Solvency and Financial Condition Report

2018

achmea

Achmea 2018

Solvency and Financial Condition Report

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1. SUMMARY

1.1. INTRODUCTION

Achmea's approach to the Solvency and Financial Condition Report

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 (SGW-SFCR). The information in the SGW-SFCR consists of the solvency position of Achmea B.V., the supervised insurance and reinsurance entities and all other legal entities belonging to Achmea.

This Solvency and Financial Condition Report ('SFCR') provides public quantitative and qualitative disclosures for the Achmea Group (Achmea) on Solvency II as required by the Solvency II legislation.

The Quantitative Reporting Templates ('QRTs'), which are required to be publicly disclosed and which provide quantitative information in accordance with Solvency II as at 31 December 2018, are included in the appendix to this SFCR.

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

Achmea Partial Internal Model (PIM)

Achmea determines the Solvency position by means of a PIM. Its scope is:

- Non-Life Premium and Reserve Risk stemming from the Dutch Non-life insurance activities, excluding Achmea Reinsurance Company N.V., and Greek Non-life insurance activities;
- NSLT Health Premium and Reserve Risk stemming from the Dutch Non-Life insurance activities and Greek Non-Life insurance activities;
- Non-Life Natural Catastrophe Risk stemming from the Dutch insurance activities and Greek insurance activities (excluding external incoming reinsurance contracts);
- Health Risk SLT stemming from the Dutch Non-Life insurance activities;
- Market Risk (excluding the Foreign Currency Risk and Concentration Risk), for the Dutch insurance entities[1] and Achmea B.V. (Group).

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

Internal Model Market Risk

In 2018, the College of Supervisors[2] approved the use of the PIM for calculating the required capital for Market Risk for the insurance entities. Achmea already used an approved internal model for calculating the insurance risks for non-life and income protection insurances. The PIM for Market Risk provides Achmea with better insight into the risks, enabling improved risk management. The PIM including Market Risk has been used since 1 July 2018 for calculating the required capital for Achmea B.V., Achmea Pensioen & Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V., N.V. Hagelunie and Achmea Reinsurance Company N.V.

The 2017 comparable information is not restated for the PIM Market risk and still reconciles with the data as presented in the SFCR of 2017. Where appropriate the impact of using the new parts of the PIM are highlighted.

[1] For Dutch health entities no Partial Internal Model for Market Risk is used at an entity level.

[2] A multilateral college of relevant supervisors (national competent authorities, including De Nederlandsche Bank), that is formed for the collective purpose of enhancing efficient, effective and consistent supervision of financial institutions operating across borders.

1.2. BUSINESS AND PERFORMANCE

At year-end 2018, the Solvency II (SII) ratio was 203%, before dividends and coupons on hybrid capital (year-end 2017: 191%). After these items, the Solvency II ratio is 198% (2017: 184%). The improved capital position based on the PIM is the result of a combination of an increase in the Eligible Own Funds of €539 million to €8,925 million (2017: €8,386 million) and a decrease in the Solvency Capital Requirement (SCR) of €58 million to €4,497 million (2017: €4,555 million).

The operational IFRS result over 2018 increased to €391 million (2017: €349 million). The strong result is supported by Pension & Life and Health. Non-Life also significantly contributed to the operational result. Additionally, Retirement Services and our International activities have also shown an improvement compared to 2017.

The net IFRS result is €315 million (2017: €216 million). This includes the transaction result from the joint venture with Fairfax in Canada (€8 million) and the sale of Independer (€167 million). In 2017, the transaction result related to the sale of Friends First, completion of the transfer of the Staalbankiers's private banking activities to Van Lanschot (€8 million) and expenses deriving from the migration of five sectoral pension funds to Centric.

Gross earned premiums increased by 3% to €19,918 million (2017: €19,350 million) in 2018. The increase in premiums was mainly driven by our basic Health insurance activities in the Netherlands.

Full details on Achmea's business and performance are described in chapter A Business and performance and the Annual report of 2018.

1.3. SYSTEM OF GOVERNANCE

General

Achmea B.V. is a private company with limited liability incorporated under Dutch law with its corporate seat in Zeist. The registered office is located at Handelsweg 2 in Zeist, The Netherlands.

De Nederlandsche Bank (DNB) is responsible for the Group prudential supervision of Achmea. Each supervised legal entity has a local prudential supervisor.

