start of the contract, in return for which payment is received in the form of income from the underlying annuity portfolio.
- The largest exposures of the incoming reinsurance contracts concern the North Atlantic hurricane risk and the earthquake risk in the United States and Japan.

Dutch supervised undertakings

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

For Non-Life Underwriting Risk, 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 types of cover:

- Catastrophe: this is an excess-of-loss programme for the cumulated (mainly natural) catastrophe claims of the portfolios property/engineering (residential, commercial, agro farmers), greenhouse (horticulture) and motor hull. These portfolios are pooled in an external programme with different retentions. For the Dutch entities Achmea Reinsurance provides three individual excess-of-loss programmes which also have 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. Within the Group, N.V. Hagelunie has concluded a quota share contract with Achmea Schadeverzekeringen N.V. for the fire claims in the portfolio.
- General Liability and Motor Third Party Liability: this is a reinsurance programme for general and motor liability risks and large personal injury claims.

Foreign supervised undertakings

Reinsurance is used at all of Achmea’s foreign supervised undertakings to mitigate Underwriting Risk, in particular for non-life catastrophe risk. The level of non-life catastrophe risk is determined annually by an expert panel making use of externally developed models. Subsequently the Reinsurance Committee of the foreign supervised undertaking determines the level of reinsurance purchased in accordance with the minimum requirements specified in the Group Reinsurance Policy and Risk Appetite Statements of the foreign supervised undertaking. Each foreign supervised undertaking has its own Risk Appetite Statement that sets the level of desired Underwriting Risk relative to other risk types. The credit worthiness of reinsurance counterparties is monitored according to the Counterparty Risk Policy.
Achmea Re takes a small participation in some of the non-life catastrophe reinsurance programmes of the foreign supervised undertakings.

- Eureko Sigorta A.S.:

  The high level of non-life catastrophe risk (earthquake) and the large commercial portfolio at Eureko Sigorta A.S. result in heavy use of reinsurance to mitigate Underwriting Risk. Retail and Commercial insurance products are covered by the annual reinsurance treaties which are proportional (quota-share and surplus) and non-proportional (excess of loss). Part of the non-life catastrophe risk for retail property is reinsured by the compulsory Turkish Catastrophe Insurance Pool therefore the reinsurance purchased by Eureko Sigorta A.S. is for the remaining non-life catastrophe risk. The high number of larger commercial risks results in facultative reinsurance, both proportional and non-proportional, being purchased for individual risks. Due to the SII directive not allowing some Turkish based reinsurers to be counted for risk mitigation, strict underwriting limits are in place according to the type of reinsurer.

- Interamerican Greece:

The portfolio of non-life, life and health risks are covered by the annual reinsurance treaties which are generally on an excess of loss basis. Smaller non-life lines of business have quota-share and surplus treaties. A small number of facultative reinsurance contracts exist for the larger commercial risks where the treaty limits are exceeded.

- Union Poisťovňa A.S.:

Reinsurance is used for the non-life and health risks generally on a treaty basis using excess of loss and quota-share. A small number of facultative reinsurance contracts exist for the larger commercial risks where the treaty limits are exceeded.

- Friends First:

Friends First is exposed to possible losses from various reinsurance treaties. The company uses reinsurance to mitigate against Life and Health Underwriting Risks.

C.6.3. USE OF FUTURE ACTIONS

Within the determination of the Loss Absorbing Capacity of Deferred Taxes (LACDT), the various legal entities, describe Future management Actions. Based on the underlying scenarios which constitutes the LACDT-shock, senior management of the legal entities and Achmea are committed to include the following major future management actions to recover the Solvency position:

- Executing the Commited Credit Line arrangements;
- Providing excess liquidity to the entities in need of capital;
- Issuing a debt instrument on the level of the holding and subsequently providing capital to the entities in need of capital;
- Premium measures;
- Cost measures;
- Derisking of Market Risk;
- Derisking of Underwriting Risk.

Senior management has assessed the appropriateness, realism and availability of the measures and concluded the future management actions to be fit for use in the case of the emergence of the combination of the underlying scenarios as described in the calculations of the LACDT.

C.6.4. SIGNIFICANT RISK CONCENTRATIONS WITHIN THE GROUP

The main exposure (value of the exposure) by counterparty and by type of exposure outside the scope of the re/insurance group. Significant exposure is exposure that supersedes a threshold of 10% of the SCR of Achmea (€456 million).

SIGNIFICANT RISK CONCENTRATIONS

€ MLN.

COUNTERPARTY	TYPE	EXPOSURE
Banque de France	Assets-Bonds	1,468
Federal Republic of Germany	Assets – Bonds	2,780
Kingdom of The Netherlands	Assets – Bonds	6,871
	Assets – Others	613
Republic of Austria	Assets – Bonds	581
	Assets – Equity	1

The majority of Achmea's risk concentration is related to investments in government bonds (France, The Netherlands, Austria and Germany).

C.7. ANY OTHER INFORMATION

Not applicable.

D. VALUATION FOR SOLVENCY PURPOSES

CONSOLIDATED ECONOMIC BALANCE SHEET

The following Economic Balance Sheet information represents the entire Achmea Group including the legal entities consolidated by means of the sectoral requirements (CRD/IORP). Where any of the disclosures consist of a different consolidation circle this will be highlighted.

For detailed Economic Balance Sheet information for each Dutch legal entity, please refer to the public Quantitative Reporting Templates (for hyperlinks, see annex).

ECONOMIC BALANCE SHEET — € MLN.

ASSETS	2017	2016
Intangible assets	2	5
Deferred tax assets	758	837
Property, plant & equipment held for own use	343	366
Investments (excl. index-linked and unit-linked funds)	40,588	43,673
Assets held for index-linked and unit-linked funds	19,582	18,974
Loans and mortgages	8,125	7,079
Reinsurance recoverables	879	1,052
Deposits to cedants	4	5
Insurance and intermediaries receivables	2,899	3,223
Reinsurance receivables	29	136
Receivables	2,362	2,617
Own shares (held directly)	235	235
Cash and cash equivalents	1,796	1,271
Any other assets, not elsewhere shown	222	279
Total assets	**77,824**	**79,753**

ECONOMIC BALANCE SHEET — € MLN.

LIABILITIES	2017	2016
Technical provisions – Non-Life (excluding Health)	3,154	3,262
Technical provisions – Health (Similar to Non-Life)	5,530	5,751
Technical provisions – Health (Similar to Life)	3,013	3,110
Technical provisions – Life (excluding Health and index-linked and unit-linked)	31,644	33,159
Technical provisions – index-linked and unit-linked	18,995	18,584
Provisions other than technical provisions	193	344
Pension benefit obligations	907	960
Deposits from reinsurers	2	2
Deferred tax liabilities	21	21
Derivatives	196	800
Debts owed to credit institutions	1,077	1,085
Financial liabilities other than debts owed to credit institutions	4	9
Insurance & intermediaries payables	1,159	1,245
Reinsurance payables	29	77
Payables (trade, not insurance)	317	286
Subordinated liabilities in Basic Own Funds	1,940	1,956
Any other liabilities, not elsewhere shown	1,633	1,303
Total liabilities	**69,813**	**71,952**
Excess of assets over liabilities	**8,011**	**7,801**

D.1. ASSETS

D.1.1. KEY ASSUMPTIONS USED BY ACHMEA

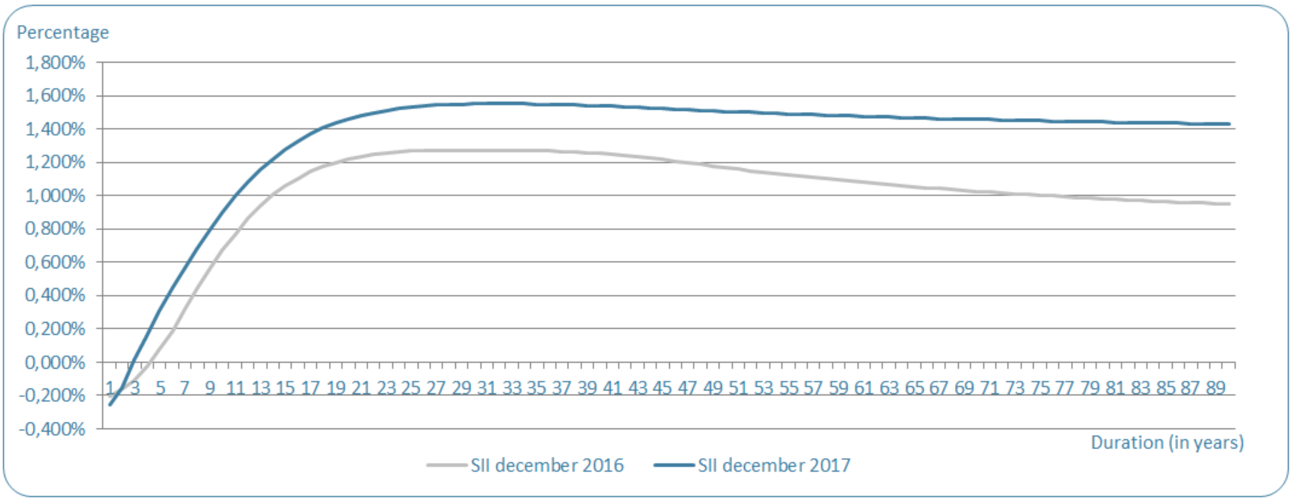
DISCOUNT RATE FOR NON-INSURANCE ASSETS AND NON-INSURANCE LIABILITIES

Achmea uses the following risk free discount rate for non-insurance assets and non-insurance liabilities.

Achmea uses the zero curve in order to calculate the economic value of (financial) assets and liabilities. The curve used for Solvency II purposes equals the curve used for IFRS purposes.

- The swap curve used by Achmea is: Bloomberg CMPL PX Last, curve S45 EUSA TT. In principle, similar yield curves will be used for other currencies.
- PX Last implies the mid curve. Achmea uses the mid curve if the bid-ask spread is less than 5bps.
- Achmea derives the following tenor points: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12, 15, 20, 30, 40 and 50. The rates 40 and 50 years are only used when it can be demonstrated that these points are representative of a deep, liquid and active market.
- For durations shorter than 1 year, EURIBOR 1, 2, 3 and 6 months are used. Interpolation will be done for the missing periods from 3 months to 6 months and from 6 months to a 1-year swap. Any intermediate points up to the 1 year swap are derived by means of an interpolation.
- For interpolation between the years and months the Natural Cubic Spline method is used. If the cubic spline method cannot be used a linear interpolation is allowed. However, this should be accompanied by an impact assessment.

Achmea will extrapolate after the last liquid point by means of a constant 1-year forward and basing the zero rates on this forward rate.



NOMINATED EUROPEAN CREDIT RATING AGENCIES (ECAI)

Achmea has nominated five ECAIs in order to derive the spreads added to the risk-free interest rate and in order to derive the Credit Quality Step (CQS). The CQS is used when determining capital requirements for Spread Risk, Concentration Risk and Counterparty Default Risk. Achmea uses Standard and Poor’s, Fitch, Moody’s, DBRS and AM Best. AM Best is used to derive the spreads and CQS for reinsurance related assets and liabilities.

D.1.2. INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical substance. An asset is identifiable if it either: a) is separable, i.e. is capable of being separated or divided from Achmea and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, regardless of whether Achmea intends to do so; or b) arises from contractual or other legal rights regardless of whether those rights are transferable or separable from Achmea.

Software which is closely related to computers (hardware) is deemed to be an integral part of the computer (hardware). Closely related implies that the computer (hardware) cannot operate without the software. The total amount is to be recognised as a tangible asset. Software (including internally developed software) which is not closely related will be classified as an intangible asset and subject to the recognition criteria.

All recognised intangible asset are valued at their economic value. Achmea uses the value as presented in the IFRS financial statements for such intangibles as a proxy for the value in the Economic Balance Sheet. The amortisation is deemed to represent the economic wear down of using the asset in normal economic use.

Notwithstanding this definition, goodwill, deferred acquisition costs and intangible assets obtained by means of a business combination are valued at nil.

INTANGIBLE ASSETS € MLN.

	2017	2016
Closing balance	**2**	**5**

The intangible assets (software) are recognised within the legal entities Union Poist'ovna A.S. and Achmea Schadeverzekeringen N.V.

D.1.3. PROPERTY, PLANT AND EQUIPMENT HELD FOR OWN USE

"Property for Own use" and "Equipment" are measured at their economic value. Achmea uses the values as reported in the IFRS financial statements as a proxy for the economic value.

The property for own use is valued using a discounted cash flow technique. The cash flows for the coming twenty years are projected and discounted. In this projection, information and parameters are used as suggested by the National Association of Appraisers (NVRT), for example the inflation scenario. After twenty years the terminal value is predicted which is subject to expert judgment. The valuation is performed by an external party. The value of the property is also compared to recent transactions in the same geographical area. Based on differences in location and characteristics of the building adjustments are made. This valuation is also benchmarked with the so called "capitalisation method". The outcomes of both methods may not differ too much from each other. If this is the case the external party and Achmea will have to make appropriate adjustments, if necessary.

"Equipment" is measured at their acquisition cost minus depreciation. Achmea assumes the amortisation amount to reflect the economic wear down of the equipment in normal economic use. "Equipment" is recognised in all countries where Achmea pursues insurance business: The Netherlands (76%), Greece (12%), Ireland (6%), Turkey (4%) and Slovakia (2%). In The Netherlands "Equipment" has been recognised mainly in Ancillary Service Entities except for Achmea Schadeverzekeringen N.V. The branch Australia has a small amount of equipment (€37k).

"Property for own use" is mainly located in The Netherlands (90%), Turkey (5%) and Greece (5%). In The Netherlands, "Property for own use" has been recognised in Ancillary Service Entities, while in Turkey and Greece the "Property for Own use" is recognised in the insurance entity.

PROPERTY, PLANT & EQUIPMENT FOR OWN USE

€ MLN.

	2017	2016
Closing balance	**343**	**366**

The economic value at 2017 year end can be divided into “Equipment (€60 million, 2016: €74 million)”and “Property for own use (€283 million, 2016: €292 million)”. The decrease of “Property, Plant and Equipment” consists of the depreciation (economic wear down) of equipment of €-31 million and a slightly higher value of Property for Own Use of €1 million because of positive market environment. The regular portfolio developments consists mainly of investments in equipment.

D.1.4. INVESTMENTS

Achmea measures all investments at their economic value. The value is derived using the economic value hierarchy. Investments are either held directly or indirectly. For determining the capital requirements, Achmea uses the “look through approach” as much as possible in order to present the actual risk profile.

Derivatives are shown for their net exposure including liabilities.

INVESTMENTS

€ MLN.

	PROPERTY (OTHER THAN FOR OWN USE)	HOLDINGS IN RELATED UNDERTAKINGS	EQUITIES	BONDS	COLLECTIVE INVESTMENTS UNDERTAKINGS
Opening balance	1,128	1,073	1,377	29,529	2,222
Restatement	0	59	-49	0	0
Effect of changes in economic assumptions	64	32	63	-773	92
Portfolio development	-57	-100	-15	-934	-379
Other	0	0	4	-9	-21
Closing balance	**1,136**	**1,064**	**1,380**	**27,814**	**1,914**

INVESTMENTS

€ MLN.

	DERIVATIVES (INCL LIABILITIES)	DEPOSITS	OTHER	TOTAL 2017	TOTAL 2016
Opening balance	2,977	1,102	3,462	42,872	43,508
Restatement	0	6	-7	8	-16
Effect of changes in economic assumptions	-300	-8	-10	-1,095	1,998
Portfolio development	283	-95	-294	-1,591	-2,650
Other	0	0	-12	-38	31
Closing balance	**2,961**	**984**	**3,139**	**40,392**	**42,872**

The investments presented are recognised in the various insurance legal entities, ancillary service entities and the Holding (excluding Intra group transactions).

Achmea Pensioen- en Levensverzekering N.V. has €26,031 million of the €40,392 million investments. Mainly this consist of investments in bonds for €16,977 million. The other investment categories are mortgage savings for €3,139 million, collective investments undertakings for €1,258 million, investment property for €1,060 million, equities for €581 million and derivatives for €2,984 million.

Achmea Schadeverzekeringen N.V. has in total €5,759 million. The largest part consists of investments in bonds for €5,110 million. The other investment categories consist mainly of equities for €230 million, collective investments undertakings for €350 million and deposits for €58 million.

Achmea Zorgverzekeringen has in total €3,294 in investments. These consist mainly of bonds €2,695 million, equities for €282 million, deposits for €158 and collective investments undertakings for €143 million.

Achmea Reinsurance Company N.V. has in total €1,041 million in investments. These consist mainly of deposits €605 million, bonds for €271 million, equities for €91 million and collective investments undertakings for €73 million.

N.V. Hagelunie has in total €228 million in investments. Mainly these consist of bonds for €205 million.

Within the foreign entities the total investments are €2,663 million. The investments of the foreign entities consist mainly of bonds (€2,356 million).

Achmea B.V. has in total €1,352 in investments. Mainly these consist of participations €1,016 million (including CRD entities), bonds €198 million and equities for €145 million.

D.1.4.1. PROPERTY (OTHER THAN FOR OWN USE)

Achmea uses the values as reported in the IFRS financial statements as a proxy for the economic value, which is based on an independent revaluation carried out annually (or more frequently if market conditions are volatile).

Investment property which is still under construction is measured at the economic value. However, in the rare cases that the economic value cannot be established continuously for the investment property, Achmea measures the investment property at cost.

The economic value is based on prices in an active market, adjusted (if necessary) for any difference in nature, location or condition of the specific asset. All properties are appraised quarterly. The valuations are carried out by external independent appraisers who hold officially recognised and relevant professional qualifications. All valuations are carried out following valuation guidelines common in the industry.

The economic value of investment property is generally determined using 1) discounted cash flow (DCF) projections based on estimates of future cash flows and using a discount rate that reflects current market assessments of the uncertainty on the amount and timing of the cash flows or 2) the capitalisation method. The assumptions used by both methods are supported by the terms of any existing lease and other relevant contracts and by external evidence, such as recent and expected general economic trends and current market rents for similar properties in a similar location and condition. Common costs and obligations related to investment property such as vacancies, rent-free periods, maintenance and repair as well as any obligations that restrict the possibility to generate the income and proceeds on disposal of the property are taken into account. Projections for the cash flows under the DCF-method are made for at least 20 years. See section D.4. for more details on the actual methods and assumptions used.

Transactions of properties sold cannot easily be compared due to the lack of publicly available information and use of expert judgment by external parties. Due to the lack of readily available market data, the valuation of investment property has a higher degree of uncertainty when compared to a more stable and active market situation, as comparable transactions are used to validate the appraisal process.

Due to the characteristics of the inputs for the valuation method used and the current market conditions as indicated before all investment property are classified within economic value level 4. In the table below the indirect exposures as presented within Collective Investment undertakings is added (see also D.1.4.5. Real estate Funds).

PROPERTY (OTHER THAN FOR OWN USE) € MLN.

	2017	2016
Total direct property	1,136	1,128
Total indirect property	154	202
Total Investment property	**1,290**	**1,330**

The economic value of direct property increased with an amount of €8 million. The amounts related to disinvestments in office buildings and residential property was fully offset by positive revaluation of the remaining direct property investments during 2017.

Certain property investments funds or property participations which are subject to a leverage of more than 20% are not shocked as part of the property risk module, but are considered to resemble equity investments and shocked accordingly.

Investment property is recognised within Achmea Pensioen- en Levensverzekeringen N.V. for €1,060 million, Achmea Interne Diensten N.V. for €50 million and Friends First Life Assurance Company DAC for €22 million.

D.1.4.2. HOLDINGS IN RELATED UNDERTAKINGS, INCLUDING PARTICIPATIONS

For Solvency II purposes Achmea identifies the following 3 types of participations:
1. Subsidiaries which are legal entities subject to the Capital Requirement Directive (CRD IV), Institutions for Occupational Retirement Provisions legislation (IORP) or similar prudential legislation;
2. Participations where Achmea holds voting rights of more than 20% and less than 50%;
3. Other subsidiaries under the control of Achmea but which are not insurance or reinsurance entities or Ancillary Service entities.

Participations classified in all but the first category are measured at their economic value using the economic value hierarchy. If no quoted price in an active market exists, the economic value will be derived by means of the “adjusted equity method”. The balance sheet of the participation is measured at the economic value, and Achmea’s equity interest in the participation is then applied to derive the adjusted equity value. If Achmea is not able to derive the Economic Balance Sheet, it uses the net asset value as recognised under IFRS while zeroing goodwill and non-eligible intangible assets. The valuation of participations in the first category is based on principles as laid down in the local sectoral prudential regimes.

In several solo entities, Achmea Pensioen- en Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V. and Achmea Zorgverzekeringen N.V., investment exposures are managed in specific legal entities. On the solo balance sheet these are presented as participations, but these are fully consolidated on the Group Economic Balance Sheet.

Restatements comprises €59 million in 2017, and concern mainly the scope change from Sprint Invest from equities to other subsidiaries.

CRD/IORP/SIMILAR LEGAL ENTITIES (CATEGORY 1)

Achmea has control over the following entities which are governed the CRD/CRR, IORP or similar (national) regimes. The valuation of these entities are based on their sectoral valuation principles.

CRD IV / IORP / SIMILAR LEGISLATION

€ MLN.

	ASSET	LIABILITY	2017	2016
Syntrus Achmea Real Estate & Finance B.V.	63	20	42	36
Achmea Investment Management B.V.	53	13	40	37
Achmea Bank N.V.	14,200	13,359	840	823
Staalbankiers N.V. *	n.a.	n.a.	n.a.	44
Union Zdravotna Poist'ovna A.S.	144	112	31	24
Total CRD IV/ IORP/ SIMILAR LEGISLATION			**954**	**964**

* *Staalbankiers N.V. has ceased to exist as a CRD-entity in 2017. The comparable information is included in the table.*

PARTICIPATIONS (CATEGORY 2)

Achmea has significant influence over the following entities.

PARTICIPATIONS

€ MLN.

	SHARE %	STRATEGIC	2017	2016
Life Science Partner B.V. [1]	80.38	N	n.a.	7
Life Science Partner II B.V.	30	Y	6	19
Health Inn Fonds	35	Y	2	2
Zorgmatch BV	50	Y	0	0
DFZ Participaties	20-40	Y	2	0
Vecozo	20	Y	0	1
Dispatch Nederland B.V. [2]	62.5	Y	n.a.	1
Interamerican Property & Casualty S.A. [3]	99.89	N	n.a.	3
Total Participations			**10**	**33**

[1] *In 2017, Life Science Partner B.V. is reported as a subsidiary.*

[2] *In 2017, Dispatch Nederland B.V. is reported as a subsidiary.*

[3] *In 2017, Interamerican Property & Casualty S.A. is reported as a subsidiary.*

OTHER SUBSIDIARIES (CATEGORY 3)

The participation is considered to be strategic if Achmea does not have the intention - based upon investment policy - to sell the participation in the near future, nor the market value showed less volatile movements compared to peer investments of the same risk type over the last years and the entities are included in the strategy of one or more insurance legal entities or Achmea Group.

Achmea has control over the following subsidiaries.

OTHER SUBSIDIARIES

€ MLN.

	2017	2016
Other subsidiaries The Netherlands	67	76
Other subsidiaries Ireland	29	-1
Other subsidiaries Greece	4	1
Total Other subsidiaries	**100**	**76**

D.1.4.3. EQUITY INVESTMENTS

These instruments are valued at their economic value using the economic value hierarchy. For those investment where no quoted price in an active market exists a valuation technique is used. The majority of listed equities are valued by their quoted prices (valuation hierarchy level 1), an amount of €156 million is reported as valuation hierarchy level 2 as a result of staleness of prices in the last month. Valuation of unlisted equities is based on the adjusted equity method. Changes in economic assumptions of the underlying investments result in changes in the net asset value of the investment fund. This valuation technique is classified under valuation hierarchy level 3. Within unlisted equities are also classified the 'Stadsherstellen', city restoration funds. These funds are valued using the acquisition price (valuation hierarchy level 4). This is deemed to be the best proxy for the economic value because additional value created by the fund is not forwarded to the shareholders.

The table below presents all financial instruments which are used as input to derive the capital requirement for Equity Risk. Achmea identifies the following categories:

1. Equity investments directly held;
2. Equity investments held within Collective Investment Undertakings and Investment Funds where the main risk driver is equity risk;
3. Participations, where the main risk driver is equity or property participations where the leverage exceeds 20%.

The values for equities listed and unlisted reconcile with the values in the Economic Balance Sheet.

EQUITY INVESTMENTS

€ MLN.

	2017	2016
Equities	1,380	1,377
Equities, listed	1,157	1,092
Equities, unlisted	224	285
Equities in investment funds	1,324	2,052
Equity participations	54	43
Total Equity investments	**2,759**	**3,472**

Equities and similar investments are investments in preference or ordinary shares or derivatives on such investments. Unlisted equities are mostly private equity investments. When considering "Equities in investment funds", Achmea applies the "look through approach", i.e. Achmea determines the main risk driver of each fund and classifies it accordingly. Balance sheet line item "Investment funds" (CIU's) is presented in section D.1.4.5 Collective Investment Undertakings, where their main developments will also be described.

Equities listed and unlisted were affected by three factors in 2017: first, increased stock markets resulted in a positive revaluation amounting to €172 million. Secondly, negative currency revaluation (effect €108 million). The third factor comprise of net balance of the recognition of new investments and derecognition of existing investments. In 2017 the net balance amounted to €-15 million. Achmea uses foreign exchanges derivatives for its hedging strategy to minimise the currency exposure. These developments are discussed in the 'Derivatives' section.

Investments in equities are mainly recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. for €581 million, Achmea Schadeverzekeringen N.V. for €230 million, Achmea Zorgverzekeringen N.V. for €282 million, Achmea Reinsurance Company N.V. for €91 million, N.V. Hagelunie for €22 million.

Equities in investment funds are mainly recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. for €876 million, Achmea Schadeverzekeringen N.V. for €246 million, Achmea Zorgverzekeringen N.V. for €143 million, Achmea Reinsurance Company N.V. for €53 million and Interamerican Greece for €6 million.

D.1.4.4. BONDS

Bonds held by Achmea comprise of three investment categories: government bonds, corporate bonds and collateralised securities.

The majority of the bonds are valued using a quoted market price on debt markets (valuation hierarchy level 1). For those investments where no quoted price in an active market exists, an alternative valuation technique is used. This is mainly applicable to collateralised securities, which do not always trade in an active market. For these instruments, the last known traded price in the market is used (valuation hierarchy level 2). The last known traded price is received from the custodian and checked with pricing sources. If the deviation of the two prices is more than 3%, the delivered price of the custodian is challenged, and additional information is requested. Achmea challenges the received price, and contacts the concerning asset manager, who use different pricing sources. The detailed information on how the price is derived, is judged by Group Investment Office. Based on this information, Achmea decides whether the price and fair value used is appropriate. If not, adjustments to price and market values are made.

The specification of the bond portfolio is as follows:

BONDS

€ MLN.

	2017	2016
Government bonds	15,300	17,435
Corporate bonds	11,088	10,196
Collateralised securities	1,426	1,898
Total Bonds	**27,814**	**29,529**

In 2017, effects of changes in economic assumptions were €-773 million, and were mainly caused by higher interest rates; interest rates (all durations) increased with approximately 20bps compared to FYR 2016, causing negative revaluation effects on the government bond portfolio (€-449 million). The changed interest rates also had a negative effect on the economic value of the corporate bond portfolio; the negative effect was partly compensated because of corporate credit spreads which decreased during 2017 (-37bps)The total net negative impact for 2017 was €-90 million.

Portfolio developments comprised of €-934million, and were mainly the result of net derecognitions of €-887 million due to reallocation of bonds to mortgages loans. Negative foreign currency effect (amounting to €-234 million) can be contributed to large exposure to the US dollar (effect: €-216 million).

Investments in bond are recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. for €16,977 million, Achmea Schadeverzekeringen N.V. for €5,110 million, Achmea Zorgverzekeringen for €2,695 million, Achmea Reinsurance Company N.V. for €271 million, N.V. Hagelunie for €205 million, Achmea B.V. for €198 million, Friends First Life Assurance Company DAC for €1,409 million, Interamerican for €755 million, Eureko Sigorta A.S. for €104 million, Union Zdravotna Poist'ovna A.S. for €88 million and Achmea Zorgparticipaties for €2 million.

D.1.4.5. COLLECTIVE INVESTMENT UNDERTAKINGS

When determining the capital requirements for Market Risk Achmea uses the "look through approach" with respect to Collective Investment Undertakings (CIUs). In certain instances the look through information is not readily available. Here, Achmea will allocate the CIU to the investment classes as guided by the mandates. This is the case for the M&G Active Loan Fund, within the debt funds, which shocked using interest risk and spread risk in the Standard Formula approach. If the mandate does not provide sufficient information Achmea will apply an equity type 2 shock when calculating the capital requirement for Equity Risk. This applies to the majority of private equity funds.

