Achmea Summary Solvency and Financial Condition Report 2017

achmea

Achmea 2017

Summary 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:

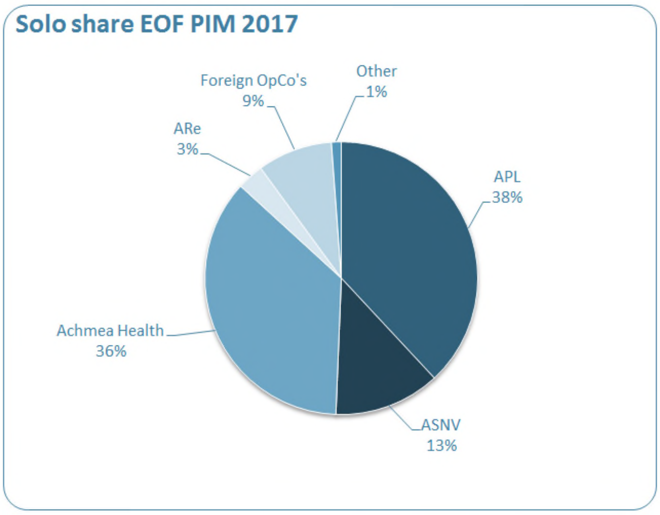
- Tier 2 notes 6% (€553 million, with a nominal value of €500 million, due to grandfathering);
- Tier 2 notes 4.25% (€786 million, with a nominal value of €750 million).

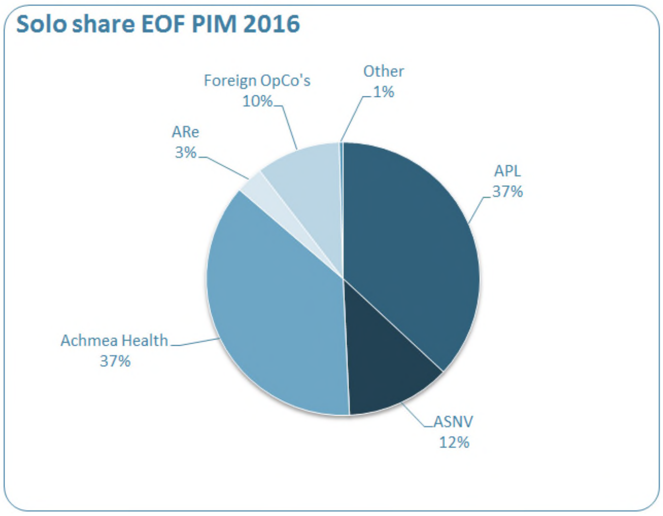
The capital instruments are revalued to their economic value. Currently, this has no impact on the Eligible Own Funds.

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]:

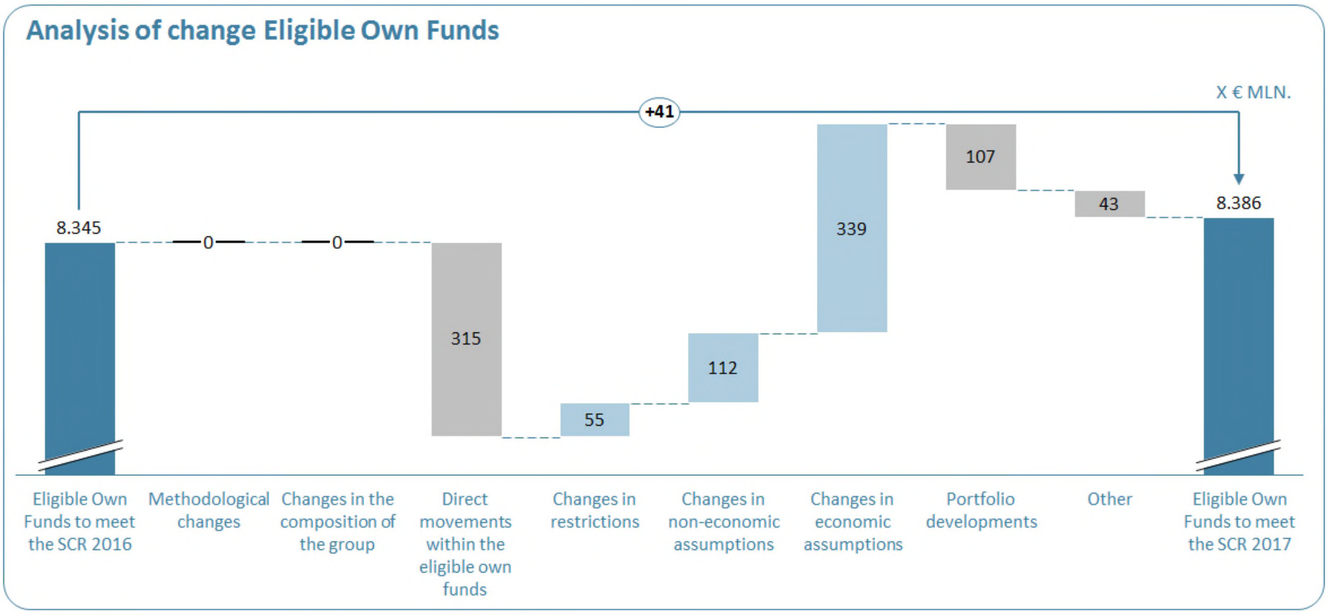




Analysis of Change of the Eligible Own Funds

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).

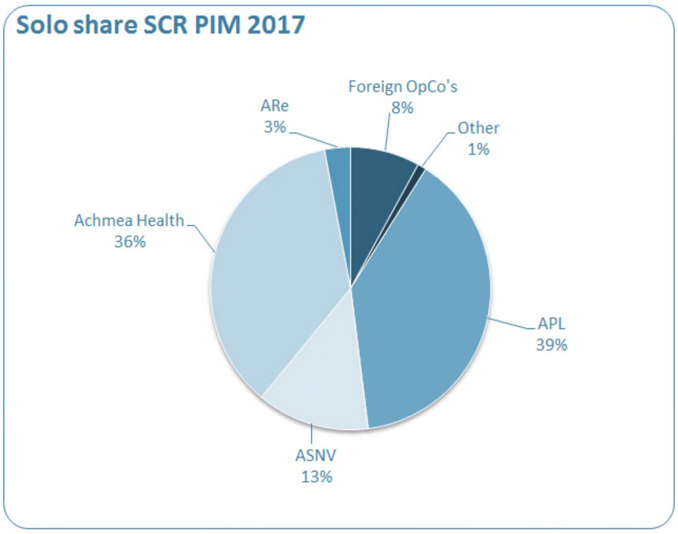
SOLVENCY CAPITAL REQUIREMENT

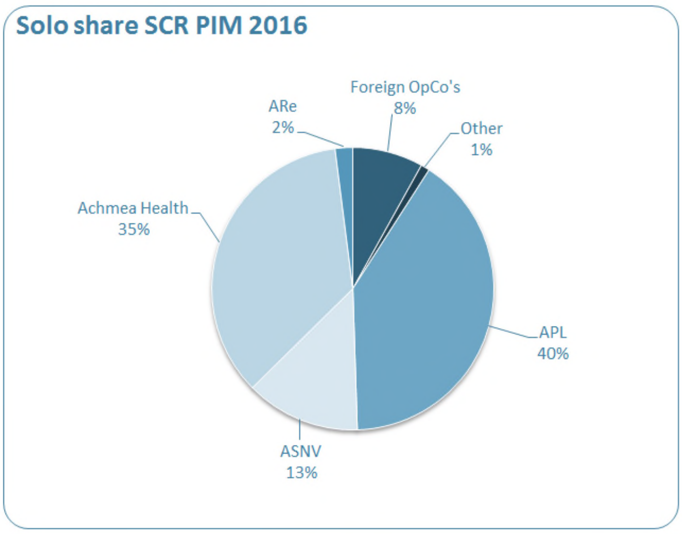
€ MLN.

	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.

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.

The SFCR can be found at www.achmea.com