The external auditor of Achmea group is PricewaterhouseCoopers (PwC). The information disclosed in this SGW-SFCR is unaudited.

Achmea has an Executive Board and a Supervisory Board. The Executive Board is responsible for day-to-day business, and reports to the Supervisory Board. The Supervisory Board oversees the Executive Board's conduct and general business management.

Risk management

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

Control environment

The risk management function, the actuarial function, the compliance function and the internal audit function have been set up at Group level and for the entities under supervision. The system of internal control includes the management of risks at different levels in the organisation, both operational and strategic.

Internal control at an operational level centres around identifying and managing risks within the critical processes that pose a threat to the achievement of the business lines' objectives. The actuarial function is responsible for expressing an opinion on the adequacy and reliability of reported technical provisions, reinsurance arrangements and underwriting risk. Full details on the actuarial function are described in chapter B. The compliance function enhances and ensures a controlled and sound business operation where impeccable, professional conduct is self-evident.

The audit department provides a professional and independent assessment of the governance, risk management and internal control processes challenging management in achieving the company's objectives. The audit department evaluates the effectiveness of governance, risk management and internal control processes, and gives practical advice on process optimisation.

Full details on Achmea's System of Governance are described in Chapter B System of governance.

In 2018 the Finance & Risk Committee (FRC) at Group level has been replaced by a Group Risk Committee (GRC) and an Asset Liability Committee (ALCO).

There have been no other material changes to the objectives or policies relating to the System of Governance over the period. The governance arrangements in place are regularly reviewed to ensure they remain effective.

1.4. RISK PROFILE

Achmea applies an integrated approach in managing risks, ensuring that our strategic goals (customer interests, financial solidity and efficiency of processes) are maintained. This integrated approach ensures that value will be created by identifying the right balance between risk and return, while ensuring that obligations towards our customers are met.

Achmea is exposed to the following types of risks: Underwriting Risk, Market Risk, Credit Risk, Liquidity Risk and Operational Risk. The risk appetite is formulated at both Group and legal entity level and establishes a framework that supports an effective selection of risks.

Full details on Achmea's risk profile are described in Chapter C Risk Profile.

There have been no other material changes to the risk profile over 2018 compared to 2017.

1.5. VALUATION FOR SOLVENCY PURPOSES

Achmea values its Solvency II Balance Sheet items on a basis that reflects their economic value. Where the IFRS fair value is consistent with Solvency II requirements, Achmea follows IFRS for valuing assets and liabilities.

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

RECONCILIATION BETWEEN EQUITY FINANCIAL STATEMENTS AND SOLVENCY II ELIGIBLE OWN FUNDS

€ MLN.

	2018	2017
Equity Financial statements	9,705	9,949
Subordinated liabilities in Basic Own Funds	−1,350	−1,350
Own shares	335	235
Total IFRS excess of assets over liabilities	**8,690**	**8,834**
Valuation differences Solvency II	−355	−825
Total economic excess of assets over liabilities	**8,335**	**8,009**
Subordinated loans eligible under Solvency II and "grandfathered" instruments	2,076	1,940
Available own funds Solvency II	**10,411**	**9,949**
Foreseeable dividends, payments and expenses	−209	−315
Not qualifying tier 3 capital		−53
Own shares	−335	−235
Equity in banking- and investment institutions (CRD IV)	−911	−923
Other restrictions	−31	−37
Eligible own funds Solvency II	**8,925**	**8,386**

Full details on Achmea's solvency valuation are described in Chapter D Valuation for solvency purposes.

1.6. CAPITAL MANAGEMENT

At year-end 2018, the Solvency II ratio is 198%, an increase of 14%-pt with respect to last year (2017: 184%). This is taking into account the planned dividends (foreseeable dividends on ordinary shares (€-118 million), coupon payments on preference shares (€-17 million) and hybrid capital (€-74 million)). The improved capital position is the result of a combination of an increase in the Eligible Own Funds of €539 million to €8,925 million (2017: €8,386 million) and a decrease in the SCR of €-58 million to €4,497 million (2017: €4,555 million).

The following table presents the solvency ratio of Achmea at year-end 2018 and year-end 2017 using the PIM.

SOLVENCY RATIO OF GROUP

€ MLN.

	2018	2017	Δ
Eligible Own Funds	8,925	8,386	539
Required Capital	4,497	4,555	-58
Surplus	4,428	3,831	596
Ratio (%)	**198%**	**184%**	**14%-pt**

1.6.1. ELIGIBLE OWN FUNDS

The Eligible Own Funds increased by €539 million to €8,925 million.