The table below presents the classification of CIU's to its respective type and is based on the classification in the List of assets QRT (S.06.02).

COLLECTIVE INVESTMENT UNDERTAKINGS € MLN.

	2017	2016
Equity funds	548	462
Debt funds	413	408
Asset allocation funds	0	3
Real estate funds	154	202
Alternative funds	346	559
Private equity funds	272	317
Infrastructure funds	160	262
Other	20	10
Total Investment funds	**1,914**	**2,222**

The total amount CIU's decreased with €308 million, caused by changes in economic assumptions (€92 million), portfolio developments (€-379 million) and other movements (€-21 million). Changes in economic assumptions mainly comprise of revaluations (€146 million) due to higher equity markets and lower interest rates. Furthermore, foreign exchange effects had an effect of €-54 million on the portfolio due to the depreciation of the US dollar to the Euro. Portfolio developments contain net derecognitions of CIU's (€-379 million), in particular the derecognition of commodities within Achmea Pensioen- en Levensverzekeringen N.V. (effect: €213 million) and Infrastructure funds (€102 million).

Collective Investment Undertakings are recognised within the legal entities Achmea Pensioen- en Levensverzekeringen N.V. for €1,258 million, Achmea Schadeverzekeringen N.V. for €350 million, Achmea Zorgverzekeringen for €143 million, Achmea Reinsurance Company N.V. for €73 million, Friends First Life Assurance Company DAC for €78 million and Interamerican for €11 million.

D.1.4.6. DERIVATIVES

These instruments are valued at their economic value using the economic value hierarchy. Achmea holds derivatives for risk mitigation purposes.

The specification of the derivatives into the individual risk categories is as follows:

DERIVATIVES

€ MLN.

	2017		2016	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest rate derivatives	3,108	158	3,748	670
Currency derivatives	40	19	30	106
Equity derivatives	0	18	0	0
Credit default swaps	0	1	0	3
Other	9	1	0	21
Total Derivatives	**3,157**	**196**	**3,778**	**800**

The derivative portfolio is mainly held by the Dutch legal entities and for a small amount by the Greek legal entities. The net interest rate derivatives consist of Achmea Pensioen- en Levensverzekeringen N.V. for €2,958 and Achmea Schadeverzekeringen N.V. for €-8 million. Net currency derivatives consists mainly of Achmea Pensioen- en Levensverzekeringen N.V. for €20 million, Achmea Schadeverzekeringen N.V. for €10 million, Achmea Zorgverzekeringen for €4 million and Achmea B.V. for €-14 million. Net equity derivatives consist of Eureko Claims Centre B.V. for €-18 million. Net other derivatives consists mainly of Achmea Pensioen- en Levensverzekeringen N.V. for €7 million and Achmea Schadeverzekeringen N.V. for € 1 million. Currency derivatives and a large part of the interest derivatives are classified as valuation hierarchy level 2. The valuation techniques are based on observable inputs. The category Other consists of interest rate futures and equity futures and is classified as fair value level 1. Futures have a quoted price in an active market.

The value of derivatives was negatively affected due to changes in economic assumptions of €-300 million in 2017. This is mainly caused by negative revaluations of swaptions (€-225 million) and interest swaps (€-420 million) as a result of higher long-term interest rates. This negative effect was mainly mitigated by positive valuation of currency derivatives (€308 million).

During 2017 Achmea did recognise and derecognise derivatives based on the hedging and risk strategy. Net recognition was €283 million. This consists mainly out of the buy of interest swaps (€456 million) and out of sale of currency derivatives (€-210 million) and payer (€52 million) swaps.

Achmea both has pledged and received collateral amounting to €344 million and €18,901 million respectively. A breakdown of the assets received is presented in the following table.

A breakdown of the assets pledged/received:

COLLATERAL

€ MLN.

	PLEDGED		RECEIVED	
	2017	2016	2017	2016
Cash	0	11	1,208	838
Government bonds	344	489	3,974	2,371
Equity investments	0	0	1,823	3
Mortgages	0	0	11,896	6,972
Total Collateral	**344**	**500**	**18,901**	**10,184**

Achmea and Achmea's counterparties (third parties) receive and pledge collateral as assurance for the values on interest rate swaps, swaptions, futures, asset switch, security lending, reinsurance arrangements and loans and mortgages.

Achmea pledged €344 million in government bond securities covering the initial margin in accordance with EMIR regulation. The European Market Infrastructure Regulation (EMIR) is a body of European legislation for the regulation of over-the-counter derivatives. The pledged collateral consists of Achmea Pensioen- en Levensverzekeringen N.V. for €336 million and Achmea Schadeverzekeringen N.V. for €8 million.

In 2017 Achmea back-loaded[7] a section of its interest rate swaps portfolio to Central Clearing. This resulted in received cash collateral of €1,208 million within Achmea Pensioen- en Levensverzekering N.V. by the end of 2017 due to market developments. The collateral received (granted claims on bonds in the portfolio of Achmea's counterparties) increased to €3,974 million (2016: €2,371 million). Long-term swap rates have decreased causing a revaluation of interest rate swaps and therefore resulting in an increase in received collateral. In June 2017 the securities lending programme started. The received collateral for the security lending programme amounted to €3,774 million. Furthermore Achmea Pensioen- en Levensverzekeringen N.V. received collateral for reinsurance arrangements of €132 million (2016: €199 million) and loans and mortgages of €11,896 million. The received collateral mainly consisted of Achmea Pensioen- en Levensverzekeringen N.V. for €16,090 million and Achmea Schadeverzekeringen N.V. for €1,601 million.

D.1.4.7. DEPOSITS (OTHER THAN CASH EQUIVALENTS)

These assets are not rated and are valued using a "discounted cash flow" method using the discount rate for non-insurance assets and liabilities. This discount rate is adjusted with a credit spread based on market observable information.

DEPOSITS - DURATION

€ MLN.

	2017	2016
Less than 1 month	93	125
Between 1 month and three months	127	62
Between three months and 1 year	70	35
More than 1 year	106	223
Other	587	663
Total Deposits	**984**	**1,108**

Achmea transfers the surplus on liquidities from insurance activities to short-term deposits. Therefore, the exposure to deposits can deviate largely throughout the year. Changes in the deposits portfolio are mainly recognised due to recognitions and derecognitions; a net amount of €95 million was sold in 2017. Changes in economic assumptions amounted to €-29 million. Revaluations of deposits amounted to €17 million and foreign currency differences of €-45 million.

Within Achmea Reinsurance Company N.V. a deposit with a British Life Insurer was affected by the depreciation of the British pound against the Euro, resulting in €-20 million and a derecognition of €39 million.

Deposits are recognised within the legal entities Achmea Reinsurance Company N.V. for €605 million, Achmea Zorgverzekeringen for €158 million, Eureko Sigorta A.S. for €93 million, Interamerican for €52 million and Achmea Schadeverzekeringen N.V. for €58 million, Union Zdravotna Poist'ovna A.S. for €10 million, Achmea B.V. for €6 million and Achmea Pensioen- en Levensverzekeringen N.V. for €2 million.

D.1.4.8. OTHER INVESTMENTS

These instruments are valued at their economic value using the economic value hierarchy.

The following table is a specification of "Other investments". These are mainly recognised on the Economic Balance Sheet of Achmea Pensioen- en Levensverzekeringen N.V.

OTHER INVESTMENTS

	2017	2016
Mortgage savings Achmea Bank N.V.	784	932
Mortgage savings Rabobank U.A.	2,353	2,520
Mortgage savings ABN AMRO N.V.	3	3
Other	0	7
Total Other investments	**3,139**	**3,462**

[7] Back loading is a bilateral derivative contract, which is placed over-the-counter, placed to Central Clearing. This switch mitigate the counterparty risk.

The “Mortgage Saving Accounts” comprise the mortgage savings related to “mortgage saving insurance products”. The cash flows of the assets and liabilities are offsetting each other. The risk-free rate used for asset and liabilities differs.

The economic value of the Rabobank savings is based on discounting the cash flows for which the interest rate is fixed (only cash flows up to the moment of “interest rate repricing” are taken into account). For these Rabobank mortgage saving accounts, Achmea has an exposure to Counterparty Default Risk.

D.1.5. ASSETS HELD FOR INDEX-LINKED AND UNIT LINKED FUNDS

Investments backing linked liabilities comprise mainly investments funding unit-linked life insurance policies and investments to cover obligations under policies where the benefits are index-linked (performance linked contracts or “Gesepareerde Beleggings Depots” (GBD)). Investments presented under this category have the specific feature that the Market risks associated with them are borne by Achmea. The assessment should be made against the host insurance contracts (without assessing any additional options and guarantees).

ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED FUNDS

€ MLN.

	PROPERTY (OTHER THAN FOR OWN USE)	HOLDINGS IN RELATED UNDERTAKINGS	EQUITIES	BONDS	COLLECTIVE INVESTMENTS UNDERTAKINGS
Opening balance	452	0	9,190	1,151	0
Effect of changes in economic assumptions	-6	0	837	-44	0
Portfolio development	7	0	-212	141	0
Other	0	0	8	-129	0
Closing balance	**453**	**0**	**9,823**	**1,119**	**0**

ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED FUNDS

€ MLN.

	DERIVATIVES	DEPOSITS	LOANS & MORTGAGES	OTHER	TOTAL 2017	TOTAL 2016
Opening balance	70	640	0	7,471	18,974	18,754
Effect of changes in economic assumptions	38	0	0	125	949	581
Portfolio development	-21	2	0	-155	-237	-747
Other	-8	-1	0	27	-104	386
Closing balance	**79**	**640**	**0**	**7,468**	**19,582**	**18,974**

Within this paragraph we outline how the investments in the assets held for index-linked and unit linked funds as shown in the table above can be divided into the several legal entities.

Achmea Pensioen- en Levensverzekering N.V. has €16,433 million of the €19,582 million investments. Mainly this consist of investments in participations in the AIM Funds management for €7,424 million, savings related to mortgage products for €7,468 million and GBD investments for €1,534 million.

Friends First Life Assurance Company DAC has in total investments in these category for €2,906 million, Interamerican has €234 million and Union €9 million.

Assets held for index-linked and unit-linked funds consist of investments of Friends First Life Assurance Company DAC amounting to €2,906 million (2016: €2,584), participations mainly of AIM Funds management amounting to €7,424 million (2016: €7,260) and GBD investments amounting to €1,534 million (2016: €1,524). The category ‘other’ mainly comprises savings related to mortgage products, amounting to €7,468 million and reflecting mainly Rabobank savings €7,323 million (2016: €7,380 million).

The main movement in the unit-linked portfolio consists of effect of changes in economic assumptions in equities (€837 million). These are mainly investments held by AIM Funds management. The underlying main drivers are the increasing equities and the tightening of corporate spreads which is mitigated by increasing interest rates.

The table below lists the mortgage savings of which, based upon contractual agreements, the policy holder instead of Achmea bear the Counterparty Default Risk and Market Risk.

MORTGAGE SAVINGS ACCOUNTS WHERE POLICYHOLDER BEARS THE “DEFAULT RISK” € MLN.

	2017	2016	Δ
Mortgage savings Rabobank U.A.	7,323	7,380	-57
Mortgage savings Achmea Bank N.V.	151	0	151
Total Mortgage savings	**7,475**	**7,380**	**95**

Overall developments regarding Mortgage savings accounts consist of net derecognition of existing Mortgage savings accounts for a total of €-67 million. Overall revaluation effects over 2017 amounted to €155 million (2016: €227 million) and other movements of €7 million.

D.1.6. LOANS AND MORTGAGES

Valuation of the mortgage portfolio is based on an economic value determined using an exit price, which results in a market-based, rather than an entity-specific measurement. The mortgage loans are valued using a discounted-cash flow-model where the cash flows are determined per mortgage loan and discounted using the relevant discount rate. This discount rate is based on a top down approach. Achmea uses a top-down approach for all the mortgage portfolios to determine the economic value. The discount rate using the top down approach is based upon the relevant mortgage rates in the market. The loan parts are discounted against the relevant mortgage rates based upon the characteristics of the loan part (maturity, LTV, etc.). Several parameters are used in the mortgage loan portfolio valuation model. The following section contains a summary of these parameters:

- The discount rate is determined via the average of the top six primary market rates for each combination of loan to market value (i.e. the ratio of the mortgage loan balance and the market value of the property backing the mortgage loan), fixed rate period, amortisation type, and whether or not the loan is backed by NHG (“Nationale Hypotheek Garantie”) is determined by sorting the primary market rates for each combination in ascending order and by excluding action rates. The resulting rates are termed “processed market rates”.
- A downward adjustment of 10bps is made to the processed market rates to account for the interest rate option – pipeline risk - that is priced into these primary market rates.
- A constant prepayment rate (cpr) of 3.75% (2016: 4.06%) is applied to account for the expected pre-payments.
- For non-NHG mortgage loan parts with a current loan to indexed market value (CLTIMV) above 106% there are no, or limited, primary market mortgage loan rates available. Therefore, for mortgage loan parts with a CLTIMV above 106% the interest rate charged to Dutch borrowers for unsecured personal loans is used for discounting the CLTIMV part above 106%.
- Arears are distributed across 5 buckets and per bucket a probability of default is set (30-60 days: 25%, 60-90 days: 40%). No indexation is applied for incomes and the NHG compliance ratio is set at 85%.

LOANS AND MORTGAGES

	2017	2016
Loans on policies	19	20
Loans and mortgages to individuals	7,250	5,860
Other loans and mortgages	856	1,199
Total Loans and mortgages	**8,125**	**7,079**

Achmea Pensioen- en Levensverzekering N.V. has €7,456 million of the €8,125 million in investments. Mainly this consist of investments in loans and mortgages to individuals for €6,673 million and other loans for €783 million. The mortgage loans are included in “Investment Related Undertakings (IRU)” which are controlled by Achmea Pensioen- en Levensverzekeringen N.V. These IRU’s are Achmea Woninghypotheken I B.V. having invested €4,414 million and Achmea Woninghypotheken II B.V. having invested €1.785 million. Within Achmea Pensioen- en Levensverzekering N.V., a mortgage portfolio of €474 million is invested.

The Loans and Mortgages of Achmea Schadeverzekeringen N.V. consist of €579 million of Loans and Mortgages to individuals. The mortgage loans are included in Achmea Woninghypotheken III B.V. (IRU).

Eureko Claims Centre B.V. has investments in loans and mortgages of €57 million, Interamerican Greece of €20 million, Achmea Zorgverzekeringen N.V. of €8 million, Achmea Services N.V. of €3 million and Achmea B.V. of €2 million. Within other legal entities, the investments amount to €90 million in total.

The loans portfolio comprises mainly of the following components: senior real estate debt (€227 million, 2016: €310 million), Waarborgfonds Sociale Woningbouw (WSW) Loans (€513 million, 2016: €551 million) and Other loans (€116 million, 2016: €338 million). WSW loans are investments in loans to housing associations guaranteed by Waarborgfonds Sociale Woningbouw. Weighted average maturity date of the loans in WSW portfolio is July 2043. The senior real estate debt and WSW loans are mainly held by Achmea Pensioen- en Levensverzekeringen N.V.

LOANS & MORTGAGES

€ MLN.

	2017	2016
Opening balance	7,079	5,017
Effect of changes in economic assumptions	-8	144
Portfolio development	1,055	1,973
Other	0	-55
Closing balance	**8,125**	**7,079**

In 2017, the loans and mortgages portfolio increased by €1,046 million. Major driver is the recognition of new Loans & Mortgages, net value €1,055 million. The loans portfolio has a net recognition €-291 million.

The mortgage portfolio has a net recognition of €1,349 million, mainly as a result of new mortgages within Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V.

The new production of mortgages are funded by reallocation of investment from the bond portfolio.

Line item “Effect of changes in economic assumptions” has an overall negative revaluation of €-8 million. Revaluation developments related to mortgage portfolios amounted to €40 million. The mortgage rates have decreased in 2017 and as a result the discount rate decreased as well, positively affecting the market value of the mortgage portfolios. Within the loans portfolio revaluation amounted to €-37 million. Currency effects amounted to €-11 million.

These characteristics of all mortgage portfolios are presented in the table below.

MORTGAGE PORTFOLIO CHARACTERISTICS

€ MLN.

	2017	2016
Discount rate AWH I	2.13%	2.21%
Modified Duration AWH I	9.03	8.96
Discount rate AWH II	1.39%	1.60%
Modified Duration AWH II	4.18	4.31
Discount rate AWH II	2.27%	2.33%
Modified Duration AWH II	9.25	9.15
Discount rate AWH III	1.48%	1.60%
Modified Duration AWH III	6.46	6.58
Discount rate direct mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V.	2.22%	2.34%
Modified Duration direct mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V.	9.27	9.18

During 2017 the mortgage loan valuation model was updated which resulted in a change in the constant repayment rate to 3.75% (until Q3 2017: 4.06%). Overall effect on impact on revaluation keeping all other variables constant is €7 million.

LOANS TO VALUE

€ MLN.

	2017	2016
< 80%	2,218	1,454
80% - 100%	4,354	3,996
> 100%	678	410
Total	**7,250**	**5,860**

The loans to value (LTV) ratio expresses the ratio of a loan to the value of an asset purchased. The higher the ratio, the riskier the loan is for Achmea. In the table above only mortgage loans are included.

D.1.7. DEPOSITS TO CEDANTS

These instruments are valued at their economic value using the economic value hierarchy. These assets are not rated and are valued using a “discounted cash flow” method using the discount rate for non-insurance assets and liabilities. This discount rate is adjusted with a credit spread based on either market observable information or prior published solvency ratios. Based on these solvency ratios, a probability of default is derived which is subsequently used to derive the “adjustment for expected default”.

DEPOSITS TO CEDANTS

€ MLN.

	2017	2016
Opening balance	5	5
Portfolio development	-1	0
Closing balance	**4**	**5**

The deposits to cedants consists of Achmea Reinsurance Company N.V. and Achmea Schadeverzekeringen N.V.

D.1.8. RECEIVABLES

Receivables are measured at their economic value including the adjustment for expected default of the counterparty.

Policyholder receivables which are not due are not included in this presentation as they are still included in the Best Estimate cash flows of the insurance obligations.

Under “Other receivables” Achmea has included cash provided to counterparties as “Cash collateral”. These assets are not directly on demand for Achmea.

RECEIVABLES

€ MLN.

	2017	2016
Receivables from direct insurance	489	786
Receivables from salvage and subrogation	109	99
Contribution from Dutch health insurance fund	2,410	2,437
Receivables on reinsurance	29	136
Investment receivables	57	43
Prepayments to Dutch hospitals	1,239	1,396
Payments related to Dutch short-term mental care (GGZ)	531	340
Other	426	739
Total	**5,290**	**5,976**

The contribution from the Dutch Health Insurances fund includes the current account of Zorginstituut Nederland (ZiNL). The current account ZiNL mainly exists of prepayments received from ZiNL and the claims in relation to ZiNL. The balance of these two items mainly concerns a timing difference: ZiNL pays the budget spread over 24 months, while Achmea Zorgverzekeringen N.V. processes this in 12 months in the result and current account. With this chosen payment frequency ZiNL is trying to follow the actual declaration flow.

Following the Solvency II principles, receivables are in principle discounted. However, receivables with a payment term shorter than three months are not discounted (proportionality). If discounting is more material, Achmea will apply a discounting. This concerns the prepayments to hospitals, to mental healthcare institutions and other healthcare providers.

The exposures related to “Contribution from Dutch health insurance fund”, “Prepayments to Dutch Hosipitals”, and “Payments related to Dutch short-term mental Care (GGZ)” are related to the Dutch Basic Health insurance legal entities (see summary 1.4).

Receivables on reinsurance are mainly related to Friends First Life Assurance Company DAC (€28 million) and Interamerican Greece (€1 million). The Other receivables are expected to be recovered within 3 months after reporting date. The current carrying amount is a reasonable approximation of the economic value.

D.1.9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash, bank balances and call deposits. This asset category is valued at the nominal amounts. Cash and cash equivalents consist of notes and coins in circulation that are commonly used to make payments and deposits exchangeable for currency on demand at par and which are directly usable for making payments without penalty or restriction.

Any amounts presented are “on demand” and for use of Achmea. Cash provided as “Cash collateral” is not included as part of “Cash and cash equivalents” but is included as “Other receivable”.

CASH AND CASH EQUIVALENTS

€ MLN.

	2017	2016
Cash and bank balances	1,741	1,218
Call deposits	55	53
Total	**1,796**	**1,271**

Cash and cash equivalents are mainly held with counterparties with an A / AA rating.

D.1.10. OWN SHARES

According to Solvency II regulation, Achmea recognises the Own Shares as part of the Economic Balance Sheet, on the asset side. The value reclassified from Own Funds to assets is the same value as presented in the Financial Statements (2017: €235 million; 2016: €235 million).

For the determination of the Eligible Own Funds, the Own Shares are deducted from the Basic Own Funds before adjustment at the same value as recognised on the Economic Balance Sheet.

The Extraordinary General Meeting of Achmea has approved the proposal of the Executive Board of Achmea to repurchase ordinary shares for an amount of €100 million. This amount is deducted from Solvency II Eligible Own Funds as at 31 December 2017.

D.1.11. ANY OTHER ASSETS

All other asset balance sheet entries are presented under this heading. This includes:

- Prepayments (not related to “Investments” or “Investment property”);
- Prepayments and accrued income includes accrued commission costs. The term is less than one year.

Other assets are measured at their economic value. Achmea considers the value as presented in the financial statements to be a good proxy for the economic value.

ANY OTHER ASSETS

€ MLN.

	2017	2016
Prepayments and accrued income	203	239
Other assets	19	40
Total	**222**	**279**

D.2. TECHNICAL PROVISIONS

PARAMETERS SET BY EIOPA AND KEY ASSUMPTIONS USED BY ACHMEA

Basic risk-free interest rate term structure (RFR)

When determining the Best Estimate of the (re-)insurance liabilities Achmea has to use the risk-free interest rate (RFR) as endorsed by the European Commission in an Implementing Act. This RFR is based on information as provided by EIOPA.

Achmea uses the following RFR:

RISK FREE INTEREST RATE

CURRENCY	Curve	Credit Risk Adjustment	Last Liquid Point	Convergence Point	Ultimate Forward Rate
Euro	Swap	10 bps	20	60	4.2%
TLira	Swap	35 bps	10	60	5.2%
US Dollar	Swap	15 bps	50	90	4.2%
UK Pound	Swap	17 bps	50	90	4.2%

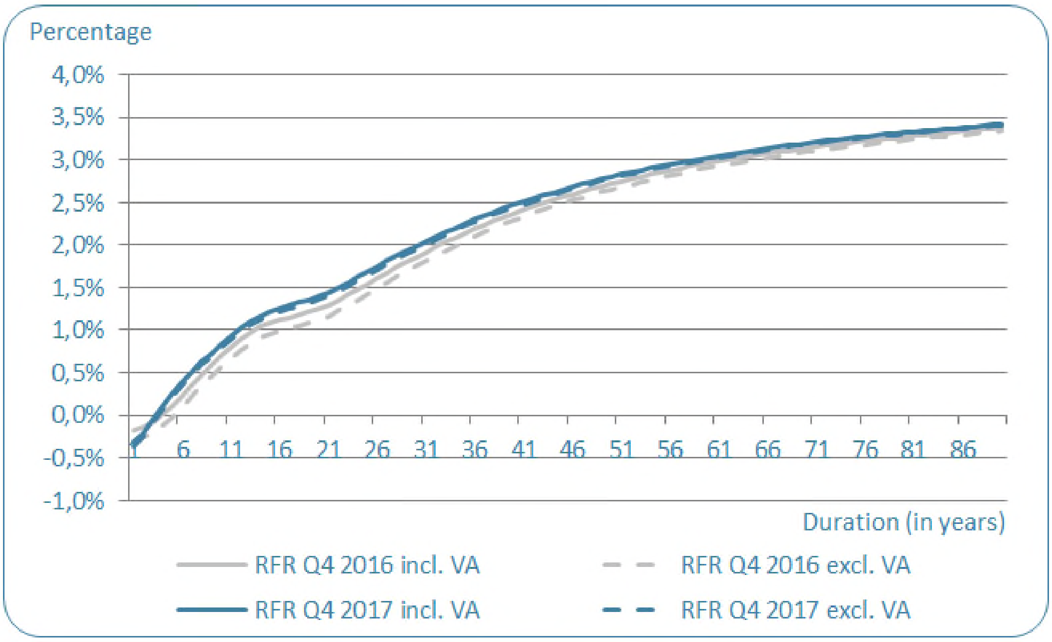
The methodology for deriving the basic risk-free interest rate 2017 and the underlying assumptions have not changed compared with 2016 year-end. Due to market circumstances the Credit Risk Adjustment can change during the year. The Credit Risk Adjustment above is the one as determined by EIOPA at 2017 year end.

Volatility adjustment

Achmea uses the Volatility Adjustment (VA) when determining the Best Estimate of several insurance portfolios stemming from underlying legal entities. The VA adjusts the Risk-Free Discount Rate used by Achmea. Based on the risk profile, duration of technical provisions or proportionality reasons whether the VA is applied or not.

The Volatility Adjustment for the Euro at year end was determined by EIOPA as 4 bp (2016 13 bp).

Graphically for in Euro denominated technical provisions and directly related assets, the following discount rates were used:



BUSINESS SPECIFIC PARAMETERS AND ASSUMPTIONS USED

Best Estimate

Contract boundary

The contract boundary represents the end of the insurance contract based on an economic perspective. The contract boundary is that point in time where a changed risk profile of the insurance contracts can result in a change in premiums or benefits payable to the policyholder in order to fully reflect the risks concerned.

- Health insurance contracts

For the Dutch health insurance contracts, valued according to Non-Life actuarial techniques (NSLT), the contract boundary has been determined to be one year.

For the Dutch health contracts which are valued according to SLT techniques (SLT) the contract boundary is in general one year depending on the ability to use “en bloc” clauses. Based on the annual assessment, management indicates that the “en bloc” clauses can be used in order to respond to changes in the risk profile for those insurance contracts where the legal term exceeds one year.

- Non-life insurance contracts

The majority of the Non-Life insurance contracts has a one-year contract boundary with few specific exceptions in The Netherlands. The covers bundled with Motor policies in Greece have a clearly described duration. There are no commitments to extend the policy at a certain price.

- Life insurance contracts

In general the legal maturity is used as contract boundary. For group contracts in The Netherlands the contract boundary restraint is used. Only the premiums until the end of contract date are taken into account in the calculations of the liabilities. Riders attached to the Life insurance host contract have generally the same duration as the host life insurance contract.

- Unit linked contracts

In general the legal maturity is used as contract boundary.

Life insurance and SLT health insurance: mortality tables

- Achmea Pensioen- en Levensverzekeringen N.V.
  For mortality / morbidity in The Netherlands the assumptions combine an assumption for general population mortality (AG2016 as published by the Dutch Royal Actuarial Association in September 2016) with an assumption for experience rate mortality (derived from our experience rate mortality investigation as conducted in 2017) to allow for different mortality in our own portfolio.

  For longevity products (pension- and annuity products) the basis assumption for mortality experience rates is the industry wide statistic (as published by the CVS (“Centrum voor Verzekeringsstatistiek”) in September 2016), adjusted for a better fit with the observations in our own portfolio. This leads to “ES-P7A” for pensions and “ES-L6A” for annuities, where the index 7/6 refers to the relevant CVS publication and A indicates the adjustment. The adjustment based on our own portfolio was introduced in 2017. Prior to 2017, the assumption was based directly on the CVS statistics.

  For mortality products (risk life products) industry-wide statistics are not available. Therefore, the mortality experience rates are investigated and determined directly on observed rates from our own portfolio.

- Achmea Schadeverzekeringen N.V.
  The provision for periodic claim payments AOV, WIA and WAO is calculated on a policy-by-policy based cash-flow method using mortality and recovery probabilities. For the WIA recovery probabilities and transition rates between WIA regimes the ‘Verbondsmodel 2014’ is used. In here, the level of the rates is calibrated with own experience data. The AOV recovery probabilities are entirely calibrated with own experience data.

- Ireland

The mortality rates are based on a 4 year experience analysis of mortality up to the end of December 2017 on both a 'Lives' and an 'Amounts' basis using the "GLEAN system"(GOMS Language Evaluation and Analysis):

Individual Term Assurance:

- Male Smokers 80% TMS00 select
- Male Non-Smokers 80% TMN00 select
- Female Smokers 90% TFS00 select
- Female Non-Smokers 90% TFN00 select

Unit Linked, Endowment, Whole of Life, PHI and Deferred Annuities, National Mutual:

- Male Smokers 80% AMS00 select
- Male Non-Smokers 80% AMN00 select
- Female Smokers 80% AFS00 select
- Female Non-Smokers 80% AFN00 select

Immediate Annuity

The annuitant mortality basis has been derived from both GLEAN experience analysis together with a recent report by the Irish Central Statistics Office (CSO).

- Males 110% PNMA00 with medium cohort mortality improvements (1.5% p.a. underpin)
- Females 110% PNFA00 with medium cohort mortality improvements (1.5% p.a. underpin)

- Greece

In Greece the mortality Best Estimate assumptions are derived by an investigation carried out for the period 01 January 2005 to 31 December 2016 separately for males and females for all ages, and for protection and saving business. The assumption is expressed as a percentage of the GR2005 tables. The morbidity Best Estimate assumptions are derived by an investigation carried out for the last 6 years, taking into account the latest trend if significant and the Business Plan expectation, which is considered a realistic management action. For certain products no experience investigation was carried out since the actual morbidity or disability experience is as expected or even slightly better.

- Slovakia

On a regular basis Slovakia performs a mortality analysis by comparing the expected mortality (based on the Slovak population mortality rates 1990-1994 or 1995-2003 depending on specific products) and the actual mortality. The experienced mortality left unchanged at 30% in 2017.

Expense assumptions

- The Netherlands

The basis for the expense assumptions of Achmea Pensioen- en Levensverzekeringen N.V. is the business plan for the period 2018-2020, which was complemented with the development of the closed book Pension portfolio to the year 2021. The business plan was approved by the Board. The expense level of 2020 is the basis for the expense projection after the year 2020 for Life products. For Pension products the expense level of 2021 is the basis for the expense projection after the year 2021. The investment expenses are calculated as the value of 8.2bps per year over the Best estimate liabilities and the risk margin.

The Best Estimate provision for claim handling expenses of Achmea Schadeverzekeringen N.V. is determined on the basis of the paid-to-paid methodology. This implies that the incurred claims handling per calendar year is expressed as a percentage of the claim payments. These are then multiplied by the provision for periodic claim payments

- Ireland

A full expense analysis has been carried out to determine the expense assumptions. In Q4 2017 the renewal expense assumptions are set based on a full expense investigation, based on the actual expenses incurred in the last 12 months up to November 2017. In addition the acquisition/renewal details are contained in a separate report.

- Greece

The expenses used are based on the 2018 budget, allowing for future inflation.

- Slovakia

Expenses are split into: adjusted back office and front office, where front office expenses (acquisition costs) are treated as initial costs and back office expenses (administration costs) as renewal costs. In 2017 the calculation of unit costs has been changed. Allocation of costs between initial and renewal as described above is still the same. However, previously, unit costs were calculated separately for all products and distribution channels. Over the time this approach proved to be too complex and lacking flexibility when new products were developed. Therefore, the complexity was reduced by distinguishing 4 product groups (traditional savings, risk, unit-linked and annuities) and no longer considering distribution channel as broker portfolio which is already small is only shrinking as there is no incoming new business. For renewal per policy costs 12-months rolling average is used. Renewal per policy expenses equals to total administration costs over the available last 12 months divided by the average number of in-force contracts over the same period (with paid-up policies having 33% expense reduction) and per policy expenses on annuities were calculated only from direct costs allocated to annuities; all overhead expenses were split between other products (traditional or unit-linked). 12-months rolling average is adjusted by the effect of the change in the remunerations applied as of mid-2017. Following table shows expense assumptions as used for 2017 year end calculation.

EXPENSE ASSUMPTION

	2017	2016
Traditional savings	49,40	
Risk	53,08	
Unit linked	54,29	
All non-annuity business	51,24	44,66
Annuities (2nd pension pillar scheme)	0,29	0,21

Following table shows expense inflation as used for 2017 year end calculation.

EXPENSE INFLATION

	2017	2016
Expense inflation	1,56%	1,56%

<u>Lapse assumptions</u>

- The Netherlands

The lapse assumptions used by Achmea Pensioen- en Levensverzekeringen N.V. are based on a yearly lapse investigation, which is carried out for the life products and for the pension products. This report is reviewed by the Actuarial Function Holder. The Lapse research is done on portfolio level. A distinction has been made between surrender, lapse and paid up.

- Ireland

The experience is analysed every quarter and the assumptions are updated for each quarterly SII run. For practical reasons, there is a lag of one quarter, i.e. the assumptions in Q4 2017 are based on the experience up to Q3 2017. The lapse assumptions are analysed by sub-product group and duration, with lapse rates for policies with duration in-force of 5 and above grouped together. This applies to all single premium and all premium paying regular premium policies.

- Greece

Until 2017, the lapse assumptions were set for two different periods: the business plan period (until end of 2019) and the long term assumption (2020 and beyond).This segmentation was performed mostly in order to capture the change in policyholder behaviour that occurred during the financial crisis period. The experience of the last few years shows that this phenomenon of increased lapse has faded out, and the portfolio persistency has returned to pre-crisis levels. In some cases, it is even lower, mostly due to the capital controls still in place. Therefore, the experience between 2009-2014 will not be taken into account in the determination of the persistency assumptions. The assumptions are determined per homogeneous risk group or per product where appropriate.

- Slovakia

  Union calculates lapse rates on a quarterly basis. Calculation is segmented into contract type - frequency of premium – distribution channel combination. Lapse rates in first, second and third policy year are based respectively on experience of the last 4, 5 and 6 years. For all other policy years (4+) all historical data are used. Single premium contracts have an exception due to low volume. All historical data are used also for 1st to 3rd policy year and for other policy years there is just one lapse rate calculated; it is a weighted average of lapse rates in remaining years (4+). This is to avoid high fluctuation in higher policy years.

Risk Margin

The Risk Margin of the individual entities within Achmea is calculated by determining the cost of providing an amount of Eligible Own Funds equal to the SCR necessary to support the insurance and reinsurance obligations over the lifetime thereof. The rate used in the determination of the cost of providing that amount of Eligible Own Funds is called “Cost-of-Capital rate”. This rate is set at 6%. Within the individual entities the projection of the SCR is based on the “approximation approach”. For this purpose the entities use appropriate risk drivers such as future Best Estimates or premiums.

The Capital Requirement is calculated based on the relevant yield curve excluding Volatility Adjustment. The Risk Margin of Achmea Group is equal to the sum of the Risk Margin of the individual legal entities before elimination of the intercompany positions.

D.2.1. TECHNICAL PROVISIONS NON-LIFE (EXCLUDING HEALTH)

In the following table the gross Technical Provisions of Achmea Group are presented, including a specification to the several entities within the Group. The gross Technical Provisions are excluding intercompany positions with the exception of the risk margin.

TECHNICAL PROVISIONS ACHMEA GROUP

€ MLN.

INSURANCE LEGAL ENTITIES	BEST ESTIMATE	RISK MARGIN	TECHNICAL PROVISIONS
Achmea Pensioen- en Levensverzekeringen N.V.	44,535	1,422	45,957
Achmea Schadeverzekeringen N.V.	5,324	157	5,481
N.V. Hagelunie	27	5	32
Achmea Reinsurance Company N.V.	655	24	679
Achmea Zorgverzekeringen N.V.	4,996	171	5,167
Interamerican Hellenic Life Insurance Company S.A.	631	23	654
Interamerican Assistance General Insurance Company S.A.	2	1	3
Interamerican Property & Casualty Insurance Company S.A.	296	16	311
Union Poist´ovna A.S.	86	4	90
Friends First Life Assurance Company DAC	4,514	50	4,563
Eureko Sigorta A.S.	248	20	269
Other Group	871	0	871
Total	**60,444**	**1,892**	**62,336**

The impact of the Pension Benefit Obligations is included in row “Other Group”

A specification of the technical provisions into the several segments is as follows:

TECHNICAL PROVISIONS – NON-LIFE (EXCL. HEALTH)

€ MLN.

	2017	2016	Δ
Best Estimate	3,012	3,151	-139
Risk Margin	142	110	31
Total Gross technical provisions	**3,154**	**3,262**	**-108**

BEST ESTIMATE NON-LIFE (EXCL. HEALTH)

€ MLN.

	2017	2016	Δ
Gross Best Estimate premium provision	302	446	-145
Gross Best Estimate claim provision	2,711	2,705	6
Total Best Estimate Non-Life	**3,012**	**3,151**	**-139**

In 2017 the gross Best Estimate for Non-life insurance contracts decreased with €139 million; the Best Estimate for premium provision decreased by €145 million, while the claim provision increased by €6 million.

The decrease of the Best Estimate for premium provision is mainly caused by Achmea Schadeverzekeringen N.V. The decrease is, beside regular portfolio developments, due to the fact that the profit margin on the yet to be invoiced premium income at the end of 2016 was recognised under “Other provisions” and at the end of 2017 reclassified as part of the Best Estimate for premium provision. The decrease of the premium provision in Turkey is mainly caused by the devaluation of the Turkish Lira.

The Best Estimate gross claim provision increased by €6 million. The claim provision of Achmea Schadeverzekeringen N.V. increased due to an additional claim provision for bodily injury despite the settlement of the severe hail calamity of 2016. On the other hand the claim provision decreased due to recalibration of the provision for legal expenses. The claim provision of N.V. Hagelunie decreased mainly due to the payment of the claims arising from the hail calamity of 2016. The claim provision of Achmea Reinsurance Company N.V. decreased in particular due to the loss related to the severe hail calamity of 2016.

The Risk Margin increased by €32 million compared to 2016. The increase is mainly caused by Achmea Schadeverzekeringen N.V. The reason lies in the contribution of insurance contracts that are already under obligation but the insurance cover has not started (recognition criteria). This resulted in an increase of the share of contracts for which Achmea Schadeverzekeringen N.V. is under obligation. In addition, in 2017 the unhedged Market Risk (Inflation risk), Catastrophe risk health and Lapse risk have also been included in the determination of the Risk Margin. N.V. Hagelunie (€3 million), Achmea Reinsurance Company N.V. (€6 million) and Greece (€2 million) also increased the Risk Margin.

D.2.2. TECHNICAL PROVISIONS HEALTH NSLT

TECHNICAL PROVISIONS – HEALTH (NSLT)

€ MLN.

	2017	2016	Δ
Best Estimate	5,346	5,614	-267
Risk Margin	184	137	47
Total Gross Technical Provisions	**5,530**	**5,751**	**-221**

BEST ESTIMATE HEALTH (NSLT)

€ MLN.

	2017	2016	Δ
Gross Best Estimate Premium provision	725	1,040	-315
Gross Claim provision	4,621	4,574	47
Total Best Estimate Health NSLT	**5,346**	**5,614**	**-267**

The Best Estimate decreased by €-267 million, of which €47 million for the Best Estimate claim provision (risk covered during the period) and €-315 million for the Best Estimate premiums (risk covered after the period). The main changes to the Best Estimate Health NSLT are caused by developments in the portfolio of Achmea Zorgverzekeringen N.V. The Best Estimate premium provision consists of the amount of premium paid in advance and the expected profit or loss for next year. The expected future loss €62 million (2016: €388 million) resulted in higher Technical Provisions (premium set below cost price). The increase in claim provision is due the claims assessment for accident year 2017. The remaining impact is due to a subsequent event in Q1 2017 within Achmea Zorgverzekeringen N.V. mainly due to revised claim estimates.

The Risk Margin increased by €47 million to €184 million and is mainly driven by additional guidance of DNB (28 June 2017). In the new methodology, the risks covered after the period are included, but only the part that relates to the claims and expenses. This leads to an increase of €44 million. The Risk Margin within Achmea Schadeverzekeringen N.V. decreased by €3 million.

D.2.3. TECHNICAL PROVISIONS HEALTH SLT

TECHNICAL PROVISIONS – HEALTH (SLT)

€ MLN.

	2017	2016	Δ
Best Estimate	2,923	3,039	-116
Risk Margin	90	71	19
Total Gross Technical Provisions	**3,013**	**3,110**	**-97**

The Best Estimate Health SLT of Achmea Group decreased by €-116 million. The decrease of the Best Estimate is mainly due to a change in treatment of a specific contract of Achmea Schadeverzekeringen N.V. from co-insurance to incoming reinsurance which led to netting the technical provisions with the current account.

The Risk Margin increased by €19 million. This is primarily caused by the inclusion in 2017 of capital for unhedgable Market Risk due to the improved methodology for the calculation of Inflation Risk within Achmea Schadeverzekeringen N.V.

D.2.4. TECHNICAL PROVISIONS LIFE

TECHNICAL PROVISIONS – LIFE (EXCL. HEALTH, INDEX-LINKED AND UNIT-LINKED) € MLN.

	2017	2016	Δ
Best Estimate	30,289	31,679	-1,390
Risk Margin	1,355	1,480	-125
Total Gross Technical Provisions	**31,644**	**33,159**	**-1,516**

The Best Estimate Life (excluding Health, index- and unit-linked) decreased by €1,390 million in 2017. The Risk Margin (excluding index- and unit-linked) decreased by €125 million in 2017.

The Best Estimates in The Netherlands decreased by €1,286 million mainly as €1,286 million mainly as a result of the (closed book) portfolio developments (€-1,109 million) closed book portfolio, economic assumptions (€-58 million) due to the change in yield curve and volatilities (which has an impact on the Time Value of Options and Guarantees) and non-economic assumptions (€-84 million) as a result of changes of mortality, lapse and expense assumptions and other portfolio developments. Model changes accounted for a decrease of €-35 million due to:

- Inclusion of the impact of the "Premie Pensioen Instelling" in the valuation models
- Improvements in the valuation models
- Change in the valuation of the saving/mortgage insurance portfolio

Greece and Ireland accounted for the remaining decrease of the Best Estimate.

The Risk Margin for the traditional Life portfolio has decreased in 2017 by €125 million from €1,480 million to €1,355 million. The changes were mainly caused by developments within Achmea Pensioen- en Levensverzekeringen N.V. (€-117 million), Interamerican Hellenic Life Insurance Company S.A. (€-2 million) and Ireland (€-5 million) in line with the decrease of the SCR.

D.2.5. TECHNICAL PROVISIONS - INDEX-LINKED AND UNIT-LINKED

TECHNICAL PROVISIONS –INDEX-LINKED AND UNIT-LINKED € MLN.

	2017	2016	Δ
Best Estimate	18,873	18,426	447
Risk Margin	122	158	-36
Total Gross Technical Provisions	**18,995**	**18,584**	**412**

The Best Estimate increased by €447 million in 2017.

The change of the curve has a limited effect on the unit linked portfolio. The curve only affects the future profits due to fee income related to the Unit linked portfolio. The increase of the Best Estimate is mainly due to the closed book portfolio, a change in spreads used for the valuation of the saving/mortgage insurance portfolio, the change of mortality, lapse, expense and investment expense assumptions and due to the increase of the value of the Unit Linked funds within Achmea Pensioen- en Levensverzekeringen N.V. The Risk Margin for the Unit-Linked portfolio decreased in 2017 by €36 million to €122 million and this was mainly caused by developments within Achmea Pensioen- en Levensverzekeringen N.V. (€-38 million), Interamerican Hellenic Life Insurance Company S.A. (€1 million) and Friends First Life Assurance Company DAC (€1 million).

D.2.6. REINSURANCE RECOVERABLES

In the following table the Reinsurance Recoverables of Achmea Group are presented, including a specification to the several entities within the Group. The Reinsurance Recoverables are excluding intercompany positions.

REINSURANCE RECOVERABLES ACHMEA GROUP

€ MLN.

INSURANCE LEGAL ENTITIES	REINSURANCE RECOVERABLES
Achmea Pensioen- en Levensverzekeringen N.V.	204
Achmea Schadeverzekeringen N.V.	37
Achmea Reinsurance Company N.V.	75
Interamerican Hellenic Life Insurance Company S.A.	0
Interamerican Property & Casualty Insurance Company S.A.	19
Union Poist´ovna A.S.	1
Friends First Life Assurance Company DAC	385
Eureko Sigorta A.S.	158
Total	**879**

D.2.6.1. REINSURANCE RECOVERABLES NON-LIFE (EXCLUDING HEALTH)

REINSURANCE RECOVERABLES – NON-LIFE (EXCL. HEALTH)

€ MLN.

	2017	2016	Δ
Recoverables reinsurance premium provision	-3	32	-35
Recoverables reinsurance claim provision	204	265	-61
Total reinsurance recoverables Non-Life	**201**	**297**	**-96**

REINSURANCE RECOVERABLES NON-LIFE (EXCL. HEALTH)

€ MLN.

	2017	2016
Opening balance	**297**	**268**
Closing balance	**201**	**297**

The decrease of the reinsurance recoverables refer mainly to payments in 2017 with regards to the settlement of claims due to the severe hail calamity of 2016.

D.2.6.2. REINSURANCE RECOVERABLES HEALTH (NSLT)

REINSURANCE RECOVERABLES HEALTH (NLST)

€ MLN.

	2017	2016	Δ
Recoverables reinsurance Premium provision	0	0	0
Recoverables reinsurance Claim provision	3	2	1
Total reinsurance recoverables Health NSLT	**3**	**3**	**0**

REINSURANCE RECOVERABLES HEALTH NSLT

€ MLN.

	2017	2016
Opening balance	**3**	**3**
Closing balance	**3**	**3**

The reinsurance recoverables ‘Health (NSLT)’ have not changed materially.

D.2.6.3. REINSURANCE RECOVERABLES - HEALTH (SLT)

REINSURANCE RECOVERABLES HEALTH SLT

€ MLN.

	2017	2016
Opening balance	**71**	**56**
Closing balance	**87**	**71**

Compared to 2016 the change in reinsurance recoverables ‘Health (SLT)’ is limited and due to normal portfolio development.

D.2.6.4. REINSURANCE RECOVERABLES - LIFE (EXCLUDING INDEX- AND UNIT- LINKED)

REINSURANCE RECOVERABLES LIFE

€ MLN.

	2017	2016
Opening balance	**683**	**755**
Closing balance	**588**	**683**

The change in reinsurance recoverables is limited and in line with the portfolio development.

D.2.6.5. REINSURANCE RECOVERABLES - INDEX- AND UNIT- LINKED

REINSURANCE RECOVERABLES UNIT-LINKED AND INDEX-LINKED

€ MLN.

	2017	2016
Opening balance	**-1**	**0**
Closing balance	**0**	**-1**

D.2.7. TECHNICAL PROVISIONS EXCLUDING THE VOLATILITY ADJUSTMENT

Achmea Group uses the Volatility Adjustment when determining the Best Estimate of the insurance contracts. For the technical provisions of the following legal entities the Volatility Adjustment is not used:

- The Dutch health insurance entities;
- Achmea Reinsurance Company N.V.;
- Interamerican Assistance General Insurance Company;
- Eureko Sigorta A.S.

The Solvency II Regulation does not allow the Volatility Adjustment to be used in Turkey. The decision not to use the Volatility Adjustment for the other entities is based on the duration of the technical provisions, investment policy/risk and the proportionality principle. At the end of the fourth quarter of 2017, a Volatility Adjustment of 4bps (2016: 13bps) has been used.

Not using the Volatility Adjustment results in higher Best Estimate due to a higher present value of cash flows, especially in the case of the long-tail liabilities (Life excluding index-linked and unit-linked). The Volatility Adjustment is not used when determining the Risk Margin[8].

[8] The impact of the Volatility Adjustement is mainly visible within Achmea Pensioen- en Levensverzekeringen N.V. (90%), Achmea Schadeverzekeringen N.V. (7%), Greece (1%) and Ireland (2%).

IMPACT OF VOLATILITY ADJUSTMENT ON TECHNICAL PROVISIONS

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Technical provisions (gross)	62,336	62,485	-149
Technical provisions – non-life (excluding health)	3,154	3,157	-3
Technical provisions – health (similar to non-life)	5,530	5,530	0
Technical provisions – health (similar to life)	3,013	3,021	-8
Technical provisions – life (excluding health and index-linked and unit-linked)	31,644	31,780	-136
Technical provisions – index-linked and unit-linked	18,995	18,997	-1

IMPACT OF VOLATILITY ADJUSTMENT ON TECHNICAL PROVISIONS

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Recoverables from reinsurance	879	881	-2
Technical provisions – non-life (excluding health)	201	201	0
Technical provisions – health (similar to non-life)	3	3	0
Technical provisions – health (similar to life)	87	87	0
Technical provisions – life (excluding health and index-linked and unit-linked)	588	590	-2
Technical provisions – index-linked and unit-linked	0	0	0

IMPACT OF VOLATILITY ADJUSTMENT ON TECHNICAL PROVISIONS

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Technical provisions minus recoverables from reinsurance	61,457	61,604	-147
Technical provisions – non-life (excluding health)	2,953	2,956	-3
Technical provisions – health (similar to non-life)	5,527	5,527	0
Technical provisions – health (similar to life)	2,926	2,934	-8
Technical provisions – life (excluding health and index-linked and unit-linked)	31,056	31,190	-135
Technical provisions – index-linked and unit-linked	18,995	18,997	-1

D.3. OTHER LIABILITIES

D.3.1. PROVISIONS OTHER THAN TECHNICAL PROVISIONS

A provision is recognised when:

- Achmea has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The recognised "Other provisions" does resemble "The other provisions" as described in the 2017 IFRS Financial Statements of Achmea. The values are the same and based on the present value. Achmea did not discount the "Other Provisions" which are deemed to be current.

OTHER PROVISIONS

€ MLN.

	RESTRUCTURING	LEGAL CLAIMS	OTHER	2017	2016
Opening balance	149	34	162	344	313
Portfolio development	-95	-8	-48	-151	31
Closing balance	**54**	**26**	**114**	**193**	**344**

Restructuring

In December 2013, Achmea announced that it would accelerate the adjustments to its organisation, in order to further increase customer focus, reduce costs for customers and facilitate investments in its online services. This would result in a gradual reduction in staffing levels of around 4,000 FTE's, of which a major part would be declared redundant. At 31 December 2017 the restructuring provision amounted to €54 million (31 December 2016: €149 million). In addition to the reorganisation programme announced earlier, an additional provision was formed this year for a staffing reduction, among other things resulting from Achmea's decision to terminate its services to sector pension funds. The most important assumptions used in determining this restructuring provision relate to the average salary, the reassignment period and the probability of a reassignment to another position within Achmea or elsewhere. These liabilities have different expected settlement dates, but the main part is expected to have a maturity of more than twelve months after the balance sheet date.

The restructuring provision is recognised in The Netherlands within the Ancillary Services entities.

Legal claims

Legal claims include liabilities related to legal claims and possible compensations in relation to insurance and non-insurance activities of Achmea. Due to the nature of these liabilities, the expected maturity is uncertain, but the main part is expected to have a maturity of more than twelve months after the balance sheet date. The value of legal claims is determined based on management judgement, external professional assessment and experience.

The provision for legal claims is mainly located in The Netherlands (77%) and Greece (23%). In The Netherlands Achmea B.V. (€16 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€4 million) have recognised a provision for legal claims. Within Greece the provision for legal claims is recognised in the insurance entity.

Other

Other provisions consist mainly of liabilities related to onerous contracts related to rented unused office premises and IT-related contracts, provisions for insufficient fees from service contracts and employee benefits including provisions for long-service benefits.

The Other provision is mainly located in The Netherlands (95%), Greece (3%) and Turkey (2%). In The Netherlands the Other provision has been recognised mainly in Ancillary Service entities and Achmea Schadeverzekeringen N.V. (€15 million). Within our Operating companies other provisions are recognised in the insurance entities.

D.3.2. CONTINGENT LIABILITIES

Achmea assesses at each reference date whether "contingent liabilities" are to be recognised.

Achmea will classify possible contingent liabilities according to their likelihood of occurrence:
- "probable" (likely to occur)
- "reasonably possible" (more than remote but less than likely)
- "remote" (slight change of occurrence).

If the possible contingent liability is deemed to be "remote" then Achmea will assume that the valuation of the contingent liability will not be material.

For the other two classifications Achmea will have to obtain more information. The first step is to assess whether a similar contingent liability has been incurred by Achmea in the past. If so, Achmea has to assess what the outcome was. Achmea will use this as a reference.

Based on these assessments the following non-material contingent liabilities are identified:
- Achmea B.V. and companies forming part of Achmea are involved in lawsuits and arbitration proceedings. These proceedings relate to claims instituted by and against these companies arising from ordinary operations and mergers, including the activities carried out in their capacity as insurer, credit provider, service provider, employer, investor and tax payer. Although it is not possible to predict or define the outcome of pending or imminent legal proceedings, the Executive Board believes that it is unlikely that the outcomes of the actions will have a materially, negative impact on the financial position of Achmea B.V.
- NHT guarantees a maximum of €44 million maximum (2016: €44 million). No terrorism claims incurred. No liabilities are present to be recognised.
- Achmea B.V. has provided Vereniging Achmea and Rabobank with an indemnity for amounts imposed by the Australian supervisor related to the activities of the Australian branch of Achmea Schadeverzekeringen N.V. in case the Australian supervisor will impose on Vereniging Achmea and Rabobank as shareholder of the ultimate parent of Achmea Schadeverzekeringen N.V. additional obligations and responsibilities relating to these Australian activities. No material losses are expected in respect of this indemnity. Due to its nature, this indemnity is not to be quantified.
- Guarantees, as part of specific tenders for non-life insurance contracts for local Dutch governments, related to the fulfilment of the obligations resulting from these contracts in case of non-performance by the non-life insurance group company (Achmea Schadeverzekeringen N.V.).
- Achmea B.V. has given guarantees that the liquidity and solvency of three subsidiaries will be sufficient to continue their operations (Achmea Investment Management N.V., Syntrus Achmea Pensioenbeheer N.V., Syntrus Achmea Real Estate & Finance B.V.).
- Achmea B.V. issued guarantees as mentioned in Section 403 of Book 2 of the Dutch Civil Code, in respect of two investment companies within the Group.
- Frexit Holding B.V. and Inshared Holding B.V. issued guarantees as mentioned in Section 403 of Book 2 of the Dutch Civil Code, in respect of four companies within the group (Frexit Assurandeuren B.V., Frexit Assurantiën B.V., respectively Inshared Nederland B.V., Inshared Services B.V.).

The abovementioned contingent liabilities are classified as "remote" and have no material effect. Therefore these contingencies are currently not recognised on the Economic Balance Sheet.

Achmea did not have any material contingent liabilities recognised on the Economic Balance Sheet at 31 December 2017.

D.3.3. PENSION BENEFIT OBLIGATIONS

Employee benefits are all obligations of the employer to the employee or former employee. Examples are post-employment benefits and retirement packages or long-term remuneration packages.

Achmea presents the short-term employee benefits (such as salaries, already declared bonuses) with an expected settlement less than 1 year as part of the "Other liabilities"; long-term remuneration packages (such as option schemes) are presented as part of "Other provisions". All other employee benefits (such as pension schemes) with an expected settlement of more than 1 year are presented as part of this balance sheet entry.

The economic value of employee benefits is currently best estimated by reference to the value according to IAS 19R, which is included in the IFRS financial statements.

PENSION BENEFIT OBLIGATIONS

€ MLN.

	2017	2016
Present value of defined benefit obligation	989	1,118
Fair value of total investments backing defined benefit obligation	-82	-159
Unfunded status	907	960
Net defined benefit liability	**907**	**960**

Achmea has a pension scheme for the majority of its employees. The pension scheme administered by Stichting Pensioenfonds Achmea, applicable to the majority of the 12,600 employees in the Netherlands, is a so-called Collective Defined Contribution (CDC) scheme. The obligation of Achmea related to the pension scheme is limited to payment of the agreed premium for the current year of service.

Achmea maintains defined contribution plans for the majority of its employees. Achmea's defined benefit (DB) obligation is mainly related to the accrued rights under former defined benefit plans. These defined benefit plans were maintained in the Netherlands, Ireland and to a limited extent in Greece. Benefits related to medical costs are not included in these plans.

The accrued rights of a number of (former) employees under former defined benefit schemes in the Netherlands have been insured with Achmea Pensioen- en Levensverzekeringen N.V. and therefore Achmea continues to bear the financial and actuarial risks. The investments related to the insurance contracts are accounted for as Investments (and do not qualify as Investments backing defined benefit obligation).

The other scheme in the Netherlands was the pension scheme Stichting Bedrijfstakpensioenfonds Zorgverzekeraars (SBZ) recognised within De Friesland. As a consequence of an amendment in the terms and conditions of this pension scheme, it was reclassified from a defined benefit scheme to a defined contribution scheme as of 2017.

Pensions for the Irish employees are provided by the Friends First Group Retirement and Death Benefits Scheme. As of 2014, Friends First employees accrue pension entitlements on a defined contribution basis. The accrued rights up until that moment are based on a defined benefit scheme, in which the retirement age is based on the age for state pension benefits in Ireland and the accrued rights of the participants are indexed based on price inflation.

The pension benefits obligation is mainly located in The Netherlands (97%), Ireland (2%) and Greece (1%). In The Netherlands the pension benefits obligation has been recognised in an Ancillary Service entity. Within our Operating Companies pension benefits obligations are recognised both in the insurance entities as well as Ancillary Service entities.

D.3.4. DEPOSITS FROM REINSURERS

In comparison to 2016 the deposits from reinsurers decreased with €0.2 million from €1.7 at year-end 2016 to €1.5 million at year end 2017.

DEPOSITS FROM REINSURERS

€ MLN.