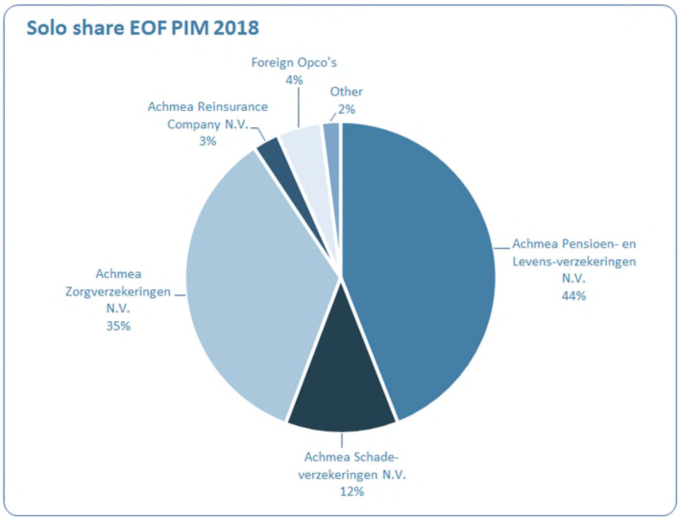
ELIGIBLE OWN FUNDS – GROUP

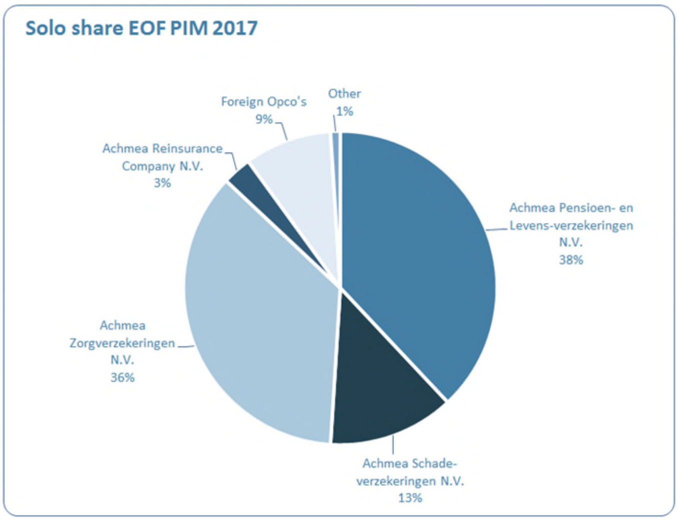
€ MLN.

	2018	2017	Δ
Tier 1	7,070	6,363	707
Tier 2	1,347	1,340	7
Tier 3	508	683	-175
Total Eligible Own Funds	**8,925**	**8,386**	**539**

The increase in Eligible Own Funds under Solvency II is the result of positive technical results in the Non-Life, Health and Life insurance business and an increase in value caused by the financial markets. Developments in Italy led to a widening of spreads and as a consequence led to an increase in the Solvency II ratio. Also the sale of Independer had a positive impact on total equity, while the sale of Friends First had a negative effect. The step-by-step reduction of the corporate tax rate in the Netherlands from 25% to 20.5% in 2021, the decrease in the UFR from 4.2% to 4.05% as of 1 January 2018, the depreciation of the Turkish Lira and planned dividends, following from the positive year result, all lead to a decrease in total equity.