	2017	2016
Opening balance	2	2
Closing balance	**2**	**2**

The deposits from reinsurers consists of Achmea Reinsurance Company N.V. and Achmea Schadeverzekeringen N.V.

D.3.5. DEBTS OWED TO CREDIT INSTITUTIONS

Debts owed to credit institutions include all loans from external parties to Achmea, financial lease liabilities and financial reinsurance liabilities. Financial liabilities are valued at their economic value, with the exception of the effect of changing Achmea’s own creditworthiness since the recognition date. When the economic value is determined Achmea adds this fixed ‘initial’ spread to the risk-free interest rate at the reporting date.

For very small loans (< €1 million) with a limited remaining time to maturity (< 3 years) Achmea has not discounted the cash flows but retained the amortised cost value. Considering the discount rate this has a very small impact on the value of the Own Funds.

DEBTS OWED TO CREDIT INSTITUTIONS € MLN.

	SECURED LOANS	UNSECURED LOANS	OTHER	2017	2016
Opening balance	0	988	97	1,085	1,216
Closing balance	**0**	**959**	**118**	**1,077**	**1,085**

In November 2013, Achmea B.V. issued a €750 million Senior Unsecured Note. The Notes have a maturity of 7 years (maturity date is 19 November 2020). The coupon on the Notes equals 2.5%. The economic value, calculated with the initial spread (102bps), amounts to a total of €784 million.

In May 2013, Achmea B.V. issued a CHF200 million (€161 million) Senior Unsecured Note with a coupon of 1.5%. These Notes have a maturity of 6 years (maturity date is 19 June 2019). The economic value, calculated with the initial spread (95bps), amounts to a total of €175 million.

Debts owed to credit institutions are held in The Netherlands, within Achmea B.V. (€1,076 million) and Achmea Interne Diensten N.V. (€1 million).

D.3.6. FINANCIAL LIABILITIES OTHER THAN DEBTS OWED TO CREDIT INSTITUTIONS

Financial liabilities other than debts owed to credit institutions include all loans from external parties to Achmea, financial lease liabilities and financial reinsurance liabilities. Financial liabilities are valued at their economic value, with the exception of the effect of changing Achmea's own creditworthiness since the recognition date. When the economic value is determined Achmea adds this fixed 'initial' spread to the risk free interest rate at reporting date.

FINANCIAL LIABILITIES OTHER THAN DEBTS OWED TO CREDIT INSTITUTIONS € MLN.

	2017	2016
Closing Balance	**4**	**9**

This financial liability of Achmea Pensioen- en Levensverzekeringen N.V. is related to transferred pension obligations to other insurance companies. Repayment of this financial liability takes place through periodic annuities. The fair value of these loans is determined using pricing models where the contractual future cash flows is discounted by using current interest rates based on the swap curve including a credit spread.

D.3.7. PAYABLES

Payables are measured at their economic value. The value according to the IFRS financial statements is deemed to be an adequate proxy for the economic value.

PAYABLES € MLN.

	2017	2016
Payables from direct insurance	1,159	1,245
Payables on reinsurance	29	77
Creditors	95	108
Taxes	194	151
Other	28	27
Total	**1,504**	**1,607**

D.3.8. SUBORDINATED LIABILITIES NOT IN BASIC OWN FUNDS

Any subordinated liabilities which do not qualify as being part of the Eligible Own Funds are presented here. These subordinated liabilities are valued according to their economic value. The cash flows are discounted using the discount rate as used by Achmea including a credit spread as agreed at the inception date. This credit spread remains constant over time.

At the end of 2017 Achmea has no such subordinated liabilities (2016: nil).

D.3.9. ANY OTHER LIABILITIES

All other liability balance sheet entries are presented under this heading. This includes:
- Accruals not related to investments or investment property;
- Other liabilities as presented as part of the IFRS Financial Statements not related to insurance contracts.

Other liabilities are measured at their economic value. Achmea considers the value as presented in the IFRS Financial Statements to be a good proxy for this economic value.

ANY OTHER LIABILITIES

€ MLN.

	2017	2016
Accruals and deferred income	137	175
Other	1,496	1,128
Total	**1,633**	**1,303**

The total amount of 'Other' consists mainly of repayment obligation of collateral received in the form of cash due to the EMIR regulation being operational, processed collateral for certain OTC derivatives on the balance received in 2016. The economic value of the repayment obligation of collateral is €1,186 million (2016: €838 million).

D.3.10. DEFERRED TAXES

Deferred taxes are determined using the balance sheet liability method for temporary differences between the carrying amounts of assets and liabilities in the economic balance sheet and the amounts used for taxation purposes. The amount of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at reporting date. 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.

In the Economic Balance Sheet the principles as defined by IAS 12 are applied. The amounts already recognised on the IFRS Financial Statements are deemed to be recoverable. Otherwise these would have not been recognised as part of the IFRS Financial Statements. Due to the valuation principle employed by Solvency II, amounts are added to the deferred tax assets/liabilities following the Solvency II valuation principles. Achmea assesses the recoverability of these additions, in conjunction with the changes in the deferred tax liability and the Loss Absorbing Capacity of the Deferred Taxes (recoverability analysis, in order to avoid double counting) per legal entity.

Each addition to the deferred tax due to the valuation differences is calculated as that change in valuation multiplied by the enacted tax rate of the appropriate fiscal regime applicable to the Member State in which Achmea operates.

In all jurisdictions the enacted tax rates remained the same and no immediate change is foreseen.

Any amounts which are deemed to be not recoverable will create a downward adjustment on the Economic Balance Sheet and therefore a deduction within the Own Funds. This was not the case at the balance sheet date.

DEFERRED TAXES (ASSET = + ; LIABILITY = -)

€ MLN.

	OPENING BALANCE	RECOGNISED IN INCOME	RECOGNISED IN OWN FUNDS	CLOSING BALANCE
Intangible assets	-24	3	35	14
Investments	-1,273	236	-405	-1,442
Other assets	45	1	1	47
Technical provisions	1,411	-234	828	2,005
Other provisions	10	-4	10	16
Pension benefit obligations	-2	-5	1	-6
Other liabilities	576	9	-521	64
Loss carry-forwards	73	-3	-32	39
Total	**816**	**4**	**-84**	**736**
Of which deferred tax assets	837	0	-68	758
Of which deferred tax liabilities	-21	4	-4	-21

DEFERRED TAXES (ASSET = + ; LIABILITY = -) PER COUNTRY

€ MLN.

	DEFERRED TAX ASSETS	DEFERRED TAX LIABILTIES	TOTAL
Achmea Interne Diensten N.V.	16	0	16
Achmea B.V.	28	0	28
Achmea Schadeverzekeringen N.V.	-174	0	-174
Achmea Pensioen en Levensverzekeringen N.V.	839	0	839
Syntrus Achmea Real Estate & Finance B.V.	1	0	1
Achmea Reinsurance Company N.V.	-4	0	-4
Achmea Bank N.V.	-7	0	-7
N.V. Hagelunie	0	-13	-13
InShared Holding B.V.	15	0	15
Wagenplan B.V.	0	-1	-1
Consolidation	34	0	34
Total Netherlands (25%)	**747**	**-14**	**733**
Slovakia (21%)	8	0	8
Turkey (20%)	1	0	1
Ireland (12,5% Trading Profits / 25% Other)	0	-7	-7
Greece (29%)	2	0	2
Total	**758**	**-21**	**737**

D.4. ALTERNATIVE METHODS FOR VALUATION

The valuation hierarchy is described in section D.1.1. For some investment exposures Achmea has to use alternative methods for valuation when a quoted price in an active market is unavailable. Where possible Achmea uses best practice valuation approaches as described in the various sections of this Solvency and Financial Condition Report. For some exposures own techniques or expert judgment is used as a basis for the valuation. This section of the SFCR describes these alternative valuation approaches in more detail.

Property for Own Use and Investment Property

The property for own use is valued using a discounted cash flow technique. The cash flows for the coming twenty years are projected and discounted. In this projection information and parameters are used as suggested by the National Association of Appraisers (NVRT), for example the inflation scenario. After twenty years the terminal value is predicted which is subject to expert judgment. The valuation is performed by an external party. The value of the property is also compared to recent transactions in the same geographical area. Based on differences in location and characteristics of the building adjustments are made. This valuation is also benchmarked with the co called “capitalisation method”. The outcomes of both methods may not differ too much from each other. If this is the case, the external party and Achmea will have to make appropriate adjustments if necessary.

For investment property, the main method is the capitalisation method which is benchmarked by the discounted cash flow method. All the external parties involved have to adhere to the ISAE3402, the professional standard that was developed to provide information and assessment of controls within the service organisation. Each quarter, 25% of the entire portfolio has to be appraised by external parties. The remainder of the portfolio is updated to reflect the circumstances of the reference date. Every three years the contracted external parties rotate with other external parties. In the valuation approach of the external parties recent transactions are taken into consideration.

For investment property related to residential property, the highest value of continuous exploitation or direct sale is used. The appraisal value is benchmarked with at least three reference objects with similar characteristics.

Equity participations

For several participations in companies, an Economic Balance Sheet is not readily available at the reference date. In these instances reference is made towards the net asset value adjusted where relevant for a zeroing of goodwill and intangibles. During the year, if financial information becomes available, a back-test is performed to assess the appropriateness of the net asset value valuation. Where appropriate, adjustments are made in the valuation.

For venture capital investments and private equity Achmea uses the valuation principles as published by the European Foundation for Venture Capital and Private Equity Association (EVCA).

In all cases benchmarking is applied when the investments are derecognised.

Bonds and loans

Achmea invests in certain exposures where not market information is readily available to really reflect the economic valuation. In these instances, Achmea uses the discounted cash flow method. The cash flows are projected and discounted with the swap curve adjusted with an adjustment for default risk. Achmea uses the same method as laid down for the economic valuation of “amounts ceded to reinsurers” (article 42 of regulation 2015/35). Based on the Loss Given Default of the exposure and the probability of default, a “through the cycle adjustment” is calculated.

D.5. ANY OTHER INFORMATION

Information about the valuation of assets and liabilities is stated in the notes to the economic balance sheet.

E. CAPITAL MANAGEMENT

E.1. OWN FUNDS

E.1.1. CAPITAL ADEQUACY POLICY

The Achmea capital adequacy Policy (CAP) is applicable for the Achmea Group and its subsidiaries. Starting point for this policy is the Achmea Risk Appetite. The main principles of this policy are as follows:

- The Executive Board of Achmea is responsible for the solvency position at Group level and the statutory boards are responsible for the solvency position of the legal entities;
- The principal 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;
- Achmea aims to keep a capital buffer at Holding level. This will enable the Group to solve possible capital shortages of legal entities by simply transferring capital within the Group;
- Solvency II is the leading capital regime for Achmea. The Solvency II capital limits are defined for the Partial Internal Model (PIM) approved by the “College of Supervisors”.

At Group level, the minimum level is defined as the level where all entities are capitalised at 100% SCR based on the approved PIM.

On legal entity level, a buffer above the 100% SCR level is kept to absorb ”normal” volatility. Subsequently, the target level of the legal entity is defined as 100% SCR plus a buffer. Around the target level a bandwidth is defined and the lower boundary of the bandwidth is the real internal limit, below which a capital increase will be required. For the Dutch Operating Companies except the health entities, the bandwidth is 5%-pt. For the non-Dutch Operating Companies and the Dutch Health entities the bandwidth is 10%-pt. Achmea strives to achieve for a target Solvency II ratio of 165%.

Achmea monitors the solvency position and takes measures if applicable to restore solvency ratios within predefined time periods and to prevent solvency ratios from falling below the minimum levels. Applicable contingency plans will especially focus on the Group. In principle, the Holding provides capital increases in order to restore the internal limit levels for the legal entities. When specific trigger points are passed, crisis governance enters into force.

A yearly upstream process is in place resulting in upstream of all capital above the upstream level at the end of the previous year taking into account the projection of the Solvency position one year ahead.

E.1.2. ELIGIBLE OWN FUNDS

The Eligible Own Funds increased by €41 million to €8,386 million. The increase is the result of positive technical results in the Non-Life and Pensions & Life insurance business, an increase in value caused by the financial markets, the refinement of cost assumptions and updating of the mortality experience in the Dutch life insurance business. This is partially compensated by the allocation of capital for health insurance premiums in 2018, planned dividends relating to the positive annual results and the announced buy-back of Achmea shares.

ELIGIBLE OWN FUNDS – GROUP

€ MLN.

	2017	2016	Δ
Tier 1	6,363	6,295	68
Tier 2	1,340	1,356	-16
Tier 3	683	693	-10
Total Eligible Own Funds	**8,386**	**8,345**	**41**

Tier 1

Tier 1 consists of an unrestricted part and a restricted part. The restricted part of Tier 1 may not exceed 20% of the unrestricted part and consists of two capital instruments which are included via the grandfathering rules as laid down in the final Solvency II legislation:

- €311 million in Preference shares 5.5%, issued in 2003, having the maturity date in December 2023 with extension option, issuer call annually, first call December 2013;
- €600 million in capital instruments subject to grandfathering; these are capital securities (hybrid capital) 6%, issued in 2006, no maturity date (perpetual), issuer call annually, first call November 2012.

Tier 2

The capital components included within Tier 2 consist of the following instruments:

- €553 million in subordinated loan subject to grandfathering (nominal value: €500 million) 6% until April 2023, issued in 2013, having the maturity date in April 2043, issuer call annually, first call April 2023;
- €786 million in perpetual loan (nominal value: €750 million) 4.25% fixed rate up to February 2025, issued in 2015, no maturity date (perpetual), issuer call annually, first call February 2025.

Tier 3

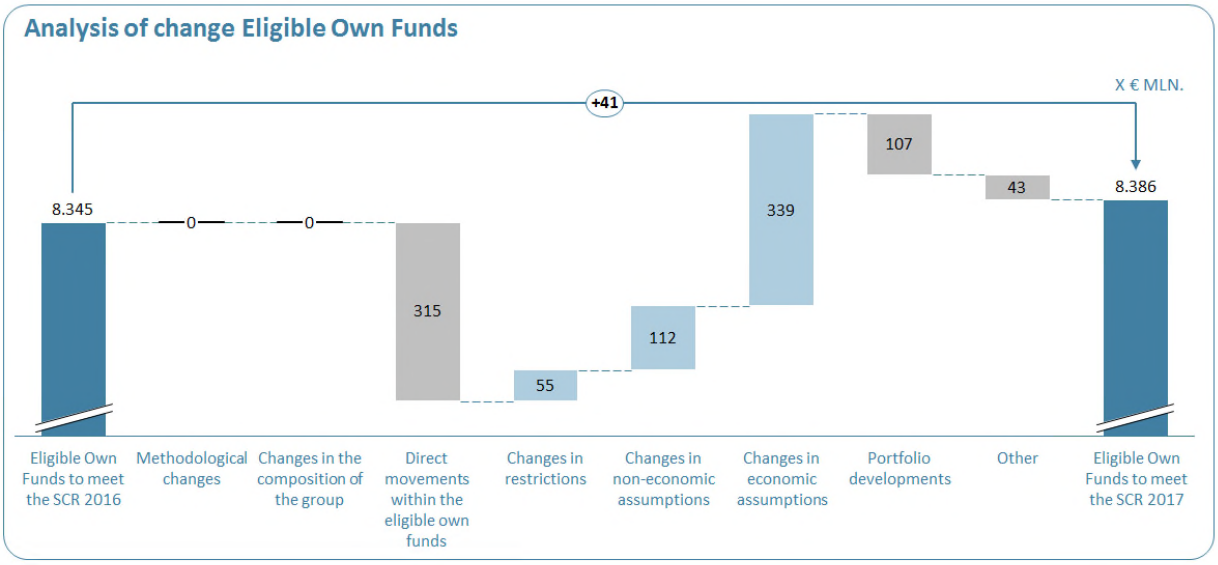
Within Tier 3 Achmea includes the net Deferred Tax Assets as recognised on the Economic Balance Sheet. However there is a limit for Tier 3 being 15% of the SCR. Any amounts exceeding this threshold are considered to be not eligible for covering the SCR. Achmea defines this as "Relegation of Tier 3". In 2017 an amount of €53 million is not recognised as part of the Eligible Own Funds (2016: €123 million).

MCR and Eligible Own Funds

Achmea also has to assess whether the capital components are able to cover the Group Minimum Capital Requirements. The calculation of the Group MCR is determined by simply adding all the solo MCR, which implies that the group MCR is calculated gross of intra group transactions. Compared to the SCR, Tier 3 capital is not eligible to cover the MCR and Tier 2 capital components may not exceed 20% of the Tier 1 capital. Any excess Tier 2 capital is not eligible to cover the MCR. In order to cover the MCR the restricted Tier 2 was €865 million (2016: €871 million).

ANALYSIS OF CHANGE IN THE ELIGIBLE OWN FUNDS

The Eligible Own Funds increased by €41 million.



Direct movements within the Eligible Own Funds (€-315 million)

The foreseeable dividends on ordinary shares (€-124 million), coupon payments on preference shares (€-17 million) and hybrid capital (€-73 million) in 2017 result in a decrease in Own Funds. The General Meeting agreed on a repurchase of shares (€100 million) which is also deemed to be a foreseeable distribution towards shareholders.

Impact of changes in restrictions (€55 million) including relegation of Tier 3

Not all elements of the Available Own Funds can be taken into account when determining the Eligible Own Funds in accordance with the Solvency II legislation.

Compared to 2016, the Relegation of Tier 3 decreased with €70 million due to lower net deferred tax assets. The Tier 3 sub-limit resulted in a lower Relegation of Tier 3 of €53 million (2016: €123 million).

The other non – available own funds restrictions increased by €15 million. This is mainly caused by the restrictions related to Achmea's Australian activities (€14 million). Other impacts were the restrictions of the pension provisions of Friends First Life Assurance Company DAC (€3 million), Ring Fenced Funds of Friends First Life Assurance Company DAC (€1 million), partly compensated by a decrease of the restriction related to the Dutch care administration offices (€-2 million) and a decrease in the restriction related to 10% dividend tax of the Non-EEA subsidiary Eureko Sigorta (€-1 million).

Impact of changes in non-economic assumptions (€112 million)

The change in the cost and mortality assumptions at Achmea Pensioen- en Levensverzekeringen N.V. has the greatest impact on the Own Funds. Furthermore, a decrease in the Best Estimate of Interamerican Property & Casualty Insurance Company S.A. as a result of a combination of favourable developments of claims and model adjustments leads to a positive impact , an adjustment in contract boundary at Friends First Life Assurance Company DAC and the change in recognition at Achmea Schadeverzekeringen N.V. lead to a change.

Impact of changes in economic assumptions (€339 million)

The developments in the financial markets contribute significantly to the movement in Own Funds. During 2017, interest rates increased, country and credit spreads reduced and equity indices increased. These economic developments led to an increase in Own Funds with €339 million.

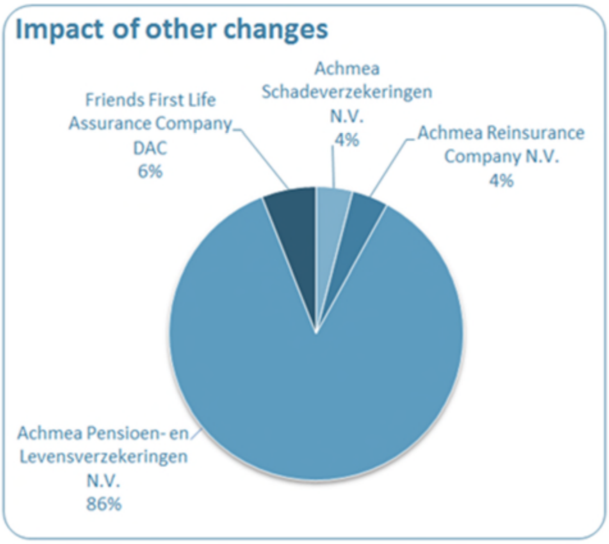
Impact of portfolio developments (€-107 million)

The decrease in Eligible Own Funds due to portfolio developments of €-107 million can be split over the following underlying entities and causes:

- Achmea Zorgverzekeringen N.V. (€-164 million). The premiums for 2018 are set below cost price, which resulted provisions for expected losses. In combination with the adjustment of the claims assessment for old accident years and lower budget contributions, this led to a decrease in Own Funds.
- Achmea Pensioen- en Levensverzekeringen N.V. (€-69 million). A negative result on costs and an addition to the provision for premium waivers in case of disability. These negative impacts are partially offset by the impact of the portfolio run-off, which decreases the risk margin.
- Achmea Schadeverzekeringen N.V. (€44 million). Improvement measures such as premium increases, claims management and cost saving as well as the absence of large catastrophes in 2017 resulted in a positive contribution to the Own Funds.
- The positive technical result (€25 million) in 2017 of N.V. Hagelunie resulted in a positive contribution to the Own Funds.
- The positive results over the first half year of Achmea Reinsurance Company N.V. are offset by global catastrophes and by adjustments in the cash flow patterns for the calculation of the risk margin. In total this resulted in a negative contribution (€-15 million) to the Own Funds.
- During 2017, the banking activities of Staal Beheer N.V. (previous Staalbankiers N.V.) were dismantled. Subsequently the banking licence was revoked resulting in an increase of the Own Funds by €45 million.
- Other entities provide for an increase of €27 million.
- Tax effects related to the increase in Own Funds due to changes in economic assumptions and portfolio developments are presented as portfolio developments.

Impact of other changes (€-43 million)

The other movements consisted of movements which cannot be categorised in the above building blocks.



E.1.3. BRIDGE OWN FUNDS FINANCIAL STATEMENTS – ECONOMIC BALANCE SHEET

RECONCILIATION EQUITY FINANCIAL STATEMENTS - BASIC OWN FUNDS SII

€ MLN.

	2017	2016	Δ
Equity Financial statements	9,949	9,782	167
Subordinated liabilities in Basic Own Funds	1,350	1,350	0
Own shares (held directly)	235	235	0
Total Financial statements excess of assets over liabilities (IFRS adjusted)	**8,834**	**8,667**	**167**
Intangible assets	-792	-820	28
Investments	549	547	2
Deferred tax assets	-1	106	-107
Deferred acquisition costs	-102	-115	13
Reinsurance recoverables	-270	-336	66
Receivables	-786	-466	-320
Other assets	-32	-115	83
Technical provisions	792	61	731
Other provisions	1	-11	12
Deferred tax liabilities	34	-35	69
Financial liabilities	-171	-213	42
Payables	-0	568	-568
Other liabilities	-38	-36	-2
Total delta valuation Financial Statements - SII	**-816**	**-865**	**49**
Other	-7	-1	-6
Total Excess of Assets over Liabilities	**8,011**	**7,801**	**210**

* *The mentioned subordinated liabilities in Basic Own Funds of €1,350 million are the subordinated liabilities suitable for IFRS and therefore a deduction to result together with the Own Shares on the Total Excess over Liabilities, presented under Solvency II.*

The starting point for the Economic Balance Sheet is the IFRS consolidated balance sheet of Achmea Group. Some IFRS line items are reclassified according to the presentation in the Economic Balance Sheet. All balance sheet items are verified according to Solvency II valuation principles and adjusted accordingly. The “Excess of assets over liabilities” has been calculated net of any intra-group positions except for the intra-group positions included in the entities which are classified as participations on the Economic Balance Sheet, such as the credit institutions and other entities within the meaning of the Capital Requirements Directive, the Institutions for Occupational Retirement Provisions (IORPs) and Non Ancillary entities.

Intangible assets

All recognised intangible assets are valued at their economic value. Achmea uses the value as presented in the IFRS financial statements for such intangibles as a proxy for the value in the economic balance sheet. Notwithstanding this definition, goodwill and intangible assets obtained by means of a business combination are valued at nil. The intangible assets in the IFRS financial statements are recognised within the legal entities Achmea B.V., Achmea Interne Diensten N.V., Inshared Holding B.V. , Eureko Sigorta A.S and Interamerican entities.

Investments

The investments are (re)-classified in the Economic Balance Sheet according to their characteristics and risk profile (“look through principle”). In the Consolidated IFRS financial statements, Achmea either measures or discloses the fair value of its investments. For most of the financial investments, the fair value is deemed to be a good proxy for the economic value. For some of the investments the IFRS value must be remeasured to economic value. These remeasurement mainly relates to the Rabobank savings remeasured based on the result of the discounting cash flow method and the unlisted equity investment in Garanti Emeklilik valued with valuation techniques at estimate purchase price. Most of the change in the remeasurement of the “saving part” of the Mortgage saving insurance products are also recognised as remeasurement within the Technical Provisions.

Deferred acquisition costs

The deferred acquisition costs are valued nil. The deferred acquisition costs are recognised within the legal entities Achmea Pensioen- en Levensverzekeringen N.V., Friends First Life Insurance Company DAC, Interamerican entities and Eureko Sigorta A.S.

Reinsurance recoverables

The economic value of the Reinsurance recoverables is related to the value of the Best Estimate adjusted for an “Adjustment for Counterparty Default”. The technical provisions on which the reinsurance arrangements are based, are changed in value. This has a direct effect on the economic value of the reinsurance recoverables.

Receivables and other assets

The remeasurements regarding the receivables consists of the current account with the Zorginstituut Nederland. The items related to “ex post” calculations in this current account are treated as part of the Best Estimate. Furthermore, any insurance receivables and other (related to insurance) assets which are “not due” are recognised as part of the Best Estimate.

Financial liabilities

Financial liabilities that are measured at amortised cost in the IFRS balance sheet are revaluated at their economic value, with the exception of the effect of changing Achmea’s own creditworthiness since the recognition date.

Payables and other liabilities

The remeasurements refer to insurance payables and other (related to insurance) liabilities which are “not due” are recognised as part of the Best Estimate.

Deferred tax assets and liabilities

Due to the valuation principle employed by Solvency II, amounts are added to the deferred tax assets/liabilities following the Solvency II valuation principles. Achmea assesses the recoverability of these additions, in conjunction with the changes in the deferred tax liability and the Loss Absorbing Capacity of the Deferred Taxes (i.e. recoverability analysis, in order to avoid double counting). Each addition to the deferred tax due to the valuation differences is calculated as that change in valuation multiplied by the enacted tax rate of the appropriate fiscal regime applicable to the Member State in which Achmea operates.

Technical provisions

The main difference between IFRS and SII technical provisions is that the SII technical provisions are based on Best Estimates and a Risk Margin ("Market value approach"). IFRS takes into account a value including a prudency margin based on IFRS accounting principles (in general a fixed interest rate for life insurance portfolio's, mortality/morbidity assumptions based on accounting principles etc.) including a reserve for capital gains on fixed interest assets and related interest derivatives. IFRS does not take into account:

- Future lapses and expenses;
- Future profit sharing and premium contributions to the expiration date;
- Economic value valuation of mortgage savings;
- Risk Margin.

Solvency II principles, parameters and assumptions are based on Best Estimate assumptions.

E.1.4. SOLVENCY RATIO

SOLVENCY RATIO OF GROUP

€ MLN.

	2017	2016	Δ
Eligible Own Funds	8,386	8,345	41
Required Capital	4,555	4,623	-68
Surplus	**3,831**	**3,722**	**109**
Ratio (%)	184%	181%	3%

The Solvency II ratio of 184% increased by 3% compared to the 2016 ratio of 181%.

ALTERNATIVE SCENARIOS

SOLVENCY POSITION EXCLUDING THE USE OF THE VOLATILITY ADJUSTMENT

With respect to the so called Long Term Guarantee (LTG) measures, Achmea uses the Volatility Adjustment (VA) as published by EIOPA and included in the Implementing Regulation by the European Commission. When determining the Solvency position, Achmea uses the VA. The use of the VA ensures that the artificial mismatch between the asset and liability portfolio is smaller by adjusting the relevant risk-free interest rate used to discount the Best Estimate. This has a positive effect on the Own Funds. Since the economic value of the technical provisions is reduced, the related capital requirements are also lower. The VA is not used by the Dutch Health insurance legal entities, Achmea Reinsurance Company N.V. and Interamerican Property and Casualty Insurance Company S.A., the VA is not used for proportionality reasons. Using the VA in Turkey is not allowed according to the applicable Solvency II Regulation.

IMPACT OF VOLATILITY ADJUSTMENT ON SOLVENCY RATIO

€ MLN.

	INCLUDING VOLATILITY ADJUSTMENT	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Eligible Own Funds	8,386	8,258	128
Required Capital	4,555	4,693	-138
Surplus	**3,831**	**3,565**	**266**
Ratio (%)	184%	176%	8%

The impact of using the VA per legal entity is presented in Appendix 2

The use of the VA has an impact on the value of the Best Estimate of the Insurance obligations. Not using the VA results in a higher value of the Best Estimate and consequently of the Risk Margin. Both increases have an impact on the deferred taxes and therefore the Eligible Own Funds.

The higher value of the Best Estimate also causes an increase in the Solvency Capital Requirement. The impact of the VA is mainly visible in the life insurance portfolio (long tail business in Life Underwriting Risk). Excluding the VA will lower the yield curve and therefore increase the Best Estimate of the liabilities and leads to a higher Life Underwriting Risk.

The Volatility Adjustment is published by EIOPA and endorsed by the European Commission. At the end of 2017 a VA of 4bps (2016: 13bps) has been used.

SOLVENCY POSITION EXCLUDING THE USE OF THE EQUITY TRANSITIONAL

When determining the Solvency position, Achmea uses the mandatory Equity Transitional. This transitional results in lower stresses on equity investment which were recognised on the Economic Balance Sheet on or before 31 December 2015. The Equity Transitional is not used for exposures stemming from investment portfolios of Friends First Life Assurance Company DAC, Eureko Sigorta A.S., N.V. Hagelunie, De Friesland Zorgverzekeraar N.V., FBTO Zorgverzekeringen N.V. and the former portfolio of De Friesland Particuliere Ziektekostenverzekeringen N.V. (now part of Achmea Zorgverzekeringen N.V.).

IMPACT EQUITY TRANSITIONAL SOLVENCY RATIO

€ MLN.

	INCLUDING EQUITY TRANSITIONAL	EXCLUDING EQUITY TRANSITIONAL	IMPACT EQUITY TRANSITIONAL
Eligible Own Funds	8,386	8,413	−27
Required Capital	4,555	4,733	−178
Surplus	**3,831**	**3,680**	**151**
Ratio (%)	184%	178%	6%

If Achmea would not use the Equity Transitional, the capital requirement for Market Risk would increase by €288 million to €2,363 million. This results in an increase of the SCR of €178 million (2016: €263 million) and an increase of €27 million of the Eligible Own Funds due to a lower relegation of Tier 3. The impact on the Solvency II ratio of Achmea is 6%-pt.

SOLVENCY POSITION EXCLUDING THE USE OF THE ULTIMATE FORWARD RATE

The Ultimate Forward Rate is part of the relevant Risk-free interest rate used to discount the Best Estimate. In the calculations per 31 December 2017 an Ultimate Forward Rate (UFR) of 4.2% is used. The UFR will be lowered to 4.05% per 1 January 2018. As part of risk management activities the sensitivity of the Solvency position related to the underlying assumptions of the relevant Risk-free interest discount rate is assessed (UFR 4.05%; UFR 3.65%, no UFR, Last Liquid Point 30 years).

The impact on the Solvency ratio of not using the Ultimate Forward Rate, using 3.65% or 4.05% is presented below. 4.05% is the UFR that will be applicable from 1 January 2018 once the European Commission has endorsed the new methodology put forward by EIOPA.

IMPACT UFR SOLVENCY RATIO

€ MLN.

	ULTIMATE FORWARD RATE 4.2%	ULTIMATE FORWARD RATE 4.05%	ULTIMATE FORWARD RATE 3.65%	NO ULTIMATE FORWARD RATE
Eligible Own Funds	8,386	8,335	8,139	7,329
Required Capital	4,555	4,567	4,588	5,114
Surplus	**3,831**	**3,768**	**3,551**	**2,215**
Ratio (%)	184%	182%	177%	143%

The impact of not using the Ultimate Forward Rate (“no ultimate forward rate”) is 41%-pt on the Solvency II ratio of Achmea (2016: 52%-pt). The Solvency position of Achmea is calculated based on an extrapolation of the relevant Risk-free interest rate up to 20 years after which the “constant forward” is used as technique to derive the discount rate beyond the last liquid point of 20 years. In the calculations Achmea uses the Volatility Adjustment as published by EIOPA and endorsed by the European Commission of 4 basis points per 31 December 2017.

Using an Ultimate Forward Rate of 3.65% / 4.05% (or “constant forward” Ultimate Forward Rate) results in a higher value of the Best Estimate, a higher Solvency Capital requirement and consequently an increase of the Risk Margin. This affects the Eligible Own Funds as well.

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

More detail regarding the Solvency Capital Requirements of the Dutch insurance legal entities can be found in the public Quantitative reporting templates (see annex for hyperlinks).

E.2.1. KEY ASSUMPTIONS APPLIED OR USED BY ACHMEA

HRES FACTOR

Achmea applies the HRES factor (Health Risk Equalisation System). The HRES factor is based on the Implementing Technical Standards that have been published by the European Commission, when determining the capital requirement for Premium- and reserve Risk for the Line of Business Medical Expense. The HRES factor is only applied to Dutch basic health technical provisions. For Premium Risk 2.7% is applied, for reserve Risk the HRES-factor is 5%. The use of the HRES factor is accompanied by the requirement to use the “broad premium” definition e.g. all premiums and payments received by Achmea for the basic health insurance obligations, including payments made by Zorginstituut Nederland, are deemed to be premiums.

Equity transitional

Achmea uses the mandatory Equity Transitional when determining the capital requirements for Equity Risk. The Equity Transitional is not used within all legal entities contingent on the proportionality principle (Eureko Sigorta A.S., N.V. Hagelunie, FBTO Zorgverzekeringen N.V., de Friesland Zorgverzekeringen N.V., the former portfolio of De Friesland Ziektekostenverzekeringen N.V.) the Equity Transitional is not used.

The Equity Transitional is only used for equity investments which were held on the Economic Balance Sheet prior to or at 31 December 2015. The Equity Transitional is calculated as the weighted average of 22% and the required equity shocks for Type 1 and Type 2 equity investments. The weighting of the Solvency equity shocks started at 0% at the start of Solvency II (1 January 2016) and will linearly increase to 100% over a seven-year time horizon.

Leverage within Market Risk

Achmea invests in various legal entities which hold direct or indirect investments in property. In principle, these entities are subject to the capital requirements for Property Risk based on the underlying risk drivers. However, if the leverage within these entities exceeds 20%, these exposures are included as input when determining the capital requirements for Equity Risk.

Commitments to invest in future exposures

In certain instances, Achmea provide commitments to counterparties to invest in issuance of equity or debt investments. Based on the contractual agreements, Achmea already has committed an economic value for these future investments. On the Economic Balance Sheet these commitments are not recognised e.g. the underlying exposure is not recognised. In order to determine the capital requirement, Achmea includes these commitments as inputs for the various sub-risk modules.

Proxies Foreign Insurance Entities

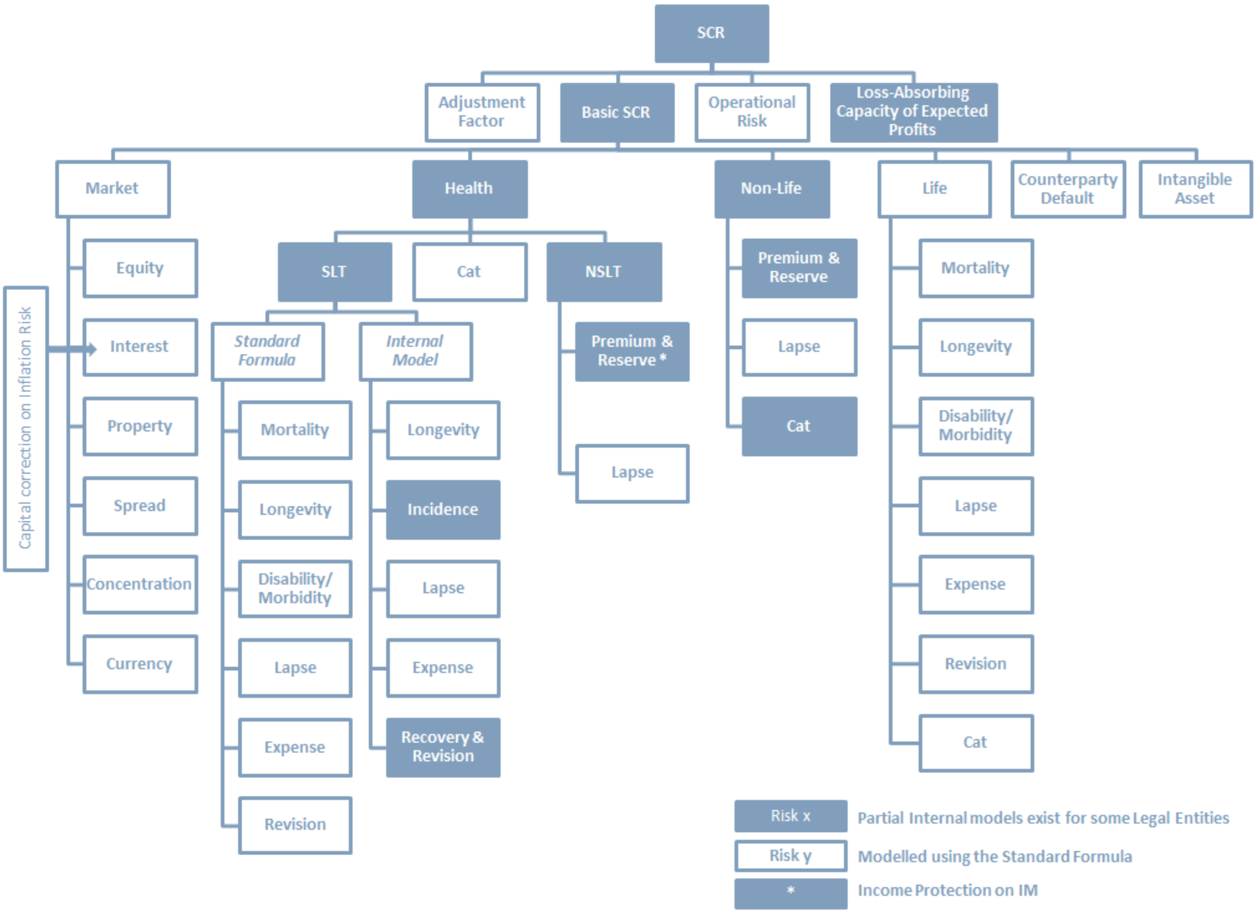
In order to determine Achmea’s Solvency position an extensive consolidation process is required. Achmea publishes its Solvency position earlier than required by the Solvency II legislation. Currently the foreign supervised entities were not fully capable of providing the data in a timely manner for this publication. In order to be able to include all entities in the Group data, Achmea used proxies to estimate various parts of the SCR of these entities. Scaling has been used based on the third-quarter 2017 data. When presenting individual data of the foreign insurance entities reference is made towards the Solvency information as submitted to the individual supervisory authorities. Achmea has assessed any deviations between the SCR determined using proxies and the full calculations. The impact on the Solvency position of Achmea B.V. is not significant.

E.2.2. STANDARD FORMULA VERSUS PARTIAL INTERNAL MODEL

Achmea uses an internal model for:

- Non-Life Underwriting Premium and Reserve Risk in The Netherlands and Greece for Achmea Schadeverzekeringen N.V., N.V. Hagelunie, Interamerican Property & Casualty Insurance Company S.A. and Achmea Group;
- Non-Life Underwriting Natural Catastrophe Risk in the Netherlands and Greece for Achmea Schadeverzekeringen N.V., N.V. Hagelunie, Interamerican Property & Casualty Insurance Company S.A. and Achmea Group;

- Health SLT for the Dutch disability portfolio of Achmea Schadeverzekeringen N.V. for Incidence and Recovery/Revision Risk. This model is also used for Achmea Group purposes;
- Health NSLT Premium and Reserve Risk for Income Protection in The Netherlands for Achmea Schadeverzekeringen N.V. and the Achmea Group.



Achmea uses a Partial Internal Model[9] to calculate the Solvency Capital Requirement. The Standard Formula components and Internal Models components are aggregated into a single Solvency Capital Requirement. The aggregation is done by means of the "default approach" (use of the correlations as provided by the Standard Formula) at the level of the main risk types and most sub risk types. Exceptions are the aggregation of SLT Underwriting Risk and Non-Life Premium- and Reserve Risk, where Achmea has used the "implicit correlation" approach to aggregate the capital requirements. Achmea also aggregates data at a lower level than applied in the Standard Formula. Here the correlations are based on Achmea's data and expert judgment.

In addition to the Internal Model components Achmea has added a capital correction for Inflation Risk to the Interest Rate Risk within Market Risk. Achmea excluded this from the Internal Model for Non-Life Underwriting and Health SLT Underwriting Risk. In order to capture this risk in the Solvency Capital Requirement Achmea has determined in "Pillar II" a capital requirement associated with this risk. Within "Pillar I" the SCR for Inflation Risk is added at the level of "Interest Rate Risk". Achmea uses a correlation factor of 1 to aggregate the "Inflation Risk" with "Interest Rate Risk".

[9] Within Non-Life Cat Risk Man-made Risk is not included. For Union Poist'ovna A.S. and Eureko Sigorta A.S. no Internal Model is used for Premium and reserve risk.

The SCR Counterparty Default Risk is impacted under the Partial Internal Model due to the Internal Model for Non-Life Catastrophe Risk. The risk mitigating effect within Counterparty Default Risk is particularly affected in connection with this Internal Model.

There is no internal model for Life Underwriting Risk.

The Partial Internal Model Health Underwriting Risk (not applicable to Achmea's health insurance companies, which apply the Standard Formula):

- Health SLT
  The structure of the Partial Internal Model is different than that of the Standard Formula at the aggregation level SLT Health. The exclusion of inflation risk should be considered (see the difference with Market Risk) when assessing the difference between the outcome of the Standard Formula and of the Partial Internal Model.

- Health NSLT
  Within Achmea Schadeverzekeringen N.V. several insurance portfolios are classified in the Lines of Business (LoB) Income Protection. This is also included in the Health NSLT section. For this LoB the Internal Model is used. The difference with the Standard Formula is caused entirely by the size of the portfolio. A larger portfolio is more stable.

For Catastrophe Risk, three differences between the Standard Formula and the Internal Model for Natural Catastrophe Risk result in a higher capital requirement. Achmea includes the so called “Amplification factor”[10] and the “Clustering of Windstorms” when determining the capital requirements for Hail and Windstorm in the Netherlands. In Greece the granularity in the “properties at risk” is more refined than in the Standard Formula.

Following the differences between the Standard Formula and the internal model used, the outcome of the Loss Absorbing Capacity of Deferred Taxes under the Partial Internal Model differs from the outcome of the Standard Formula.

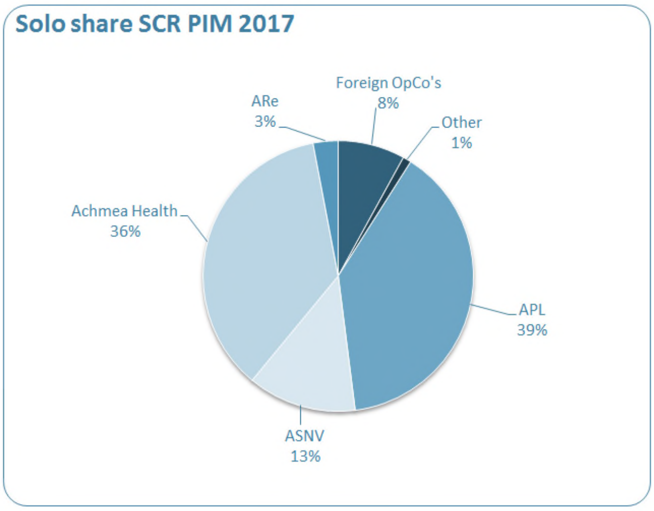
Within the Standard Formula the Loss Absorbing Capacity of Expected Profits is not applicable, because it is assumed that the impact is already included in the various Standard Formula parameters as laid down in the Solvency II legislation. In Achmea's Internal Model an adjustment factor for Loss Absorbing Capacity for Expected Profits is applied since future profitability is not fully taken into account within the Internal Model[11].

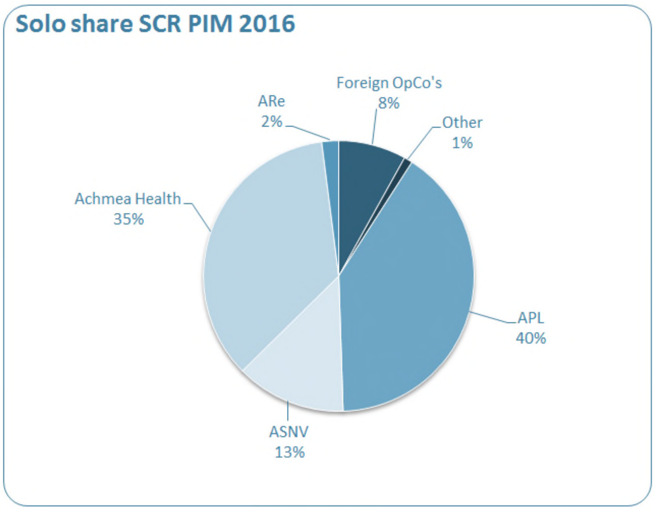
[10] The amplification factor implies that the costs of recovery of damages due to the catastrophe are increased following shortages of resources following that catastrophe.

[11] For Achmea's Non-Life Premium- and Reserve Risk calculated using the Internal Model, the capital requirements are calculated as possible (99,5%) deviations from the expected figures. These capital requirements reflect (unexpected) deviations from the expected change in own funds for the forthcoming one-year period. The expected change in Own Funds serves as a first buffer to absorb unexpected deviations.

E.2.3. SOLVENCY CAPITAL REQUIREMENT

Solvency Capital Requirement according to major legal entities[12]:





The contribution from the main legal entities is fairly stable compared to 2016.

E.2.3.1. TOTAL CAPITAL REQUIREMENT

The main SCR results based on the Partial Internal Model are:

SOLVENCY CAPITAL REQUIREMENT

€ MLN.

	2017	2016	Δ
Market Risk	2,075	2,291	-216
Counterparty Default Risk	643	560	83
Life Underwriting Risk	1,760	1,861	-100
Health Underwriting Risk	1,889	1,861	28
Non-Life Underwriting Risk	816	770	46
Diversification	-2,632	-2,645	12
Intangible Asset Risk	1	4	-3
Basic Solvency Capital Requirement	**4,552**	**4,702**	**-149**
Operational Risk	586	596	-11
Loss-Absorbing Capacity of Expected Profits	-57	-65	8
Loss-Absorbing Capacity of Technical Provisions	0	0	0
Loss-Absorbing Capacity of Deferred Taxes	-560	-641	81
Solvency Capital Requirement (Cons)	4,522	4,592	-70
SCR Other Financial Sectors & Other Entities	33	31	3
Solvency Capital Requirement	**4,555**	**4,623**	**-68**

The Solvency Capital Requirement has decreased with €68 million to €4,555 million. The Capital Requirements decreased mainly due to a decrease in Market and Life Underwriting Risks. In Market Risk, the Interest Rate Risk is lower as a result of the capital hedge introduced within the Dutch life insurance business. The capital hedge reduces the volatility in the solvency ratio caused by interest rate developments. The Life Risk has decreased due to several effects that mainly have an impact on the Longevity, Expenses and Lapse risks. The decrease in the SCR is partly compensated by a decrease in the Loss Absorbing Capacity of Deferred Taxes (LACDT).

[12] ARe = Achmea Reinsurance Company N.V.; Achmea Health = All entities in The Netherlands selling Basic or Supplementary Health insurance; ASNV = Achmea Schadeverzekeringen N.V.; AP&L = Achmea Pensioen- en Levensverzekeringen N.V.; Foreign OpCo's = supervised insurance entities outside The Netherlands.

E.2.3.2. MARKET RISK

This chapter describes the Solvency Capital Requirement for Market Risk under the Partial Internal Model ("SF under PIM") for Achmea as at the end of 2017. " SF under PIM" is the calculation of the capital requirements for Market Risk based on the Standard Formula added with a "capital correction for Inflation Risk". This correction is related to Non-Life technical provisions where (parts of) the Underwriting risk is calculated using an internal model.

The following table shows the SCR Market Risk and its components as at the end of 2017 and 2016.

MARKET RISK

€ MLN.

	2017	2016	Δ
Interest Rate Risk	418	817	-400
Equity Risk	990	1,086	-97
Property Risk	399	396	3
Spread Risk	827	788	39
Market Concentration Risk	0	0	0
Currency Risk	111	216	-105
Diversification	-669	-1,013	344
SCR Market Risk	**2,075**	**2,291**	**-216**

INTEREST RATE RISK

The capital requirement for Interest rate Risk is mainly recognised within Achmea Pensioen- en Levensverzekeringen N.V. Interest Rate Risk within the other supervised insurance entities is limited because of the Interest Rate Risk policy employed, such as duration matching and absolute limits used.

At the of 2016, Achmea decided to change the manner in which the interest rate sensitivity is managed for Achmea Pensioen- en Levensverzekeringen N.V. by further allowing the perspective of the prudential regime in the hedging strategy aiming at a more stable solvency ratio. This is called the "capital hedge". The capital hedge was fully implemented in 2017.

Achmea uses an internal model in order to determine the capital requirements for the Non-Life Premium and Reserve Risk for the Dutch and Greek technical provisions. In this internal model, Achmea decided that Inflation Risk embedded in Health SLT products sold by the Non-Life insurers is not part of Underwriting Risk but is categorised as part of Market Risk. As Achmea has not yet an approved internal model for Market Risk, Achmea includes the Inflation Risk as part of Interest Rate Risk. This is called the "capital correction for Inflation Risk". This Inflation Risk is added to the outcome of both scenarios.

On the level of Achmea Group, the Interest rate Risk is determined using the "upward interest rate risk scenario". This scenario was also used for the 2016 year end calculations. When interest rates increase, the capital of Achmea will decrease with €418 million (2016: €817 million). A downward interest rate shock would result in a €415 million decrease for Achmea (2016: €632 million). In both the upward and in the downward interest shock scenario, the SCR includes the €135 million Inflation Risk for Non-Life liabilities in 2017 (2016: €217 million). On the perspective of the solo insurance legal entities Eureko Sigorta S.A., Interamerican Property and Casualty Insurance Company S.A. and Friends First Life Assurance Company DAC used the "downward interest rate scenario", all other solo insurance legal entities uses the "upward interest rate scenario",. For Interamerican Property and Casualty Insurance Company S.A. and Union the scenario changed compared to 2016.

The capital requirement for Interest Rate Risk decreased by €400 million to €418 million compared to 2016. The main reasons for the decrease is the implementation of the capital hedge within Achmea Pensioen- en Levensverzekeringen N.V., the reduction of Inflation Risk within Achmea Schadeverzekeringen N.V., the reclassification of Senior Secured Loans out of Equity Risk within Achmea Pensioen- en Levensverzekeringen N.V , Achmea Schadeverzekeringen N.V., and Achmea Reinsurance Company N.V. and the change in asset duration because of the sale of longer duration government bonds.

The Capital requirement for Achmea Reinsurance Company N.V. decreased because of the net effects of the reclassification of the Senior Secured Loans (decrease) and the higher value of the Best estimate due to the recognition of several large claims. For Achmea Pensioen- en Levensverzekeringen N.V., the decrease was the result of the implementation of the capital hedge, the reclassification of the Senior Secured Loans and normal portfolio developments.

Interest rate Risk within Achmea Schadeverzekeringen N.V. decreased because of a reduction in the capital requirement for Inflation Risk. Inflation Risk is calculated using information of the new Partial Internal Model for Market Risk. At year end, €116 million (2016: €199 million) Inflation Risk is included under Interest Rate Risk. Other main causes which reduced the capital requirement were the reclassification of Senior Secured Loans out of Equity Risk and normal portfolio developments. The change in the capital requirements for N.V. Hagelunie and Eureko Sigorta S.A. was mainly due to normal portfolio developments. For Interamerican Property and Casualty insurance Company S.A. almost all of the capital requirement for Interest rate Risk is stemming from the capital correction for Inflation Risk. Interest rate Risk within Union increased because of a change in the asset portfolio mix towards more interest bearing exposures. For Friends First Life Assurance Company DAC the interest rate scenario at solo level was influenced by the merger with Friends First Managed Pension Funds and normal portfolio developments.

EQUITY RISK

The capital Requirements for Equity Risk is mainly driven by the Dutch legal entities. On a solo perspective Interamerican Hellenic Life Insurance Company S.A. and Interamerican Property and Casualty Insurance company S.A. have recognised Equity Risk. However, the equity exposures are mainly the participation in subsidiaries.

Achmea has investments in so called “property investment funds”. If the leverage included in these funds exceeds 20% the investment fund is not included as part of Property Risk but is included within Equity Risk. This has been the case for funds with an economic value of €38 million. These funds are recognised within the portfolio of Achmea Pensioen- en Levensverzekeringen N.V.

The capital requirement with respect to participations classified as “Other entities” is presented in a separate component, SCR Other. This is presented as a separate line item part of the Solvency Capital Requirement. The Capital requirement is added to the Solvency Capital requirement, no diversification effects are recognized

As presented earlier in the document, for several legal entities the Equity Transitional is used. See appendix 2 for more information on the impact and use of the Equity Transitional.

EQUITY RISK € MLN.

	ECONOMIC VALUES				SCR		
	VALUES BEFORE SHOCK		VALUES AFTER SHOCK		2017	2016	Δ
	ASSETS	LIAB.	ASSETS	LIAB.			
Type 1 equities	**2,773**	**9,153**	**1,801**	**8,676**	**542**	**480**	**61**
Equity investments not subject to equity transitional					348	298	50
Equity investments subject to equity transitional					194	182	12
Type 2 equities	**1,835**	**9,153**	**1,285**	**9,080**	**516**	**679**	**-163**
Equity investments not subject to equity transitional					207	298	-91
Equity investments subject to equity transitional					309	381	-72
Diversification					-68	-73	4
Equity risk					**990**	**1,086**	**-97**

In general the capital requirement for Equity Risk within Achmea group decreased with €97 million to €990 million in 2017. The decrease is mainly caused by the change in the asset mix and related exposure, the reclassification of Senior Secured Loans towards Spread Risk within Achmea Pensioen- en Levensverzekeringen N.V , Achmea Schadeverzekeringen N.V. and Achmea Reinsurance Company N.V. partly offset by the increase in economic value of existing equity exposures and an increase in shock scenarios. The Equity Dampener for the 2017 was +1.9%, while for the 2016 a –1.4% was used. The Equity Transitional lost one year of impact compared to 2016 and because of portfolio developments and higher shock due to the run out of the Equity transition.

The capital requirement for Equity Risk decreased significantly within Achmea Pensioen- en Levensverzekeringen N.V. due to the sale of commodities and infrastructure investments both recognised as Type 2 exposures and the reclassification of Senior Secured Loans partly offset by the upward impact of higher shock scenarios and positive development of the economic value of recognised equity exposures. As Achmea Pensioen- en Levensverzekeringen N.V. has the most dominant impact the total capital requirement decreased despite the increase of Equity Risk within the Dutch Non-Life insurance entities. Within Achmea Reinsurance Company N.V. Equity Risk increased because of the recognition of emerging market exposures in 2017. Total Equity Risk within the Dutch health entities did not change significantly. However within De Friesland Zorgverzekeringen N.V.

Equity Risk decreased significantly because of the sale of equity exposures. This decreasing effect was partly offset by the increasing effects of positive development of the economic value of existing equity exposures and the higher stress scenarios.

PROPERTY RISK

Property Risk remained almost constant at €399 million, thanks to higher property prices that compensated a net disinvestment.

Achmea has investments in so called "property investment funds". If the leverage included in these funds is lower than 20% the investment fund is included as part of Property Risk.

Achmea has certain unit linked insurance contracts where the fee earned by Achmea depends on the fund value (assets). These are shocked according to the scenarios and the adjusted value of the fee income is determined. The lower discounted value of the fee income is added to the capital requirements.

SPREAD RISK

In 2017 the capital requirement for Spread Risk increased by €39 million to €827 million mainly due to the reclassification of Senior Secured Loans from Equity to Spread Risk and a shift from government bonds to spread bearing categories like commercial paper and corporate bonds. In the table below all Spread Risk exempted exposures are not included.