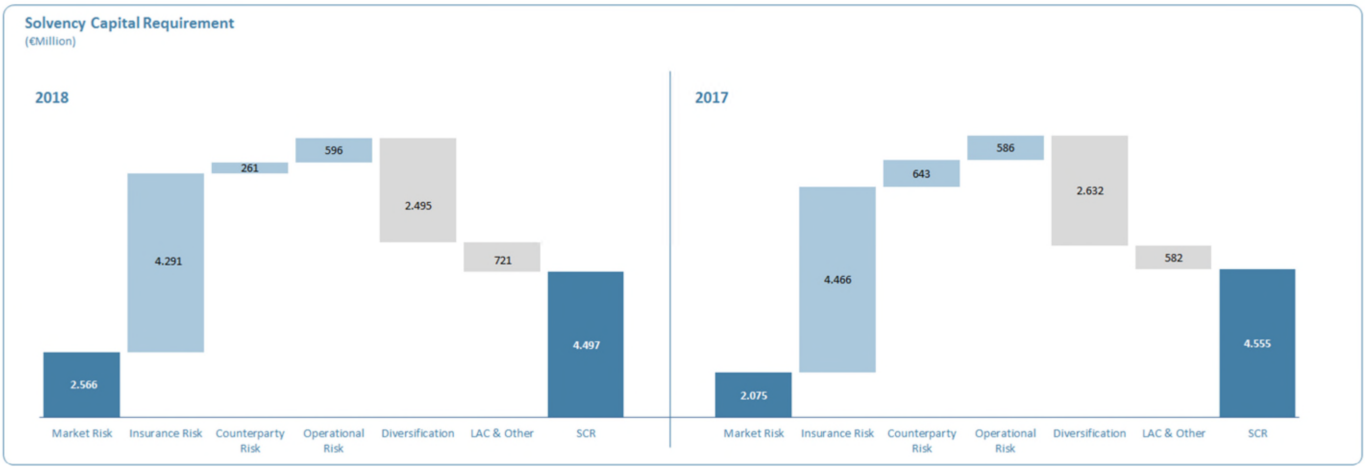
The Eligible Own Funds can be subdivided to the various legal entities of Achmea:





1.6.2. SOLVENCY CAPITAL REQUIREMENT

The SCR has decreased with €-58 million to €4,497 million.



The SCR for Market Risk increased in 2018 from €2,075 million to €2,566 million. The increase is mainly due to the fact that, under the PIM for Market Risk, mortgages are included under Spread Risk and there is a capital requirement for government bonds. The Equity Risk increased due to increased volatility in the equity markets which is factored into the Partial Internal Model for Market Risk.

The SCR for Life Underwriting Risk decreased (€-125 million) due to the sale of Friends First Life Assurance Company DAC and the decreasing insurance portfolios in The Netherlands and Greece.

The SCR for Health Underwriting Risk decreased (€-57 million) due to due to the sale of Friends First Life Assurance Company DAC (disability portfolio) and decreased claim provisions in the Health NSLT business.

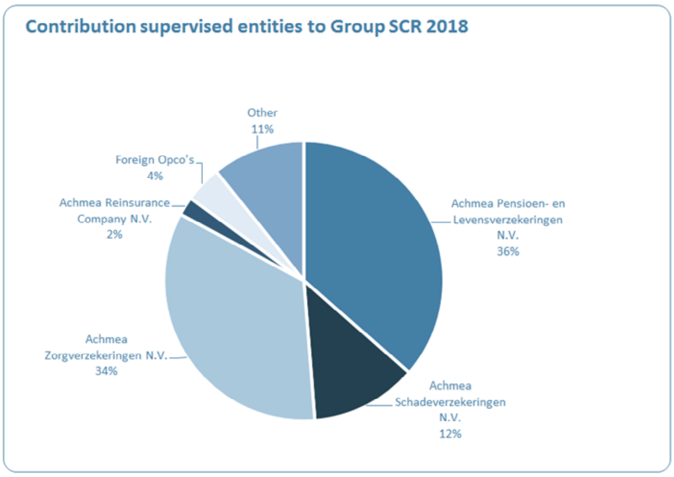
The SCR for Non-Life Underwriting Risk increased (€6 million) mainly due to the increase in Premium and Reserve Risk as a result of the new calibration of the internal models and changes in volume measures at Achmea Schadeverzekeringen N.V. This increase is partly offset by a decrease in Lapse Risk and Catastrophe Risk. The Catastrophe Risk decreased mainly due to a reduced retention of Achmea.

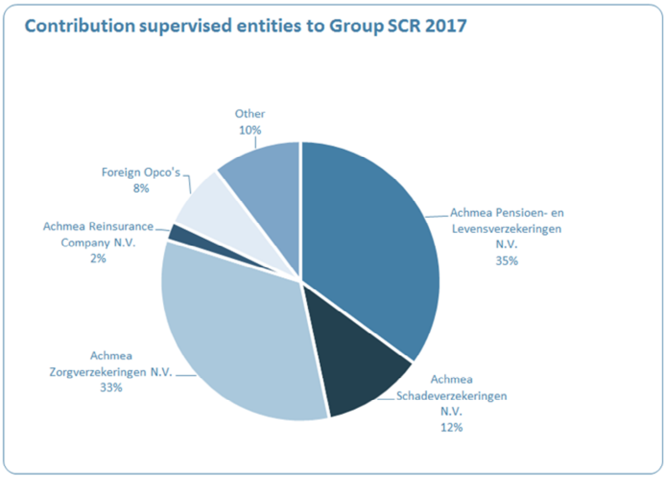
The decrease in SCR for Counterparty Default Risk (€-382 million) is largely due to the implementation of PIM for Market Risk. In this PIM, the “mortgage loans” are included as part of Spread Risk (€-278 million). The capital requirement related to derivatives decreased by €-50 million due to a lower risk mitigating effect.