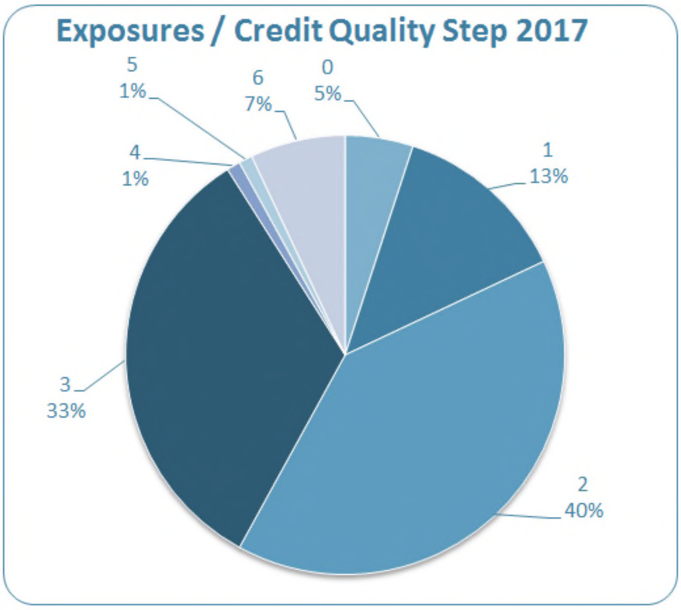
SPREAD RISK

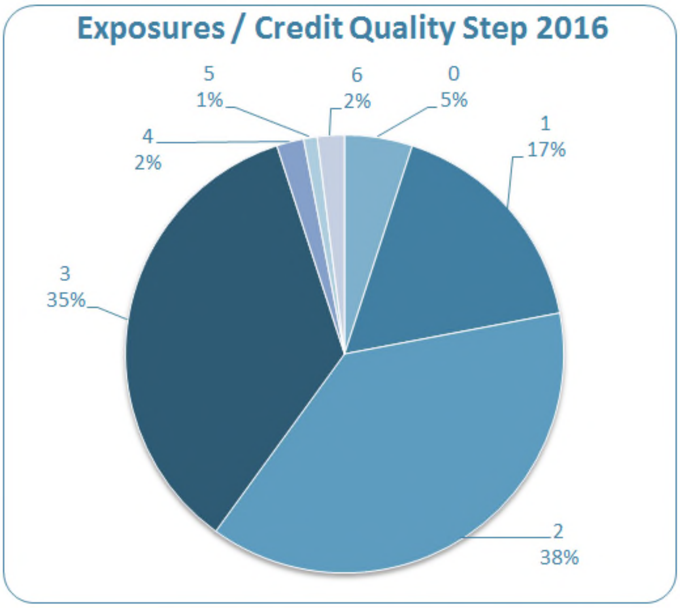
€ MLN.

	ECONOMIC VALUES				SCR		
	VALUES BEFORE SHOCK		VALUES AFTER SHOCK		2017	2016	Δ
	ASSETS	LIAB.	ASSETS	LIAB.			
Bonds & loans	30,446	5,917	29,728	5,918	720	640	80
Credit derivatives					0	0	0
Downward shock	-1	0	-1	0	0	0	0
Upward shock	-1	0	-1	0	0	0	0
Tradable securities, repackaged loans	507	0	399	0	107	148	-41
type 1 securitisations	365	0	347	0	19	33	-14
type 2 securitisations	142	0	53	0	89	115	-26
resecuritisations	0	0	0	0	0	0	0
Spread risk					**827**	**788**	**39**

All type 2 securitisations are recognised within the investment portfolio of Achmea Schadeverzekeringen N.V. The type 1 securitisations are recognised within the investment portfolio of Achmea Pensioen- en Levensverzekeringen N.V. Achmea Schadeverzekeringen N.V. and Achmea Zorgverzekeringen N.V.

In general the quality of the bond and loan portfolio used as input in the Spread Risk module did not change significantly.





The average duration of the bond and loan portfolio increased from 3.1 to 3.3.

The capital requirements for Spread Risk within Achmea Pensioen- en Levensverzekeringen N.V. increased compared to FYR 2016. However, the exposure to Type 1 securitisations was reduced significantly. The net increase is mainly attributable to reductions in the government bond portfolio and subsequent increase in the bond and loan portfolio. Within Achmea Schadeverzekeringen N.V. the exposures in Type 1 and 2 securitisations were reduced, which lowered the capital requirements. The net increase in Spread Risk is fully attributable to increases in bond and loan portfolio and decrease in spread risk exempted exposures. Spread Risk within N.V. Hagelunie and Union increased because of changes in the asset mix (decrease in government bonds, increase in bonds and loans). Spread Risk within the other insurance legal entities changed because of normal portfolio developments and changes in the economic value of the exposures.

MARKET RISK CONCENTRATIONS

A capital requirement for Market concentration Risk is only recognised when the exposure to a single name exceeds the thresholds set by the Solvency II legislation. Government bonds and related exposures, exposures subject to the Counterparty Default Risk module, unit-linked related exposures and certain legal entities part of the Group are not subject to this capital requirement.

At the end of 2017, Achmea had no exposure to any counterparty that exceeded the Concentration Risk threshold. Therefore the SCR Market Concentration remained zero.

The legal entities Achmea Pensioen- en Levensverzekeringen N.V., N.V. Hagelunie and Achmea Reinsurance Company N.V. have Market Concentration on the level of the solo capital requirements. Achmea Pensioen- en Levensverzekeringen N.V. has an Intra-group exposure with Achmea Bank due to investments in mortgage securitisations. This capital requirement was lower compared to 2016 based on the redemption of this exposure. N.V. Hagelunie, Interamerican property & Casualty Insurance company S.A. and Interamerican Hellenic Life insurance company S.A. have a small capital requirements based on Intra-group exposures. The Dutch Health entities have some concentration risk embedded in their investment portfolio.

CURRENCY RISK

The capital requirement for Currency Risk decreased by €105 million to €111 million at the end of 2017. The main reason for the decrease was the reductions in underlying exposures because of the sale of non-hedged financial instruments and implementation of a currency hedge for the Swiss Franc.

The main exposures to foreign currencies are related to the subsidiary Eureko Sigorta S.A. and investment in Garanti Emeklilik VE Hayat A.S. and a Swiss Franc loan. Both these exposures are recognised within Achmea B.V. Achmea Reinsurance Company N.V. has exposures because of their incoming reinsurance activities outside the Eurozone. Achmea Schadeverzekeringen N.V. has currency risk related to the Australian Dollar because of a branch selling insurance products in Australia. The other legal entities have some currency risk based on exposures denominated in other currencies than the Euro embedded in the investment portfolio.

Within Achmea Reinsurance Company N.V. Currency Risk increased because of increases in the liability exposures due to the additional claims stemming from the worldwide natural catastrophic events in 2017. Especially the exposure in US Dollars increased. The capital requirement for Currency Risk within Achmea Schadeverzekeringen N.V. increased because the hedging policy for "smaller currency" changed resulting in more unhedged exposures and a higher net exposure in the Australian Dollar because of portfolio developments of the branch selling insurance products in Australia. Currency Risk for Achmea Pensioen- en Levensverzekeringen decreased significantly because of the sale of the partially unhegded commodity portfolio. Within De Friesland Zorgverzekeraar N.V. currency Risk also decreased because of the sale of an unhedged equity portfolio. Within Achmea B.V. de Swiss Franc exposure was hedged in 2017, which reduced the capital requirement.

E.2.3.3. COUNTERPARTY DEFAULT RISK

The capital requirements for Counterparty Default Risk (CDR) reflects possible losses due to unexpected default or deterioration in credit standing of the counterparties and debtors of Achmea during the next twelve months. The scope of the CDR module includes risk mitigating contracts, such as reinsurance agreements and derivatives, receivables from intermediaries, as well as mortgages and any other credit exposures which are not covered in the Market Risk sub-module spread risk.

The exposures to Counterparty Default Risk are the result of normal operation within Achmea and the result of risk mitigation of risk assumed by Achmea and the subsidiaries.

The main exposures are stemming from Achmea Pensioen- en Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V. and Achmea Zorgverzekeringen N.V. Compared to the solo perspective, the reinsurance arrangements recognised at the solo level of Eureko Sigorta S.A. are not recognised at the level of the group because Turkey is considered by the current European Solvency II legislation as non-equivalent country outside EEA. If the Credit Quality Step is lower than 3 any local risk mitigation is considered not to be effective and should not be included.

The following table specifies the solvency capital requirement for Counterparty Default Risk.

COUNTERPARTY DEFAULT RISK

€ MLN.

	2017	2016	Δ
Reinsurance arrangements	30	26	5
Derivatives	69	33	36
Other non-risk mitigating exposures	90	42	47
Legal Commitments	54	79	-25
Diversification	-18	-15	-4
SCR CDR on Type 1 Exposures	**225**	**166**	**60**
Receivables Intermediates and Other	140	132	8
Mortgage loans	316	293	23
SCR CDR on Type 2 Exposures	**457**	**425**	**32**
Diversification	-39	-31	-8
SCR Counterparty Default Risk	**643**	**560**	**83**

The SCR CDR increased by €83 million to €643 million in 2017. This increase is caused by an increase of €60 million in type 1 exposure and an increase of €32 million in type 2.

The SCR CDR type 1 has increased with €60 million to €225 million.

- The overall derivatives position declined by €391 million to €1,783 million in 2017 as did the related collateral position. The capital requirements related to derivatives increased by €36 million due to a higher risk mitigating effect. This effect is calculated as the difference in the capital requirement for Market Risk with and without a derivative based on a single name exposure. This is subsequently aggregated for all single name exposures.
- The CDR type 1 for Other non-risk mitigating exposures increased by €42 million due to the start of a securities lending programme in the third quarter of 2017 for Achmea Pensioen- en Levensverzekeringen N.V. (with a balance at year end of €3,957 million) and Achmea Schadeverzekeringen N.V. (with a balance at year end of €529 million).

For most individual insurance entities the capital requirement for Counterparty Default Risk changed because of normal portfolio developments. This is the case for most of the foreign supervised insurance entities and Achmea Reinsurance Company N.V. The capital requirement within Friends First Life Assurance Company DAC reduced significantly because of the merger with Friends First Managed Pension Funds reducing the reinsurance exposures. The capital requirement within N.V. Hagelunie was reduced because of the settlement of reinsurance recoverables recognised to the severe hail calamity of 2016. Within Achmea Zorgverzekeringen N.V. the capital requirement increased because of a higher exposure to cash at 2017 year end.

Achmea entered in a security lending program in 2017 related to the investment portfolio of Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V. This increased their capital requirement. The security lending program related to the portfolio of De Friesland Zorgverzekeringen N.V. was ended. In 2017, Achmea continued with building the mortgage portfolio. The mortgage portfolios are recognised especially within Achmea Pensioen- en Levensverzekeringen N.V. The increase in the exposure resulted in higher capital requirements. The main contribution to the total SCR CDR type 2 volume of €2,996 million came from Achmea Pensioen- en Levensverzekeringen N.V (€1,983 million), Achmea Schadeverzekeringen N.V. (€380 million) and Achmea Zorgverzekeringen N.V. (€342 million).

E.2.3.4. LIFE UNDERWRITING RISK

The following table sets out the composition of Achmea's Life Underwriting Risk. This concerns both traditional and unit-linked policies. For the calculation of the Life Underwriting Risk Achmea uses a simple sum to aggregate the outcomes of the legal entities by using a correlation 1, with the exception of Lapse Risk. When determining the Lapse Risk the various scenarios are aggregated. The most onerous scenario is used to determine the capital requirement (mass lapse).

LIFE UNDERWRITING RISK

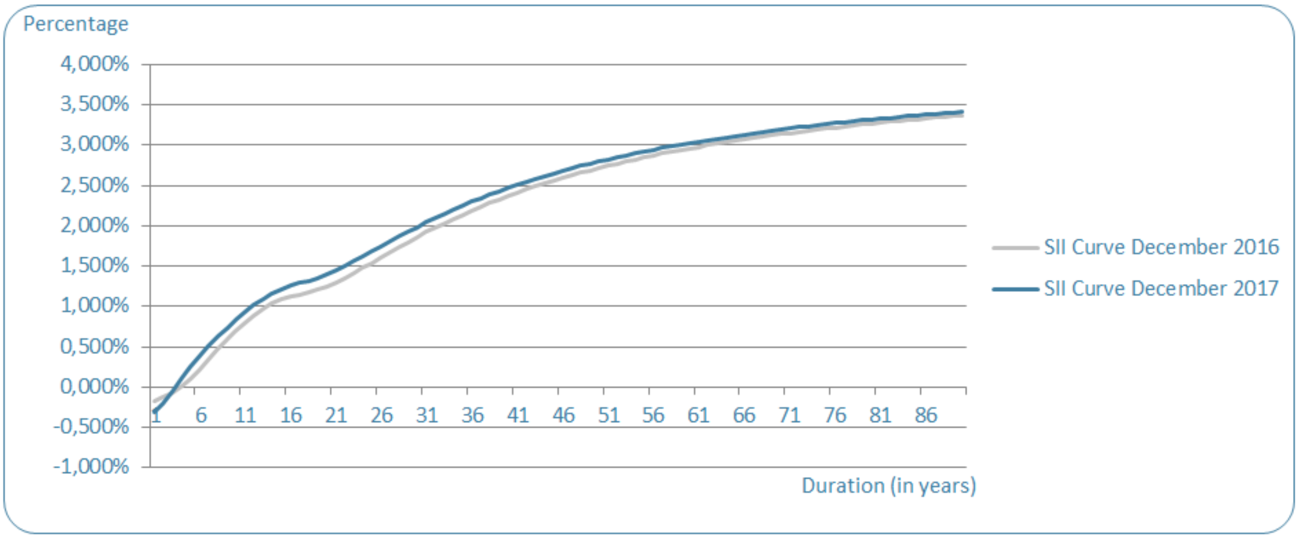
€ MLN.

	2017	2016	Δ
Mortality Risk	211	234	-22
Longevity Risk	1,155	1,195	-40
Disability/ Morbidity Risk	35	37	-2
Lapse Risk	495	523	-27
Expense Risk	641	706	-65
Revision Risk	0	0	0
Catastrophe Risk	142	147	-4
Diversification	-920	-980	61
SCR Life Underwriting Risk	**1,760**	**1,861**	**-100**

Approximately 93% of Life Underwriting Risk is recognised within Achmea Pensioen- en Levensverzekeringen N.V., 4% within Friends First Life Assurance Company DAC, 1% within Achmea Reinsurance Company N.V. and 2% within Interamerican Hellenic Life Insurance Company S.A.

The Life Underwriting Risk is very sensitive to movement in the relevant Risk-free interest rate. A change will result in a change in the Best Estimate, which will influence the capital requirements for Life Underwriting Risk. In 2017, the relevant Risk-free interest rate increased[13]. Ceteris Paribus other developments, this results in a lower value of the Best Estimate and related capital requirements

[13] The presented graph is including the impact of the Volatility Adjustment.



Mortality Risk

The SCR for Mortality Risk has decreased by €22 million to €211 million. The change is mainly driven in The Netherlands. Achmea Pensioen- en Levensverzekeringen N.V. used the most recent population mortality table. The experience mortality rates are determined in the yearly mortality study. Within Friends First Life Assurance Company DAC Mortality Risk increased by €2 million mainly due to a change of contract boundaries on Unit linked protection business. The contract boundary is extended to the end term of the contract.

Longevity Risk

The SCR for Longevity Risk showed a decrease by €-40 million from €1,195 million to €1,155 million. This decrease within Achmea Pensioen- en Levensverzekeringen N.V was mainly caused by an update of the mortality rates (€-10 million) and experienced variance/portfolio developments (€-31 million). Longevity Risk within Interamerican Hellenic Life Insurance company S.A. increased by €1 million due to portfolio developments.

Disability/Morbidity Risk

For the Disability/Morbidity Risk within Achmea Pensioen- en Levensverzekeringen N.V. the capital requirements are determined by using an approximation. This is based on information provided by Achmea Schadeverzekeringen N.V. for portfolios with a similar risk type. The information is adjusted for differences in contract conditions and the portfolio. The disability shock is lower than last year mainly due to the decreasing portfolio as a result of the closed-book character of the portfolio. The applied shock rate decreased from 13.9% to 10.6% due to the decreasing Incidence Risk, while the provision for premium waivers in case of disability increased due to an additional provision. The combination of these effects led to a decrease of €-2 million of Disability/ Morbidity Risk.

Lapse risk

LAPSE RISK - LIFE

€ MLN.

	2017	2016	Δ
Lapse increase	177	224	-47
Lapse decrease	72	83	-11
Mass lapse	495	523	-27
Scenario used	**Mass**	**Mass**	

In line with recent years mass lapse is the dominant scenario for most life portfolios within Achmea. For the solo legal entities, Interamerican Hellenic Life Insurance company S.A. and Union Poist'ovna A.S., the decrease scenario is the most dominant one (in line with 2016). Dominant scenario within Friends First Life Assurance Company DAC remains the mass lapse scenario.

The outcome of the Mass lapse scenario has decreased with €-27 million. This is mainly due to an update of the lapse assumptions within Achmea Pensioen- en Levensverzekeringen N.V. The Best Estimate increased due to the new lapse assumptions, causing a decrease in the individual mass lapse scenario by €-19 million. In Greece Lapse Risk decreased by €-8 million due to the increased yield curve in combination with portfolio maturity.

Expense Risk

The SCR for Expense Risk decreased with €-65 million from €706 million to €641 million and is mainly driven by the developments within Achmea Pensioen- en Levensverzekeringen N.V. The decrease is mainly caused by changes in non-economic assumptions based on the regular update of the expense assumptions (€-36 million), model changes (€-14 million) and experience variance/portfolio developments (€-19 million).

The increase of Expense Risk within Friends First Life Assurance Company DAC by €5 million is due to a change of contract boundaries on unit-linked protection business.

Revision Risk

Revision Risk only applies to annuity payments related to claims for damage insurance. There are no such insurances in the Achmea portfolio. Accordingly, the risk is nil.

Catastrophe Risk

Catastrophe Risk is mainly driven by developments within Achmea Pensioen- en Levensverzekeringen N.V. For the individual model the Catastrophe Risk is calculated according to a simplification, which is 0.15% of the Capital at Risk. The prescribed method is to increment the mortality rates in the first projection year by 0.15%. For the group model it is calculated according to prescribed method, i.e. increasing the mortality in the first year by 0.15%.

Catastrophe Risk decreased with €-4 million to €142 million and is due to a decrease within Achmea Pensioen- en Levensverzekeringen N.V. by €-21 million in line with the portfolio development and an increase within Achmea Reinsurance Company N.V. by €17 million due to new contracts.

E.2.3.5. HEALTH UNDERWRITING RISK

Health Underwriting Risk consists of three components: Health Similar to Life (SLT), Health Similar to Non-Life (NSLT) and Health Catastrophe Risk. The Line of Business Health insurance is related to SLT Health. The Lines of Business Medical Expense, Income Protection and Workers Compensation are related to NSLT Health.

The Health SLT portfolio uses internal models for the Dutch disability portfolio for Disability/Morbidity and Revision Risk. This only relates to the legal entity Achmea Schadeverzekeringen N.V. The risk taxonomy of the Partial Internal Model (PIM) deviates from the risk taxonomy of the Standard Formula for Health SLT Underwriting Risk. Achmea first determines the SCR Health SF SLT and the SCR Health PIM SLT. These two outcomes are aggregated by means of implicit correlations.

HEALTH SLT

The Health SLT portfolio uses internal models for the Dutch disability portfolio for Disability/Morbidity and Revision Risk. This only relates to the legal entity Achmea Schadeverzekeringen N.V.

HEALTH UNDERWRITING

€ MLN.

	2017	2016	Δ
Mortality Risk	0	0	0
Longevity Risk	26	19	7
Disability/Morbidity/Revision Risk	294	308	-13
SLT Lapse Risk	38	33	4
Expense Risk	31	28	3
Diversification	-104	-111	6
SCR UR Health SLT	**284**	**278**	**7**
NSLT Lapse Risk	16	17	-1
Premium and Reserve Risk	1,712	1,685	28
Diversification	-16	-17	1
SCR UR Health NSLT	**1,712**	**1,685**	**28**
Health Catastrophe Risk	65	76	-11
Diversification	-172	-177	5
SCR UR Health	**1,889**	**1,861**	**29**

Longevity Risk SLT

Longevity Risk increased by €7 million to €26 million due to updated mortality rates of the Dutch Association of Insurers taken into account. These rates apply specifically to the WIA excess-of-loss portfolio of Achmea Schadeverzekeringen N.V.

Disability/Morbidity/Recovery Risk SLT

Health SLT Disability/Morbidity Risk (incidence + recovery) decreased by €-13 million to €294 million.

Within Achmea Schadeverzekeringen N.V. risk decreased due to lower claim levels despite the increasing impact of the updated disability probabilities taken into account in the WIA portfolio (€-5 million). Within Friends First Life Assurance Company DAC, Disability/Morbidity Risk decreased by €-5 million. This is primarily due to an adjustment in the IBNR (incurred but not reported) provision. Within Interamerican Hellenic Life Insurance company S.A. risk decreased due to portfolio maturity (€-2 million) and within Achmea Reinsurance Company N.V. due to decreased exposure (€-1 million).

Lapse Risk SLT

In line with recent years the “discontinuance mass lapse scenario of 40%” is the dominant scenario for Lapse Risk Health SLT on group level. Lapse Risk increased by €4 million, mainly due to higher profitability within Achmea Schadeverzekeringen N.V. This is partially compensated by lower fixed costs. On solo legal entity level the most dominant scenario for Interamerican Hellenic Life Insurance Company S.A. is the decrease scenario (unchanged compared to 2016) and for Friends First Life Assurance Company DAC it remains the mass scenario.

Expense Risk SLT

Expense Risk SLT increased by €3 million to €31 million due to a higher claim handling provision within Achmea Schadeverzekeringen N.V.

HEALTH NSLT

Health NSLT consists of three lines of business, Medical Expenses, Income Protection and Workers' compensation. Achmea applies an Internal Model for Income Protection. Medical Expenses accounts for the vast majority of the required capital of Health NSLT.

At the end of 2017 Achmea has restructured the Dutch health divisions. The first part of the restructuring consisted of the legal merger of DFZ Tussenholding N.V. and Achmea Zorgverzekeringen N.V. and subsequently the merger of De Friesland Particuliere Ziektekostenverzekeringen N.V. and Achmea Zorgverzekeringen N.V. For the second part Zilveren Kruis Ziektekostenverzekeringen N.V. merged with Zilveren Kruis Zorgverzekeringen N.V. and thereafter merged with Achmea Zorgverzekeringen N.V. The supplementary insurance policies of OZF Zorgverzekeringen N.V. were transferred to Achmea Zorgverzekeringen N.V. and the basic insurance policies of former Zilveren Kruis Zorgverzekeringen N.V. were transferred to OZF Zorgverzekeringen N.V. which is renamed into Zilveren Kruis Zorgverzekeringen N.V. As a result of this the SCR of the respective entities changed accordingly.

Lapse Risk NSLT

Lapse Health NSLT decreased by €1 million to €16 million and is, mainly caused within Achmea Schadeverzekeringen N.V. Lapse Risk NSLT is equal to the expected loss due to a mass lapse scenario of 40% decline in the number of policies at once. In this scenario Achmea Schadeverzekeringen N.V. both makes less profit than expected and loses coverage on the fixed costs. Due to DNB guidelines for LoB Medical Expenses Lapse Risk does not have to be taken into account for Achmea Zorgverzekeringen N.V (consolidated) and its subsidiaries.

Premium and Reserve Risk Health NSLT

Health NSLT Premium and Reserve Risk is mainly driven by the developments within the Health insurance business in The Netherlands (Achmea Zorgverzekeringen N.V. consolidated). The capital requirement increased by €28 million to €1,712 million.

The aggregated Premium and Reserve Risk is affected by an increase of the Best Estimate claims provision (€84 million) due to the claims assessment for accident year 2017 as well as an increase of the expected premium volumes 2018 (€275 million) due to a higher premium per insured, but a slightly lower number of insured as compared to 2017. This results in an increase of the SCR Premium and Reserve Risk by €25 million within Achmea Zorgverzekeringen N.V. (consolidated).

The remaining impact of €3 million is caused by Achmea Schadeverzekeringen N.V. due to a higher Premium Risk due to increasing volumes of expected claims and a higher Reserve Risk due to increased provisions for Motor Vehicle Liability (bodily injury) and increased uncertainty regarding the provision for bodily injury.

HEALTH CATASTROPHE RISK

HEALTH CATASTROPHE RISK

€ MLN.

	2017	2016	Δ
Mass Accident Risk	20	19	2
Accident Concentration Risk	42	34	9
Pandemic Risk	44	43	1
Diversification	-42	-20	-23
SCR CAT Risk Health	**65**	**76**	**-11**

Health Catastrophe Risk decreased by €-10 million to €65 million due to an improved method taking into account diversification between the underlying sub risks and entities on Group level. In this method Achmea is considered being one legal entity which has business in multiple countries instead of the sum of the capital requirements of the separate legal entities.

Accident concentration risk increased due to a larger exposure on a consisting contract (signed two extra layers) and mainly due to four new contracts within Achmea Reinsurance Company.

E.2.3.6. NON-LIFE UNDERWRITING RISK

The legal entities with a Partial Internal Model for Non-life Premium and Reserve Risk are Achmea Schadeverzekeringen N.V., N.V. Hagelunie and Interamerican Property & Casualty Insurance Company S.A. The legal entities with a Partial Internal Model for Non-life Catastrophe Risk (Natural) are Achmea Schadeverzekeringen N.V., N.V. Hagelunie, Interamerican Property & Casualty Insurance Company S.A. and Achmea Reinsurance Company N.V. The other legal entities within Achmea and the other (sub)Risks are based on the Standard Formula. In terms of PIM SCR 80% (2016: 79%) of Non-Life Underwriting Risk is based on the Partial Internal Models (before diversification).

For reinsurance contracts issued in Turkey with Turkish counterparties where a Credit Quality Step lower than 3 is applied, the risk mitigation capacity of these reinsurance contracts is not taken into consideration. Based on the Solvency II legislation (article 211 regulation 2015/35) these reinsurance contract may not be considered as effective risk mitigation.

Achmea has used the “implicit correlation” approach to aggregate the capital requirements on Group level.

NON-LIFE UNDERWRITING RISK

€ MLN.

	2017	2016	Δ
Lapse Risk	143	141	2
Premium and Reserve Risk	550	516	34
Catastrophe Risk	464	440	24
Diversification	-341	-327	-14
SCR UR Non-Life Risk	**816**	**770**	**46**

Underwriting Risk Non-life increased with €46 million from €770 million to €816 million. Approximately 60% of Non-life Underwriting Risk is driven by Achmea Schadeverzekeringen N.V., 14% by Achmea Reinsurance Company N.V., 9% by Eureko Sigorta A.S., 8% by N.V. Hagelunie, 7% by Interamerican Property & Casualty insurance Company S.A., 1% by Interamerican Assistance General Insurance Company S.A. and 1% by Union Poisťovňa A.S.

Lapse Risk

The SCR of Non-life Lapse risk increased by €2 million from €141 million to €143 million. In The Netherlands Lapse Risk increased mainly due to higher fixed costs and (expected) profit margins within Achmea Schadeverzekeringen N.V. Lapse Risk.

Premium & Reserve Risk

Premium- and Reserve Risk is modelled according to Achmea’s Partial Internal Model and increased with €34 million to €550 million. The increase in The Netherlands is caused by a higher provision for injuries and two large fire claims. Within Union Poist´ovna A.S. Premium and reserve Risk increased due to the growing motor business.

Catastrophe Risk

Achmea has developed an internal model for Natural Catastrophe Risk in which the Greek and Dutch Non-Life natural Catastrophe Risk is included. Turkey and Slovakia are included for Earthquake Risk according to the Standard Formula[14].

CATASTROPHE RISK NON-LIFE (NET OF MITIGATION)

€ MLN.

	2017	2016	Δ
Natural Catastrophe Risk	377	406	-29
Man-Made Catastrophe Risk	209	54	155
Catastrophe Risk of Non-Proportional property reinsurance	42	34	8
Diversification	-164	-54	-110
SCR Catastrophe Risk Non-Life	**464**	**440**	**24**

Non-Life Catastrophe Risk increased by €24 million in 2017 to €464 million. Natural Catastrophe Risk decreased by €-29 million due to an adjusted reinsurance structure of Achmea with lower retention of Achmea Reinsurance Company N.V. on reinsurance renewals

[14] Man-made and Other is modelled according to the Standard Formula.

per 1 July 2017 from €120 million to €90 million on the perils windstorm and hail. Man-Made Catastrophe Risk for Motor vehicle liability and Fire increased due to the fact that Eureko Sigorta A.S. reinsurance program has not fully been taken into account caused by the low rating of the respective reinsurers. Eureko Sigorta's scenario is the most onerous for Motor vehicle liability and Fire. The external non-proportional reinsurance business of Achmea Reinsurance Company N.V. is growing and increases the SCR included in "Other" by €6.0 million.

E.2.3.7. INTANGIBLE ASSET RISK

INTANGIBLE ASSET RISK € MLN.

	2017	2016	Δ
Intangible Asset Risk	1	4	-3
SCR Intangible Assets	**1**	**4**	**-3**

Intangible Risk is equal to 80% of the value of the intangible assets and decreased by €3 million to €1 million. In 2017 the internally developed software was re-evaluated. This led to a devaluation on Solvency II accounting principles.

E.2.3.8. OPERATIONAL RISK

OPERATIONAL RISK € MLN.

	2017	2016	Δ
SCR OR based on technical provisions	404	442	-38
SCR OR based on earned premiums	567	573	-6
Charge before capping	567	573	-6
CAP BSCR	1,366	1,411	-45
Charge after capping	567	573	-6
Expenses unit linked business	75	92	-17
SCR Operational risk	**586**	**596**	**-11**

In line with recent years the calculation for Achmea is based on the dominant premium risk component, where the BSCR (Basis Solvency Capital Requirement) constraint is not being hit.

Operational Risk decreased by €10 million to €586 million due to the decrease in earned premiums in the life insurance portfolio and lower Unit Linked expenses.

OPERATIONAL RISK – SENSITIVE SCENARIO

	2017	2016
Achmea Pensioen- en Levensverzekeringen N.V.	Provision	Provision
Achmea Schadeverzekeringen N.V.	Premium	Premium
N.V. Hagelunie	Premium	Provision
Achmea Reinsurance Company N.V.	Provision	Premium
Achmea Zorgverzekeringen N.V. (consolidated)	Premium	Premium
Achmea Zorgverzekeringen N.V. (solo)	Premium	Premium
Zilveren Kruis Zorgverzekeringen N.V. (former OZF Zorgverzekeringen N.V.)	Premium	Premium
Avéro Achmea Zorgverzekeringen N.V.	Premium	Premium
Interpolis Zorgverzekeringen N.V.	Premium	Premium
FBTO Zorgverzekeringen N.V.	Premium	Premium
De Friesland Zorgverzekeraar N.V.	Premium	Premium
Friends First Life Assurance Company DAC	Provision	Provision
Interamerican Hellenic Life Insurance company S.A.	Premium	Premium
Interamerican Property & Casualty insurance Company S.A.	Provision	Provision
Interamerican Assistance General Insurance Company S.A.	Premium	Premium
Union Poist'ovna A.S.	Premium	Premium
Eureko Sigorta A.S.	Premium	Premium

In 2017 N.V. Hagelunie is sensitive for the premium based component. In 2016, the capital requirement was based on the technical provisions. The change is caused by an increase in earned premiums in 2017 and a decrease in the gross claims provisions due to the settlement of the severe hail calamity in 2016. The dominant scenario within Achmea Reinsurance N.V. changed from premium to provision due to a decrease in the earned premiums caused by the loss of large life contracts.

E.2.3.9. LOSS-ABSORBING CAPACITY OF EXPECTED PROFITS

LOSS-ABSORBING CAPACITY OF EXPECTED PROFITS

€ MLN.

	2017	2016	Δ
SCR Loss-Absorbing Capacity of Expected Profits	-57	-65	8

For Achmea's Non-Life Premium- and Reserve Risk calculated by using the Internal Model, the capital requirements are calculated as possible (99.5%) deviations from the expected or budgeted figures. These capital requirements reflect (unexpected) deviations from the expected change in own funds for the forthcoming one-year period. The expected change in Own Funds serves as a first buffer to absorb unexpected deviations.

Within the Standard Formula the Loss Absorbing Capacity of Expected Profits (LACEP) is not applicable due to the fact that it is assumed that the impact is already included in the various Standard Formula parameters as laid down in the Solvency II legislation.

The LACEP related to the Internal Model parts is €52 million (2016: €65 million) for Achmea Schadeverzekeringen N.V., €2 million (2016: €0 million) for N.V. Hagelunie and €3 million (2016: €0 million) for Interamerican Property and Casualty Insurance Company S.A.

There were two major changes in LACEP in 2017 within Achmea Schadeverzekeringen N.V. First, the expected profit on the recognised insurance contracts was included in the Own Funds as part of the Expected Profit in Future Premiums and is no longer included in the LACEP. This reduced the LACEP by €31 million. Secondly, the profit forecast of Achmea Schadeverzekeringen N.V. increased in 2018 relative to 2017. This increased the LACEP with €18 million.

E.2.3.10. LOSS ABSORBING CAPACITY OF TECHNICAL PROVISIONS

The loss-Absorbing Capacity of Technical Provisions (LACTP) is negligible as was the case in 2016.

According to the policy conditions, Achmea Pensioen- en Levensverzekeringen N.V. has the right to increase the deduction on the interest surplus in determining interest profit sharing. This deduction is currently 50bps. The impact of the calculation of the LACTP is slight because for most products with interest surplus the calculations are relative to a guarantee of 3% or 4 %. Since the interest surplus for most products is based on the 10 year mean of the u-yield which has decreased over recent years the interest surplus is also decreasing. Therefore increasing the deduction of interest surplus has only a slight effect.

E.2.3.11. LOSS-ABSORBING CAPACITY DEFERRED TAXES

The amount recognised as Loss Absorbing Capacity of Deferred Taxes (LACDT) has been based on the Solvency II legislation and local additional guidance submitted by National Supervisory Authorities. On 3 February 2017, the Dutch supervisor issued a new Q&A regarding the determination of the LACDT. The Dutch supervisory required implementation by the second quarter of 2017. The Q&A did change the manner in which Achmea calculates the LACDT. The main changes compared to 2016 are:

- Determination of the stressed Economic Balance Sheet. No recalculation of the relevant Risk-free interest rate, Volatility Adjustment and Risk margin;
- Recovery measures using excess capital of other Group entities are subject to more extreme underlying scenarios;
- Inclusion of uncertainty and assessing the impact of the asymmetrical nature of the LACDT;
- Change in the definition of the carry-back year.

The LACDT is determined on the level of the individual legal insurance entities subject to the local fiscal legislation. On Group level the solo determined LACDT is aggregated taking the diversification effects into account.

LOSS-ABSORBING CAPACITY OF DEFERRED TAXES

€ MLN.

	2017	2016	Δ
SCR Loss-Absorbing Capacity of Deferred Taxes	**-560**	**-641**	**81**

The following LACDT -outcomes were recognised on solo level:

RECOGNISED ADJUSTMENT FACTOR ON SOLO LEVEL

€ MLN.

	2017	2016
Achmea Pensioen- en Levensverzekeringen N.V.	404	481
Achmea Schadeverzekeringen N.V.	251	250
N.V. Hagelunie	22	21
Achmea Reinsurance Company N.V.	46	43
Friends First Life Assurance Company DAC	0	0
Friends First Managed Pension Funds DAC	0	0
Interamerican Hellenic Life Insurance Company S.A.	0	0
Interamerican Assistance General Insurance Company S.A.	0	0
Interamerican Property & Casualty Insurance Company S.A.	14	15
Union Poist'ovna A.S.	1	3
Eureko Sigorta A.S.	0	18
Total without applying guideline 22	738	831
Diversification	178	190
Total recognised for adjustment for the Deferred Taxes Achmea	**560**	**641**

The adjustment LACDT decreased by €81 million from €641 million to €560 million as a result of a decrease in capital requirements (LACDT shock).

E.2.3.12. OTHER COMPONENTS OF THE GROUP REQUIREMENTS

RING-FENCED FUNDS

In 2017 the Ring Fenced Funds of Friends First Life Assurance Company DAC, the Participating Fund and Closed Fund, are included in the consolidated part of the Solvency Capital Requirements of Achmea.

OTHER FINANCIAL SECTORS

SCR OTHER FINANCIAL SECTORS & OTHER ENTITIES

€ MLN.

	2017	2016	Δ
Non Ancillary entities	17	14	3
Union Zdravotna Poist'ovna A.S.	17	17	0
Other	0	0	0
Total SCR Other Financial sectors & Other Entities	**33**	**31**	**3**

Due to DNB requirements the own funds of the CRD-entities (Achmea Bank N.V., Syntrus Achmea Real Estate & Finance B.V. and Achmea Investment Management B.V.) are excluded as (Tier 1) capital of Achmea Group. The corresponding capital requirement of the CRD-entities (€590 million) is excluded as required capital of Achmea for the Partial Internal Model (as well as the Standard Formula).

The capital requirement of Union Zdravotna Poist'ovna A.S. remained unchanged. The capital requirement of €17 million is equal to the legal minimum requirement in Slovakia of a health insurance company.

The Non Ancillary entities are entities that are part of Achmea but exert no insurance support activities, allowing them to be classified as a Non Ancillary service entity. The Market Risk of the Non Ancillary entities amounted €17 million at the end of 2017.

E.2.4. MINIMUM CAPITAL REQUIREMENT

The following table shows the Minimum Capital Requirement (MCR) of Achmea ("Consolidated part") at the end of 2017 and 2016.

MINIMUM CAPITAL REQUIREMENT PIM (EXCL. D&A/OFS)

€ MLN.

	2017	2016	Δ
SCR	4,522	4,592	-70
MCR	2,373	2,428	-55
MCR/SCR (%)	52%	53%	-0%

The MCR for Achmea Group is equal to the sum of the solo MCR's of all insurance entities (excluding Deduction & Aggregation entities and Other Financial sectors). No diversification effects between the insurance entities are taken into account, as is done in the case of the Achmea Group SCR calculations. The MCR decreased by €55 million to €2,373 million.

Achmea has not eliminated the intra-group positions (with regards to premiums and technical provisions) influencing the volume-factors with regards to the solo MCR calculations.

The MCR Group decreased by €55 million and is mainly caused by a decrease in the underlying MCR of Achmea Pensioen- en Levensverzekeringen N.V. by €38 million due to changes in the composition of the Best Estimate, a decrease of the MCR of Achmea Zorgverzekeringen N.V. by €10 million due to a lower combined Best Estimate Technical Provisions (decrease) and volume measure for premium (increase) and a decrease of the MCR of Eureko Sigorta A.S. by €10 million due to a decrease of the Solvency capital requirement due to a change in scenario of Eureko Sigorta's reinsurance programme which was applied under the Catastrophe risk.

MINIMUM CAPITAL REQUIREMENT (RE)NSURANCE ENTITIES

€ MLN.

	2017	2016	Δ
Achmea Pensioen- en Levensverzekeringen N.V.	986	1,024	-38
Achmea Schadeverzekeringen N.V.	340	338	2
N.V. Hagelunie	16	16	0
Achmea Reinsurance company N.V.	43	38	5
Achmea Zorgverzekeringen N.V. (Cons.)	854	859	-5
Union Poist´ovna A.S.	7	7	0
Eureko Sigorta A.S.	26	36	-10
Interamerican Assistance General Insurance Company S.A.	4	4	0
Interamerican Property & Casualty Insurance Company S.A.	33	32	1
Interamerican Hellenic Life Insurance Company S.A.	24	25	-1
Friends First Life Assurance Company DAC	62	60	2

E.3. USE OF THE DURATION BASED EQUITY SUB-MODULE IN THE CALCULATION OF THE SCR

Achmea does not use the duration-based Equity sub-module.

E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

For a description of the differences between the Standard Formula and the Internal Models, please refer to the key assumptions set out by Achmea in paragraph E.2.2.

The structure of the Internal Model is described in C Risk profile.

E.4.1. AGGREGATION TECHNIQUES AND DIVERSIFICATION EFFECTS

Achmea uses the default approach for integrating the Standard Formula and the Partial Internal Model components at the level of the main risk types. At the sub-risk types Achmea uses the “implicit correlation approach”. The diversification benefits recognised under the Partial Internal Model are almost equal to those under the Standard Formula at the level of Achmea B.V.

E.4.2. RISK NOT COVERED BY THE STANDARD FORMULA BUT BY THE PARTIAL INTERNAL MODEL

There are no risks covered by the Partial Internal Model which are not covered by the Standard Formula (see also the risk taxonomy).

E.5. NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

Per 31 December 2017 solvency levels of the Achmea Group and all legal entities under supervision met the prudential requirements. All solvency levels were above 100% SCR.

E.6. ANY OTHER INFORMATION

Currently (FY 2017) Achmea Group has no other information to disclose which would be relevant in this chapter.

APPENDIX 1: SFCR ENTITIES ACHMEA GROUP

A number of legal entities within Achmea Group disclose a Solvency and Financial Condition report. Underneath the link to the individual reports.

SFCR SUPERVISED ENTITIES ACHMEA GROUP

	REFERENCE	PUBLICATION DATE
Achmea Group	Achmea	17 April 2018
Friends First Life Assurance Company DAC	Friends First Life Assurance Company DAC	Early May 2018
Interamerican Helenic Life Insurance Company S.A.	Interamerican Helenic Life Insurance Company S.A.	Early May 2018
Interamerican Property & Casualty Insurance Company S.A.	Interamerican Property & Casualty Insurance Company S.A.	Early May 2018
Interamerican Assistance General Insurance Company S.A.	Interamerican Assistance General Insurance Company S.A.	Early May 2018
Union Poisťovňa A.S.	Union Poisťovňa A.S.	Early May 2018

APPENDIX 2: SENSITIVITIES

As part of risk management practices Achmea assesses the sensitivities of the Technical Provisions, Basic Own Funds and solvency position to changes in the underlying assumptions of the risk-free discount rate for those insurance entities sensitive to these assumptions. Achmea currently assesses the following sensitivities:

- Use of the Volatility Adjustment
- Change in Ultimate Forward Rate (4.05%,3.65%, no UFR)
- Change in the Last Liquid Point (30 years)

The baseline is the calculation of the solvency position based on the application of the Partial Internal Model and the use of the Volatility Adjustment (where applied within the group).

As part of its risk management practices Achmea assesses the sensitivities of the Economic Balance Sheet, Basic Own Funds and solvency position to changes in the economic variables. Achmea currently assesses the following sensitivities:

- A change in equity prices (-20%)
- A change in property prices (-20%)

The baseline is the calculation of the solvency position based on the application of the Partial Internal model and the use of the Volatility Adjustment (where applied within the group).

Compared with the baseline the relevant risk-free interest rate is lower which, increases the value of the Best Estimate. The higher Best Estimate of the technical provisions subsequently results in higher capital requirements where the Best Estimate is used as volume factor. The higher value of the Best Estimate and the higher capital requirements result in a higher Risk Margin. Where relevant these changes also have an upward impact on the net Deferred Tax Assets and this also has a negative impact on the value of the Loss Absorbing Capacity of the Deferred Taxes. All these changes together result in a negative impact on the solvency position.

The scenario with respect to “equity prices” are only related equity investments and not “Equipment”. In the baseline “Equipment” is shocked as part of “Type 2” exposures. A decrease in equity or property values will result in a reduction in solvency ratios, mainly as a result of a reduction in the Available Own Funds.

Achmea Pensioen- en Levensverzekeringen N.V.

SENSITIVITIES € MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	45,957	3,194	2,255	141.6%
Without VA	46,096	3,069	2,348	130.7%
No UFR	47,358	1,889	2,897	65.2%
Last Liquid Point 30 years	46,999	2,196	2,829	77.6%
Equity prices -20%	45,957	2,888	2,179	132.6%
Property prices -20%	45,957	2,963	2,231	132.8%

Achmea Schadeverzekeringen N.V.

SENSITIVITIES € MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	5,490	1,053	754	139.7%
Without VA	5,500	1,046	756	138,4%
Equity prices -20%	5,490	981	725	135.2%
Property prices -20%	5,490	1,041	753	138.3%

Appendix 2: Sensitivities

N.V. Hagelunie

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	32	183	64	284.9%
Without VA	32	183	64	284.9%
Equity prices -20%	32	180	63	284,0%

Achmea Reinsurance Company N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	840	264	138	191%
Equity prices -20%	840	243	130	186%

Achmea Zorgverzekeringen N.V. (consolidated)

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	5,167	3,032	2,132	142.2%
Equity prices -20%	5,167	2,947	2,112	139.5%

Achmea Zorgverzekeringen N.V. (solo)

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	184	2,735	749	365.2%
Equity prices -20%	184	2,704	732	369.6%

Avéro Zorgverzekeringen N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	337	262	134	195.9%
Equity prices -20%	337	254	132	192.9%

Interpolis Zorgverzekeringen N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	153	131	68	191.0%
Equity prices -20%	153	128	68	188.6%

Zilveren Kruis Zorgverzekeringen N.V (former OZF Zorgverzekeringen N.V.)

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	3,641	1,745	1,382	126,3%
Equity prices -20%	3,641	1,705	1,374	124,1%

De Friesland Zorgverzekeraar N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	605	296	205	144.0%
Equity prices -20%	605	292	205	142.7%

FBTO Zorgverzekeringen N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO
Baseline	247	143	95	151.6%
Equity prices -20%	247	143	95	151.6%

IMPACT VOLATILITY ADJUSMENT

The Volatility Adjustment is not used by the Dutch Health insurance legal entities, Achmea Reinsurance Company N.V. and Interamerican Property and Casualty Insurance Company S.A. The Volatility Adjustment is not used for proportionality reasons. Using the Volatility Adjustment in Turkey is not allowed according to the applicable Solvency II Regulation.

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS - ASNV

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Technical provisions (gross)	**5,490**	**5,500**	**-11**
Technical provisions – non-life (excluding health)	2,458	2,462	-3
Technical provisions – health (similar to non-life)	304	304	0
Technical provisions – health (similar to life)	2,727	2,735	-7
Recoverables from reinsurance	**151**	**151**	**0**
Reinsurance recoverables – non-life (excluding health)	66	66	0
Reinsurance recoverables – health (similar to non-life)	0	0	0
Reinsurance recoverables – health (similar to life)	85	85	0
Technical provisions minus recoverables from reinsurance	**5,339**	**5,350**	**-11**
Technical provisions – non-life (excluding health)	2,392	2,395	-3
Technical provisions – health (similar to non-life)	304	304	0
Technical provisions – health (similar to life)	2,642	2,649	-7

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS - HU

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Technical provisions (gross)	**32**	**32**	**0**
Technical provisions – non-life (excluding health)	32	32	0
Recoverables from reinsurance	**5**	**5**	**0**
Reinsurance recoverables – non-life (excluding health)	5	5	0
Reinsurance recoverables – health (similar to life)	0	0	0
Technical provisions minus recoverables from reinsurance	**27**	**27**	**0**
Technical provisions – non-life (excluding health)	27	27	0

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS - APL

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Technical provisions (gross)	**45,957**	**46,096**	**-139**
Technical provisions – life (excluding health and index-linked and unit-linked)	30,046	30,184	-138
Technical provisions – index-linked and unit-linked	15,911	15,912	-1
Recoverables from reinsurance	**207**	**207**	**0**
Technical provisions – life (excluding health and index-linked and unit-linked)	207	207	0
Technical provisions – index-linked and unit-linked			
Technical provisions minus recoverables from reinsurance	**45,750**	**45,888**	**-139**
Technical provisions – life (excluding health and index-linked and unit-linked)	29,838	29,976	-138
Technical provisions – index-linked and unit-linked	15,911	15,911	-1

IMPACT ULTIMATE FORWARD RATE

IMPACT OF ULITIMATE FORWARD RATE ON THE SCR APL

€ MLN.

	ULTIMATE FORWARD RATE 4.2%	ULTIMATE FORWARD RATE 4.05%	ULTIMATE FORWARD RATE NO
Market Risk	1,167	1,162	1,289
Counterparty Default Risk	499	499	498,8
Life Underwriting Risk	1,721	1,734	1,903
Diversification	-878	-878	-942
Basic Solvency Capital Requirement	**2,510**	**2,517**	**2,748**
Operational Risk	144	145	149
Loss Absorbing Capacity Technical Provisions	0	0	0
Loss Absorbing Capacity Deferred Taxes	-399	-400	0
Solvency Capital Requirement	**2,255**	**2,261**	**2,897**

APPENDIX 3: PREMIUMS, CLAIMS AND EXPENSES BY MAJOR LINE OF BUSINESS

NON-LIFE

PREMIUMS, CLAIMS AND EXPENSES NON-LIFE BY LINE OF BUSINESS

€ MLN.

	2017					
	MEDICAL EXPENSE INSURANCE	FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE	MOTOR VEHICLE LIABILITY INSURANCE	OTHER MOTOR INSURANCE	OTHER	TOTAL
Gross written premiums	13,632	1,159	785	571	929	17,075
Net earned premiums	13,961	1,002	753	584	1,072	17,372
Claims incurred (net)	13,532	505	627	379	600	15,642
Expenses incurred	556	363	219	184	329	1,652
Other expenses						49

PREMIUMS, CLAIMS AND EXPENSES NON-LIFE BY LINE OF BUSINESS

€ MLN.

	2016					
	MEDICAL EXPENSE INSURANCE	FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE	MOTOR VEHICLE LIABILITY INSURANCE	OTHER MOTOR INSURANCE	OTHER	TOTAL
Gross written premiums	13,500	1,123	705	590	964	16,883
Net earned premiums	13,772	978	680	574	889	16,893
Claims incurred (net)	13,381	749	662	420	467	15,680
Expenses incurred	613	370	219	197	325	1,723
Other expenses						

For a breakdown of the line of business medical expense insurance to the Dutch health entities we refer to A.2. Underwriting performance.

In table below only the major lines of business of the Dutch non-life entities Achmea Schadeverzekeringen N.V., N.V Hagelunie and Achmea Reinsurance Company N.V. are stated:

PREMIUMS, CLAIMS AND EXPENSES NON-LIFE BY MAJOR LINE OF BUSINESS

€ MLN.

	2017			2016		
	ASNV	HAGELUNIE	ACHMEA RE	ASNV	HAGELUNIE	ACHMEA RE
MOTOR VEHICLE LIABILITY INSURANCE						
Gross written premiums	639			575		
Net earned premiums	619			563		
Claims incurred (net)	565			608		
Expenses incurred	185			186		
OTHER MOTOR INSURANCE						
Gross written premiums	478					
Net earned premiums	472					
Claims incurred (net)	276					
Expenses incurred	164					
FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE						
Gross written premiums	882	81	22	848	68	18
Net earned premiums	795	47	22	785	38	19
Claims incurred (net)	423	11	4	529	33	8
Expenses incurred	317	11	7	329	7	7

Appendix 3: Premiums, claims and expenses per line of business

LIFE

Achmea Pensioen- en Levensverzekeringen N.V. contributes 75% to the life line of business in the Netherlands. The remaining part is contributed by Achmea Schadeverzekeringen N.V. (health insurance life) for 20% and Achmea Reinsurance Company N.V. (life reinsurance) for 5%.

PREMIUMS, CLAIMS AND EXPENSES LIFE BY LINE OF BUSINESS

€ MLN.

	2017					
	HEALTH INSURANCE	INSURANCE WITH PROFIT PARTICIPATION	INDEX-LINKED AND UNIT-LINKED INSURANCE	OTHER LIFE INSURANCE	OTHER	TOTAL
Gross written premiums	467	477	745	509	74	2,272
Net earned premiums	442	471	744	486	50	2,193
Claims incurred (net)	318	843	1,781	554	-9	3,488
Expenses incurred	111	58	80	46	35	329
Other expenses						5

PREMIUMS, CLAIMS AND EXPENSES LIFE BY LINE OF BUSINESS

€ MLN.

	2016					
	HEALTH INSURANCE	INSURANCE WITH PROFIT PARTICIPATION	INDEX-LINKED AND UNIT-LINKED INSURANCE	OTHER LIFE INSURANCE	OTHER	TOTAL
Gross written premiums	452	576	827	541	218	2,614
Net earned premiums	437	571	825	518	182	2,533
Claims incurred (net)	296	1,300	1,484	596	-42	3,635
Expenses incurred	116	93	117	77	118	521
Other expenses						

APPENDIX 4: COMPANY ECONOMIC BALANCE SHEET DUTCH (RE)INSURANCE ENTITIES

ECONOMIC BALANCE SHEET

€ MLN.

	2017									
ASSETS	ACHMEA PENSIOEN LEVENSVERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADEVERZEKERINGEN	HAGELUNIE	ACHMEA ZORGVERZEKERINGEN (NON-CONSOLIDATED)	AVÉRO ZORGVERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	ZILVEREN KRUIS ZORGVERZEKERINGEN
Intangible assets	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	965	0	0	0	0	0	0	0	0	0
Property, plant & equipment held for own use	1	0	0	0	2	0	0	0	0	0
Investments (other than assets held for index-linked and unit-linked contracts)	25,857	1,041	5,663	228	3,101	268	425	121	141	1,838
Property (other than for own use)	787	0	0	0	0	0	0	0	0	0
Holdings in related undertakings, including participations	876	0	116	0	2,707	0	0	0	0	1,210
Equities	558	91	221	23	147	208	8	0	83	0
Bonds	16,299	271	4,922	205	182	49	385	99	58	545
Collective Investments Undertakings	1,213	73	336	0	35	0	19	0	0	0
Derivatives	3,014	1	10	0	0	0	0	0	0	0
Deposits other than cash equivalents	2	605	58	0	30	10	13	22	0	83
Other investments	3,108	0	0	0	-0	-0	0	0	0	0
Assets held for index-linked and unit-linked funds	16,433	0	0	0	0	0	0	0	0	0
Loans and mortgages	7,802	0	758	0	4	0	24	0	0	0
Reinsurance recoverables	208	75	151	5	0	0	0	0	0	0
Deposits to cedants	0	6	0	0	0	0	0	0	0	0
Insurance and intermediaries receivables	9	0	159	4	19	212	278	122	77	1,957
Reinsurance receivables	1	0	0	8	0	0	0	0	0	0
Receivables	193	2	63	6	17	114	175	100	68	1,666
Cash and cash equivalents	613	7	154	4	147	28	33	57	19	225
Any other assets, not elsewhere shown	19	4	104	5	3	0	0	0	0	9
Total assets	**52,101**	**1,135**	**7,053**	**260**	**3,292**	**622**	**936**	**400**	**305**	**5,695**

Appendix 4: Company Economic Balance Sheet Dutch (re)insurance entities

ECONOMIC BALANCE SHEET

€ MLN.

	2017									
LIABILITIES	ACHMEA PENSIOEN LEVENSVERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADEVERZEKERINGEN	HAGELUNIE	ACHMEA ZORGVERZEKERINGEN (NON-CONSOLIDATED)	AVÉRO ZORGVERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	ZILVEREN KRUIS ZORGVERZEKERINGEN
Technical provisions – non-life (excluding health)	0	189	2,458	32	0	0	0	0	0	0
Technical provisions - health (similar to non-life)	0	1	304	0	184	337	605	247	153	3,641
Technical provisions - health (similar to life)	0	50	2,727	0	0	0	0	0	0	0
Technical provisions – life (excluding health and index-linked and unit-linked)	30,046	600	0	0	0	0	0	0	0	0
Technical provisions – index-linked and unit-linked	15,911	0	0	0	0	0	0	0	0	0
Provisions other than technical provisions	4	0	15	0	0	0	0	0	0	0
Deposits from reinsurers	0	2	0	0	0	0	0	0	0	0
Deferred tax liabilities	0	4	179	13	0	0	0	0	0	0
Derivatives	149	0	8	0	0	0	0	0	0	0
Financial liabilities other than debts owed to credit institutions	4	0	15	0	0	0	0	0	0	0
Insurance & intermediaries payables	688	8	132	3	1	20	0	3	21	270
Reinsurance payables	0	0	1	0	0	0	0	0	0	0
Payables (trade, not insurance)	233	4	25	9	46	0	1	3	0	32
Subordinated liabilities not in Basic Own Funds	0	0	0	0	0	0	0	0	0	0
Subordinated liabilities in Basic Own Funds	0	0	0	0	0	0	0	21	0	0
Any other liabilities, not elsewhere shown	1,245	12	121	6	22	3	11	4	1	8
Total liabilities	**48,281**	**870**	**5,986**	**63**	**253**	**360**	**616**	**277**	**175**	**3,951**
Excess of assets over liabilities	**3,820**	**264**	**1,067**	**197**	**3,039**	**262**	**320**	**123**	**131**	**1,745**

Appendix 4: Company Economic Balance Sheet Dutch (re)insurance entities

ECONOMIC BALANCE SHEET

€ MLN.

	2016									
ASSETS	ACHMEA PENSIOEN LEVENSVERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADEVERZEKERINGEN	HAGELUNIE	ACHMEA ZORGVERZEKERINGEN (NON-CONSOLIDATED)	AVÉRO ZORGVERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	ZILVEREN KRUIS ZORGVERZEKERINGEN
Intangible assets	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	1,032	0	0	0	0	0	0	0	0	0
Property, plant & equipment held for own use	0	0	0	0	3	0	0	0	0	0
Investments (other than assets held for index-linked and unit-linked contracts)	28,572	1,082	5,657	208	3,307	317	460	123	115	63
Property (other than for own use)	767	0	0	0	0	0	0	0	0	0
Holdings in related undertakings, including participations	849	0	113	0	2,293	0	0	0	0	0
Equities	509	77	190	22	14	202	65	10	81	26
Bonds	17,850	306	5,033	186	751	100	366	106	35	37
Collective Investments Undertakings	1,576	41	316	0	41	0	21	1	0	0
Derivatives	3,601	0	1	0	0	0	0	0	0	0
Deposits other than cash equivalents	1	658	4	0	207	15	7	5	0	0
Other investments	3,418	0	0	0	0	0	0	0	0	0
Assets held for index-linked and unit-linked funds	16,164	0	0	0	0	0	0	0	0	0
Loans and mortgages	7,013	0	562	0	4	0	0	-0	0	0
Reinsurance recoverables	272	100	170	61	0	0	0	0	0	0
Deposits to cedants	0	6	0	0	0	0	0	0	0	0
Insurance and intermediaries receivables	16	1	136	1	2,262	181	254	114	79	25
Reinsurance receivables	0	10	113	10	0	0	0	0	0	0
Receivables	175	1	389	6	1,927	135	119	101	75	20
Cash and cash equivalents	514	6	65	6	194	6	119	12	16	15
Any other assets, not elsewhere shown	33	28	113	3	9	0	0	5	0	1
Total assets	**53,792**	**1,235**	**7,205**	**294**	**7,705**	**639**	**952**	**355**	**284**	**123**

Appendix 4: Company Economic Balance Sheet Dutch (re)insurance entities

ECONOMIC BALANCE SHEET

€ MLN.