The SCR for Operational Risk increased by €10 million to €596 million as a consequence of the increased premium volumes in the Health NSLT insurance portfolio (€25 million), the sale of Friends First (€-9 million) and the reclassification of “mortgage saving products” (€-6 million).

As of 1 July 2018, Achmea applies the PIM for Market Risk. The individual capital requirements for Equity and Property Risk are calculated based on a Profit-at-Risk basis, the adjustment to arrive at the Value-at-Risk is included as part of the LAC_{EP} Market Risk. This increases the Loss Absorbing Capacity by €138 million.

SCR per major legal entity





1.6.3. MINIMUM CAPITAL REQUIREMENT

The following table presents the Minimum Capital Requirement (MCR) of Achmea at the end of 2018 and 2017. The MCR is a minimum level of security (lower than the SCR) below which the amount of insurance undertakings financial resources should not fall.

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

	2018	2017	Δ
SCR	4,431	4,522	-91
MCR	2,354	2,373	-19
MCR/SCR (%)	53%	52%	1%-pt

The decrease in MCR by €-19 million is mainly caused by the sale of Friends First Life Assurance Company DAC (€-39 million), a decrease of the MCR of Achmea Reinsurance Company N.V. (€-9 million) and an increase of the MCR of Achmea Pensioen- en Levensverzekeringen N.V. (€29 million).

1.6.4. SOLVENCY POSITIONS SUPERVISED LEGAL ENTITIES

SOLVENCY POSITIONS SUPERVISED LEGAL ENTITIES € MLN.

	2018			2017		
	REQUIRED CAPITAL	ELIGIBLE OWN FUNDS	SOLVENCY II RATIO	REQUIRED CAPITAL	ELIGIBLE OWN FUNDS	SOLVENCY II RATIO
Achmea Pensioen- en Levensverzekeringen N.V.*	2,256	4,021	178%	2,255.3	3,193.5	142%
Achmea Schadeverzekeringen N.V.*	761	1,071	141%	754.5	1,053.5	140%
N.V. Hagelunie*	44	184	419%	64.4	183.4	285%
Achmea Reinsurance Company N.V.*	135	250	185%	138.5	264.3	191%
Achmea Zorgverzekeringen NV consolidated	2,110	3,185	151%	2,131.6	3,031.9	142%
Achmea Zorgverzekeringen N.V.	770	3,185	414%	748.8	2,734.6	365%
Zilveren Kruis Zorgverzekeringen N.V.	1,361	1,880	138%	1,382.1	1,744.9	126%
FBTO Zorgverzekeringen N.V.	92	122	132%	94.7	143.5	152%
Avéro Achmea Zorgverzekeringen N.V.	140	245	175%	133.9	262.3	196%
Interpolis Zorgverzekeringen N.V.	68	137	202%	68.5	130.8	191%
De Friesland Zorgverzekeraar N.V.	214	314	147%	205.5	296.0	144%
Eureko Sigorta A.S.**	70	112	162%	78.7	140.4	178%
Interamerican Hellenic Life Insurance Company S.A.	91	131	144%	94.8	175.3	185%
Interamerican Assistance General Insurance Company S.A.	11	16	143%	11.3	14.0	124%
Interamerican Property & Casualty Insurance Company S.A.*	74	137	185%	77.0	133.4	173%
Union Poist'ovna A.S.	16	26	166%	16.3	28.2	173%

* Legal entities using a PIM

** Based on local capital requirement

At year-end 2018 Achmea and its entities are sufficiently funded in accordance with statutory requirements. See chapter E.1.5 for details on the developments.

1.7. MATERIALITY AND SUBSEQUENT EVENTS

On 7 March 2019 Achmea successfully concluded a committed long-term multi-currency revolving credit facility (RCF). This €1 billion facility was agreed with a syndicate of 12 international banks. The new credit facility has a term of five years with the option for two one-year extensions. As a result it will be available until 2026 at the latest. The new facility replaces the existing credit facility (with a ceiling of €750 million). The RCF is part of Achmea's liquidity management and is currently undrawn.