	2016									
LIABILITIES	ACHMEA PENSIOEN LEVENSVERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADEVERZEKERINGEN	HAGELUNIE	ACHMEA ZORGVERZEKERINGEN (NON-CONSOLIDATED)	AVÉRO ZORGVERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	ZILVEREN KRUIS ZORGVERZEKERINGEN
Technical provisions – non-life (excluding health)	0	193	2,447	89	0	0	0	0	0	0
Technical provisions - health (similar to non-life)	0	1	279	0	3,959	306	607	247	154	47
Technical provisions - health (similar to life)	0	60	2,789	0	0	0	0	0	0	0
Technical provisions – life (excluding health and index-linked and unit-linked)	31,449	644	0	0	0	0	0	0	0	0
Technical provisions – index-linked and unit-linked	15,825	0	0	0	0	0	0	0	0	0
Provisions other than technical provisions	8	0	40	3	0	0	0	2	0	0
Deposits from reinsurers	0	2	0	0	0	0	0	0	0	0
Deferred tax liabilities	0	5	226	9	0	0	0	0	0	0
Derivatives	699	1	15	1	1	0	0	0	0	0
Financial liabilities other than debts owed to credit institutions	9	0	0	0	3	0	0	0	0	0
Insurance & intermediaries payables	639	12	165	0	282	21	5	14	20	5
Reinsurance payables	0	0	27	0	0	0	0	0	0	0
Payables (trade, not insurance)	359	10	63	12	160	0	10	7	1	1
Subordinated liabilities not in Basic Own Funds	0	0	0	0	0	0	0	0	0	0
Subordinated liabilities in Basic Own Funds	0	0	0	0	0	0	0	0	0	0
Any other liabilities, not elsewhere shown	1,018	35	126	7	39	3	2	4	1	1
Total liabilities	**50,005**	**962**	**6,176**	**121**	**4,445**	**330**	**623**	**274**	**175**	**54**
Excess of assets over liabilities	**3,786**	**273**	**1,029**	**173**	**3,260**	**309**	**328**	**81**	**109**	**69**

APPENDIX 5: SOLVENCY CAPITAL REQUIREMENT DUTCH (RE)INSURANCE ENTITIES

SOLVENCY CAPITAL REQUIREMENT

€ MLN.

	2017									
	ACHMEA PENSIOEN LEVENSVERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADEVERZEKERINGEN	HAGELUNIE	ACHMEA ZORGVERZEKERINGEN (NON-CONSOLIDATED)	AVÉRO ZORGVERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	ZILVEREN KRUIS ZORGVERZEKERINGEN
Market Risk	1,167	62	471	12	626	22	21	5	9	117
Counterparty Default Risk	499	11	96	6	11	12	11	5	3	45
Life Underwriting Risk	1,721	39	0	0	0	0	0	0	0	0
Health Underwriting Risk	0	17	294	0	205	98	157	73	51	1,073
Non-Life Underwriting Risk	0	131	554	78	0	0	0	0	0	0
Diversification	-878	-83	-459	-11	-133	-22	-22	-7	-8	-114
Intangible Asset Risk	0	0	0	0	0	0	0	0	0	0
Basic Solvency Capital Requirement	**2,510**	**177**	**956**	**85**	**709**	**110**	**167**	**76**	**55**	**1,121**
Operational Risk	144	8	101	2	39	24	39	19	13	261
Loss-Absorbing Capacity of Expected Profits	0	0	-52	-2	0	0	0	0	0	0
Loss-Absorbing Capacity of Technical Provisions	-0	0	0	0	0	0	0	0	0	0
Loss-Absorbing Capacity of Deferred Taxes	-399	-46	-251	-21	0	0	0	0	0	0
Solvency Capital Requirement	**2,255**	**138**	**754**	64	749	134	205	95	68	1,382

Appendix 5: Solvency Capital Requirement Dutch (re)insurance entities

SOLVENCY CAPITAL REQUIREMENT

€ MLN.

	2016									
	ACHMEA PENSIOEN LEVENSVERZEKERING EN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADEVERZEKERING EN	HAGELUNIE	ACHMEA ZORGVERZEKERINGEN (NON-CONSOLIDATED)	AVÉRO ZORGVERZEKERIN GEN	DE FRIESLAND ZORGVERZEKERAA R	FBTO ZORGVERZEKERIN GEN	INTERPOLIS ZORGVERZEKERIN GEN	ZILVEREN KRUIS ZORGVERZEKERIN GEN
Market Risk	1,404	42	487	10	347	20	47	8	8	4
Counterparty Default Risk	400	12	94	9	51	17	11	4	6	2
Life Underwriting Risk	1,822	24	0	0	0	0	0	0	0	0
Health Underwriting Risk	0	6	270	0	1,245	90	152	70	47	15
Non-Life Underwriting Risk	0	131	554	74	0	0	0	0	0	0
Diversification	-910	-57	-449	-11	-254	-24	-36	-8	-9	-4
Intangible Asset Risk	0	0	0	0	0	0	0	0	0	0
Basic Solvency Capital Requirement	**2,716**	**158**	**956**	**82**	**1,389**	**103**	**174**	**74**	**51**	**17**
Operational Risk	154	13	109	3	298	21	39	19	12	4
Loss-Absorbing Capacity of Expected Profits	0	0	-65	-0	0	0	0	0	0	0
Loss-Absorbing Capacity of Technical Provisions	-0	0	0	0	0	0	0	0	0	0
Loss-Absorbing Capacity of Deferred Taxes	-481	-43	-250	-21	0	0	0	0	0	0
Solvency Capital Requirement	2,389	129	750	63	1,687	124	212	92	64	20

APPENDIX 6: PUBLIC DISCLOSURE QUANTITATIVE REPORTING TEMPLATES

Achmea Group

S.02.01	Balance Sheet
S.05.01	Premiums, claims and expenses by line of business
S.22.01	Impact of long term guarantees measures and transitionals
S.23.01	Own funds
S.25.02	Solvency Capital Requirement - SF and PIM
S.32.01	Undertakings within the scope of the group

Supervised entities

S.02.01	Balance Sheet
S.05.01	Premiums, claims and expenses by line of business
S.05.01	Premiums, claims and expenses by country
S.12.01	Life and Health SLT Technical Provisions
S.17.01	Non-life Technical Provisions
S.19.01	Non-life Insurance Claims Information
S.22.01	Impact of long term guarantees measures and transitionals
S.23.01	Own funds
S.25.01	Solvency Capital Requirement – only SF
S.25.02	Solvency Capital Requirement - SF and PIM
S.28.01	Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

APPENDIX 7: GLOSSARY

The glossary as presented below is reflecting the most common definitions of terminology used in the context of the Solvency and Financial Condition Report.

A

- "Administrative, management or supervisory body" shall mean, where a two-tier board system comprising of a management body and a supervisory body is provided for under national law, the management body or the supervisory body or both of those bodies as specified in the relevant national legislation or, where no body is specified in the relevant national legislation, the management body.
- "Alternative valuation methods" means valuation methods that are consistent with Article 75 of Directive 2009/138/EC, other than those which solely use the quoted market prices for the same or similar assets or liabilities.
- "Ancillary services undertaking" means a non-regulated undertaking the principal activity of which consists of owning or managing property, managing data-processing services, health and care services or any other similar activity which is ancillary to the principal activity of one or more insurance or reinsurance undertakings.

B

- "Basic risk-free interest rate term structure" means a risk-free interest rate term structure which is derived in the same way as the relevant risk-free interest rate term structure to be used to calculate the best estimate but without application of a matching adjustment or a volatility adjustment.

C

- "Capital requirement" means the amount of capital an insurance undertaking has to hold in relation to a certain risk.
- "Catastrophe risk" means the risk of loss or of adverse change in the value of technical provisions, arising from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.
- "Central clearing party". Reference is made to the definition included at "Qualifying central counterparty".
- "Collateral arrangements" means arrangements under which collateral providers do one of the following: (a) transfer full ownership of the collateral to the collateral taker for the purposes of securing or otherwise covering the performance of a relevant obligation; (b) provide collateral by way of security in favour of, or to, a collateral taker, and the legal ownership of the collateral remains with the collateral provider or a custodian when the security right is established.
- "Composite insurance entity" means an insurance undertaking which insures both Life and Non-Life risks.
- "Concentration risk" means all risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of insurance and reinsurance undertakings.
- "Control" means the relationship between a parent undertaking and a subsidiary undertaking, as set out in Article 1 of Directive 83/349/EEC ((a) has a majority of the shareholders' or members' voting rights in another undertaking (a subsidiary undertaking); or (b) has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another undertaking (a subsidiary undertaking) and is at the same time a shareholder in or member of that undertaking; or (c) has the right to exercise a dominant influence over an undertaking (a subsidiary undertaking) of which it is a shareholder or member, pursuant to a contract entered into with that undertaking or to a provision in its memorandum or articles of association, where the law governing that subsidiary undertaking permits its being subject to such contracts or provisions; or (d) is a shareholder in or member of an undertaking, and: (aa) a majority of the members of the administrative, management or supervisory bodies of that undertaking (a subsidiary undertaking) who have held office during the financial year, during the preceding financial year and up to the time when the consolidated accounts are drawn up, have been appointed solely as a result of the exercise of its voting rights; or (bb) controls alone, pursuant to an agreement with other shareholders in or members of that undertaking (a subsidiary undertaking), a majority of shareholders' or members' voting rights in that undertaking.), or a similar relationship between any natural or legal person and an undertaking.
- "Counterparty Default Risk". Reference is made to the definition included at "Credit risk".
- "Credit institution, a financial institution or an ancillary banking services undertaking" means a legal entity within the meaning of Article 4(1), (5) and (21) of Directive 2006/48/EC respectively (an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account).
- "Credit quality step (CQS)" is a risk weighted credit rating as defined by EIOPA. The CQS is derived from credit ratings issued by ECAIs or, when the counterparty is an insurance undertaking which is not rated by an ECAI, the solvency position of the counterparty.

- "Credit risk" means the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which insurance and reinsurance undertakings are exposed, in the form of Counterparty Default Risk, or Spread Risk, or Market Risk concentrations.
- "Currency risk" means the risk of loss or of adverse change in the financial situation, arising from changes in currency exchange rates.

D

- "Deep market" means a market where transactions involving a large quantity of financial instruments can take place without significantly affecting the price of the instruments.
- "Disability/Morbidity risk" means the risk of loss or of adverse change in the value of the technical provisions, resulting from changes in the level, trend of volatility of disability and morbidity rates.
- "Discontinuance" of an insurance policy means surrender, lapse without value, making a contract paid-up, automatic non-forfeiture provisions or exercising other discontinuity options or not exercising continuity options.
- "Diversification effects" means the reduction in the risk exposure of insurance and reinsurance undertakings and groups related to the diversification of their business, resulting from the fact that the adverse outcome from one risk can be off set by a more favourable outcome from another risk, where those risks are not fully correlated.

E

- "Earned premiums" means the premiums relating to the risk covered by the insurance or reinsurance undertaking during a specified time period.
- "EIOPA"means the European Insurance and Occupational Pensions Authority.
- "Eligible Own Funds" are those components of the Available Own Funds which can be used to cover the Solvency Capital Requirement.
- "EMIR"means the European Market Infrastructure Regulation, which imposes requirements to improve transparency and reduce the risks associated with the derivatives market.
- "Equity risk" means the risk of loss or of adverse change in the financial situation, arising from changes in equity prices.
- "Equity transitional" is a mandatory transitional measure for the Standard Formula. The Equity Transitional implies that an insurance undertaking is to use a reduced equity shock for all equity exposures which were recognised on the Economic Balance Sheet on or before 31 December 2015. For the next seven years the equity shocks will increase linearly with the equity shocks as laid down in the Solvency II legislation (Type 1: 39%; Type 2 49%).
- "Events after the reporting period" are those events, favourable and unfavourable, that occur between the statement of solvency and financial position date and the date when the financial statements are authorised for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the statement of financial and solvency position date (adjusting events after the reporting period); and (b) those that are indicative of conditions that arose after the statement of financial and solvency position date (non-adjusting events after the reporting period).
- "Existing insurance or reinsurance contract" means an insurance or reinsurance contract for which insurance or reinsurance obligations have been recognised.
- "Expected profit included in future premiums" means the expected present value of future cash flows which result from the inclusion in technical provisions of premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future, but that may not be received for any reason, other than because the insured event has occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.
- "Expense risk" means the risk of loss or of adverse change in the financial situation, arising from the variation in the expenses incurred in servicing insurance and reinsurance contracts.
- "External credit assessment institution" ("ECAI") means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009 (Regulation on Credit Rating Agencies) or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009. The ECAI is included in the list as endorsed as Delegated Act.

F

- "Future discretionary bonuses" and "future discretionary benefits" mean future benefits other than index-linked or unit-linked benefits of insurance or reinsurance contracts which have one of the following characteristics: (a) they are legally or contractually based on one or more of the following results: (i) the performance of a specified group of contracts or a specified type of contract or a single contract; (ii) the realised or unrealised investment return on a specified pool of assets held by the insurance or reinsurance undertaking; (iii) the profit or loss of the insurance or reinsurance undertaking or fund corresponding to the contract; (b) they are based on a declaration of the insurance or reinsurance undertaking and the timing or the amount of the benefits is at its full or partial discretion.

G

- "Group" means a group of undertakings that: (i) consists of a participating undertaking, its subsidiaries and the entities in which the participating undertaking or its subsidiaries hold a participation, as well as undertakings linked to each other by a relationship as set out in Article 12(1) of Directive 83/349/EEC ((a) that undertaking and one or more other undertakings with which it is not connected, are managed on a unified basis pursuant to a contract concluded with that undertaking or provisions in the memorandum or articles of association of those undertakings; or (b) the administrative, management or supervisory bodies of that undertaking and of one or more other undertakings with which it is not connected, consist for the major part of the same persons in office during the financial year and until the consolidated accounts are drawn up); or (ii) is based on the establishment, contractually or other wise, of strong and sustainable financial relationships among those undertakings, and that may include mutual or mutual-type associations, provided that: — one of those undertakings effectively exercises, through centralised coordination, a dominant influence over the decisions, including financial decisions, of the other undertakings that are part of the group; and, — the establishment and dissolution of such relation ships for the purposes of this Title are subject to prior approval by the group supervisor, where the undertaking exercising the centralised coordination shall be considered as the parent undertaking, and the other undertakings shall be considered as subsidiaries.
- "Group supervisor" means the supervisory authority responsible for group supervision.

H

- "Health insurance obligation" means an insurance obligation that covers one or both of the following: (i) the provision of medical treatment or care including preventive or curative medical treatment or care due to illness, accident, disability or infirmity, or financial compensation for such treatment or care, (ii) financial compensation arising from illness, accident, disability or infirmity.
- "Health reinsurance obligation" means a reinsurance obligation which arises from accepted reinsurance covering health insurance obligations.
- "Home Member State" means any of the following: (a) for non-life insurance, the Member State in which the head office of the insurance undertaking covering the risk is situated; (b) for life insurance, the Member State in which the head office of the insurance undertaking covering the commitment is situated; or (c) for reinsurance, the Member State in which the head office of the reinsurance undertaking is situated.
- "Income protection insurance obligation" means an insurance obligation that covers the financial compensation arising from illness, accident, disability or infirmity other than the financial compensation for preventive or curative medical treatment or care due to illness, accident, disability or infirmity.
- "Income protection reinsurance obligation" means a reinsurance obligation which arises from accepted reinsurance covering income protection insurance obligations.
- "Institutions for occupational retirement provision" means institutions within the meaning of Article 6(a) of Directive 2003/41/EC of the European Parliament and of the Council (an institution, irrespective of its legal form, operating on a funded basis, established separately from any sponsoring undertaking or trade for the purpose of providing retirement benefits in the context of an occupational activity on the basis of an agreement or a contract agreed:
- - individually or collectively between the employer(s) and the employee(s) or their respective representatives, or
- - with self-employed persons, in compliance with the legislation of the home and host Member States,
- and which carries out activities directly arising therefrom).
- "Insurance holding company" means a parent undertaking which is not a mixed financial holding company and the main business of which is to acquire and hold participations in subsidiary undertakings, where those subsidiary undertakings are exclusively or mainly insurance or reinsurance undertakings, or third-country insurance or reinsurance undertakings, at least one of such subsidiary undertakings being an insurance or reinsurance undertaking.

- “Insurance undertaking” means a direct life or non-life insurance undertaking which has received authorisation from the supervisory authorities. “Intangible assets risk” means the risk of loss or of adverse change in the financial situation, arising from two risks in relation to the intangible assets:
- - Market risks, derived from the decrease of prices in the active markets
- - Internal risks, inherent to the specific nature of these elements.
- “Interest Rate Risk” means the risk of loss or of adverse change in the financial situation, resulting from fluctuations in interest rates. Interest Rate Risk exists for all assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility. This applies to both real and nominal term structures and to on-balance sheet and off-balance sheet items.
- “Internal Model” means a model developed by an insurance undertaking to calculate its Solvency Capital Requirements (instead of using the Standard Formula). The reason for using an internal model is that there may be some cases where the standardised approach does not adequately reflect the very specific risk profile of an undertaking.
- “Intra-group transaction” means any transaction by which an insurance or reinsurance undertaking relies, either directly or indirectly, on other undertakings within the same group or on any natural or legal person linked to the undertakings within that group by close links, for the fulfilment of an obligation, whether or not contractual, and whether or not for payment.
- “Investment in a tradable security or another financial instrument based on repackaged loans” and “securitisation position” means an exposure to a securitisation within the meaning of Article 4(1)(61) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (means a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched, having both of the following characteristics:
- (a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; (b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme).

L

- “Lapse risk” means the risk of loss or of adverse change in the financial situation, due to a change in the expected exercise rates of policyholder options.
- “Last liquid point” means the last maturity for which markets for bonds are still deep, liquid and transparent.
- “Liquid market” means a market where financial instruments can readily be converted through an act of buying or selling without causing a significant movement in the price.
- “Liquidity risk” means the risk that insurance and reinsurance undertakings are unable to realise investments and other assets in order to settle their financial obligations when they fall due.
- “Long-term guarantees (LTG) measures” were introduced in the Solvency II Directive to ensure an appropriate treatment of insurance products that include long-term guarantees. The long-term guarantees are the following:

- The extrapolation of risk-free interest rates
- The matching adjustment
- The volatility adjustment
- The extension recovery period in case of non-compliance with the Solvency Capital Requirement
- The transitional measure on the risk-free interest rates
- The transitional measure on technical provisions

- “Longevity risk” means the risk of loss or of adverse change in the financial situation, arising from a decrease in mortality rates.
- “Loss Absorbing Capacity of Deferred Taxes (LACDT)” means the possibility to have a loss absorbency related to the possibility to recover the capital requirement as part of the deferred taxes.
- “Loss Absorbing Capacity of Expected Profits” means the expected change in Own Funds which can serve as a first buffer to absorb the capital requirements (in cases where an insurance undertaking uses an internal model to determine a capital requirement).
- “Loss Absorbing Capacity of Technical Provisions” means the ability of an insurer to defer payments relating to discretionary participation features embedded within the technical provisions.

M

- "Market risk" means the risk of loss or of 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.
- "Medical expense insurance obligation" means an insurance obligation that covers the provision or financial compensation of medical treatment or care including preventive or curative medical treatment or care due to illness, accident, disability or infirmity.
- "Medical expense reinsurance obligation" means a reinsurance obligation which arises from accepted reinsurance covering medical expense insurance obligations.
- "Minimum Capital Requirement (MCR)" is a minimum level of security (lower than the Solvency Capital Requirement) below which the amount of insurance undertakings" financial resources should not fall, otherwise supervisory authorities may withdraw authorisation.
- "Mixed financial holding company" means a mixed financial holding company as defined in Article 2(15) of Directive 2002/87/EC" (a parent undertaking, other than a regulated entity, which together with its subsidiaries, at least one of which is a regulated entity which has its head office in the Community, and other entities, constitutes a financial conglomerate).
- "Mortality risk" means the risk of loss or of adverse change in the financial situation, arising from an increase in mortality rates.

N

- "NSLT Health obligations" means health insurance obligations that are assigned to the lines of business for non-life insurance obligations.

O

- "Operational risk" means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- "Outsourcing" means an arrangement of any form between an insurance or reinsurance undertaking and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the insurance or reinsurance undertaking itself.

P

- "Parent undertaking" means a parent undertaking within the meaning of Article 1 of Directive 83/349/EEC (any undertaking governed by its national law to draw up consolidated accounts and a consolidated annual report if that undertaking (a parent undertaking): (a) has a majority of the shareholders' or members' voting rights in another undertaking (a subsidiary undertaking); or (b) has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of another undertaking (a subsidiary undertaking) and is at the same time a shareholder in or member of that undertaking; or (c) has the right to exercise a dominant influence over an undertaking (a subsidiary undertaking) of which it is a shareholder or member, pursuant to a contract entered into with that undertaking or to a provision in its memorandum or articles of association, where the law governing that subsidiary undertaking permits its being subject to such contracts or provisions. A Member State need not prescribe that a parent undertaking must be a shareholder in or member of its subsidiary undertaking. Those Member States the laws of which do not provide for such contracts or clauses shall not be required to apply this provision; or (d) is a shareholder in or member of an undertaking, and: (aa) a majority of the members of the administrative, management or supervisory bodies of that undertaking (a subsidiary undertaking) who have held office during the financial year, during the preceding financial year and up to the time when the consolidated accounts are drawn up, have been appointed solely as a result of the exercise of its voting rights; or (bb) controls alone, pursuant to an agreement with other shareholders in or members of that undertaking (a subsidiary undertaking), a majority of shareholders' or members' voting rights in that undertaking. The Member States may introduce more detailed provisions concerning the form and contents of such agreements).
- "Partial Internal Model" means that the Solvency Capital Requirement is partly based on capital requirements for certain
- Risk ro sub-risk types based on an Internal Model and for the remaining risk or sub-risk types on the Standard Formula.
- "Participation" means the ownership, direct or by way of control, of 20 % or more of the voting rights or capital of an undertaking.
- "Pooling arrangement" means an arrangement whereby several insurance or reinsurance undertakings agree to share identified insurance risks in defined proportions. The parties insured by the members of the pooling arrangement are not themselves members of the pooling arrangement.

- “Premium and reserve risk” combines a treatment for the two main sources of Underwriting Risk, premium risk and reserve risk.
  Premium risk results from fluctuations in the timing, frequency and severity of insured events.
  Reserve risk results from fluctuations in the timing and amount of claim settlements.
- “Property risk” means the risk of loss or of adverse change in the financial situation, arising from changes in prices of property.
- “Prudent person principle” means that insurance undertakings shall only invest in assets whose risks they can properly identify, measure, monitor, manage, control and report, and appropriately take into account in the assessment of their overall solvency needs.

Q

- “Qualifying central counterparty” means a central counterparty that has been either authorised in accordance with Article 14 of Regulation (EU) No 648/2012 (authorised Central Clearing Party) or recognised in accordance with Article 25 of that Regulation (recognised Third-Party Central Clearing Party.

R

- “Regulated market” means either of the following:
  (a) in the case of a market situated in a Member State, a regulated market as defined in Article 4(1)(14) of Directive 2004/39/EC (a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments - in the system and in accordance with its non-discretionary rules - in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly); or

(b) in the case of a market situated in a third country, a financial market which fulfils the following conditions: (i) it is recognised by the home Member State of the insurance undertaking and fulfils requirements comparable to those laid down in Directive 2004/39/EC; and (ii) the financial instruments dealt in on that market are of a quality comparable to that of the instruments dealt in on the regulated market or markets of the home Member State.

- “Regulated undertaking” means “regulated entity” within the meaning of Article 2(4) of Directive 2002/87/EC of the European Parliament and of the Council (a credit institution, an insurance undertaking or an investment firm).
- “Relegation of Tier 3” implies a situation where the insurance undertaking has recognised a net Deferred Tax Asset which exceeds the Tier 3 limit of 15% of the SCR. An excess above this 15% is deemed not eligible to cover the Solvency Capital Requirement.
- “Reinsurance” means either of the following: (a) the activity consisting in accepting risks ceded by an insurance undertaking or third-country insurance undertaking, or by another reinsurance undertaking or third-country reinsurance undertaking; or (b) in the case of the association of underwriters known as Lloyd’s, the activity consisting in accepting risks, ceded by any member of Lloyd’s, by an insurance or reinsurance undertaking other than the association of under writers known as Lloyd’s.
- “Reinsurance undertaking” means an undertaking which has received authorisation to pursue reinsurance activities.
- “Related undertaking” means either a subsidiary undertaking or other undertaking in which a participation is held, or an undertaking linked with another undertaking by a relationship as set out in Article 22(7) of Directive 2013/34/EU ((a) that undertaking and one or more other undertakings are managed on a unified basis in accordance with: (i) a contract concluded with that undertaking, or (ii) the memorandum or articles of association of those other undertakings; or (b) the administrative, management or supervisory bodies of that undertaking and of one or more other undertakings to which it is not related consist in the majority of the same persons in office during the financial year and until the consolidated financial statements are drawn up)
- “Reporting currency”, unless otherwise required by the supervisory authority, shall be: (a) for individual disclosure, the currency used for the preparation of the insurance or reinsurance undertaking’s financial statements; (b) for group disclosure, the currency used for the preparation of the consolidated financial statements.
- “Required capital”. Reference is made to the definition included at “Capital requirement”.
- “Risk Free Interest discount rate”. Reference is made to the definition included at “Basic risk-free interest rate tem structure”.
- “Revision risk” means the risk of loss or of adverse change in the value of technical provisions, arising from fluctuations in the level, trend, or volatility of revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.
- “Risk-mitigation techniques” means all techniques which enable insurance and reinsurance undertakings to transfer part or all of their risks to another party.

S

- "Scope of an internal model" means the risks that the internal model is approved to cover; the scope of an internal model may include both risks which are and which are not reflected in the standard formula for the Solvency Capital Requirement.
- "SLT Health obligations" means health insurance obligations that are assigned to the lines of business for life insurance obligations.
- "Solvency Capital Requirement (SCR)" is a level of financial resources that enables insurance undertakings to absorb significant losses and that gives reasonable assurance to policy holders and beneficiaries that payments will be made as they fall due.
- "Standard Formula" means the standard formula as defined in the Solvency II regulations to determine the Solvency Capital Requirement and is intended to reflect the risk profile of most insurance and reinsurance undertakings.
- "Subsequent events". Reference is made to the definition included at "Events after the reporting period".
- "Supervisory authority" means the national authority or the national authorities empowered by law or regulation to supervise insurance or reinsurance undertakings.
- "Surrender" means all possible ways to fully or partly terminate a policy, including the following: (i) voluntary termination of the policy with or without the payment of a surrender value; (ii) change of insurance or reinsurance undertaking by the policy holder; (iii) termination of the policy resulting from the policy holder's refusal to pay the premium.
- "Symmetric adjustment" means an adjustment mechanism to be applied to the standard calculation of the equity risk capital requirement. This symmetric adjustment mechanism allows the equity shock to move within a band of 10% on either side of the underlying standard equity stress. In times of rising equity markets the dampener will increase the capital charge, and in times of falling equity indices the dampener will reduce the capital charge.

T

- "Tiering" refers to the categorisation of the Eligible Own Funds into three Tiers which present the quality characteristics of the components of the Eligible Own Funds. Tier 1 is the capital with the highest quality. The three components are subject to sub limits. Tier 1 should exceed 50% of the SCR, while Tier 3 may not exceed 15% of the SCR. Tier 1 is further divided into an unrestricted and restricted part. The restricted part may not exceed 20% of the total amount of Tier 1.
- "Transparent market" means a market where current trade and price information is readily available to the public, in particular to the insurance or reinsurance undertakings.

U

- "Ultimate Forward Rate (UFR)" means a calculated level that the term structure for maturities exceeding the last liquid point grows towards. Insurance undertakings use the term structure for converting long-term liabilities to the economic value.
- "Underwriting Risk" means the risk of loss or of adverse change in the value of technical provisions, due to inadequate pricing and provisioning assumptions.

V

- "Valuation hierarchy" means the grouping of assets into levels based on the inputs used in determining the economic value.
- "Volatility Adjustment" is an adjustment to the relevant risk-free interest rate to cover for changes in spread risk not related to changed default probabilities and to reduce the volatility of the whole Economic Balance Sheet. The Volatility Adjustment is determined by EIOPA according to endorsed legislation. The Volatility Adjustment is the same for all insurance undertakings in a specific currency zone based on a reference portfolio. For the Euro a so-called country layer can be recognised to reflect local circumstances.

W

- "Written premiums" means the premiums due to an insurance or reinsurance undertaking during a specified time period regardless of whether such premiums relate in whole or in part to insurance or reinsurance cover provided in a different time period.