On 21 March 2019 Achmea and a.s.r. have agreed that Achmea Bank will acquire part of the banking operations of a.s.r. bank. These operations consist of a liability portfolio with savings of 1.7 billion and approximately 125,000 customers, and an asset portfolio consisting of mortgages with a volume of €1.5 billion.

Achmea has published its Solvency position on 14 March 2019. Since the publication of the Solvency position no new information has emerged which results in a material different Solvency position for Achmea.

A. BUSINESS AND PERFORMANCE

A.1. BUSINESS

LEGAL FORM

Achmea B.V. is a private company with limited liability incorporated in The Netherlands and seated in Zeist. The head office is located at Handelsweg 2 in Zeist. The Achmea Group (hereafter called Achmea) comprises Achmea B.V. and the entities it controls. Achmea is a financial services provider with insurance activities in the field of non-life, health, income and life. Furthermore Achmea offers banking services, asset management and pension management services, and other services.

DNB is responsible for the Group prudential supervision of Achmea. Each supervised legal entity has a local prudential supervisor.

The external auditor of the Group Achmea is PricewaterhouseCoopers (PwC). The information disclosed in this GW-SFCR is unaudited.

SHAREHOLDERS OF ACHMEA B.V. AT 31 DECEMBER 2018

COMPANY	COUNTRY	NUMBER OF SHARES	SHARE % (ORDINARY)	SHARE % (INCL. PREFERENCE)
Vereniging Achmea directly and via Stichting Administratie-Kantoor Achmea [1]	The Netherlands	251,481,012	64.48%	60.75%
Coöperatieve Rabobank U.A.	The Netherlands	116,993,237	30.00%	28.27%
Fundo de Pensões de Grupo Banco Comercial Português	Portugal	10,651,756	2.73%	2.57%
Stichting Beheer Aandelen Achmea	The Netherlands	3,665,253	0.94%	0.89%
Gothaer Allgemeine Versicherung AG	Germany	2,072,055	0.53%	0.50%
Gothaer Finanz Holding AG	Germany	2,370,153	0.61%	0.57%
Schweizerische Mobiliar Holding AG	Switzerland	2,769,246	0.71%	0.67%
Total ordinary shares [2]		**390,002,712**	**100.00%**	
Achmea Tussenholding B.V. (preference shares)	The Netherlands	23,904,060		5.78%
Total ordinary shares and preference shares		**413,906,772**		**100.00%**

1. *Including 1 A-share.*
2. *Excluding 20,817,462 units of own shares held by Achmea B.V.*

LEGAL STRUCTURE (SUMMARY)

Achmea B.V.

Achmea Pensioen- en Levensverzekeringen N.V.	Achmea Bank N.V.	Inshared Holding N.V.	Eureko Sigorta A.S.
Achmea Schadeverzekeringen N.V.	Achmea Interne Diensten N.V.	Achmea Investment Management N.V.	Interamerican Hellenic Life Company S.A.
Achmea Zorgverzekeringen N.V.	Achmea Services N.V.	Achmea Pensioenservices N.V.	Union Poist'ovna A.S.
N.V.Hagelunie	Zilveren Kruis Health Services N.V.	Syntrus Achmea Real Estate & Finance B.V.	Union Zdravotna Poist'ovna A.S.
Achmea Reinsurance Company N.V.	Staalbeheer N.V.	Eureko Claims Centre B.V.	Achmea Canada Holding B.V.

OUR MISSION

Bearing the risk together if someone suffers damage or loss.' This has formed the basis for our company since its foundation in 1811. A great deal has changed since then though. The then small-scale cooperative non-life insurer now provides insurance and services relating to healthcare, health, mobility, income protection, pensions, asset management, legal protection and much more. Yet solidarity remains a fundamental principle for Achmea. Prevention is an important precondition, as this can help to restrict damage or loss and keep premiums affordable.

Relevant to customers and trendsetting

We align our services as much as possible to the experiences, insights and wishes of our customers and to the needs of society. Our knowledge and insight into risks enable us to make a contribution to this. The aim is to be relevant to customers and trendsetting thanks to our innovative solutions. This is how we continue to give substance to our cooperative identity in 2018.

Our cooperative identity

About two-thirds of our shares are in the hands of Vereniging Achmea, about one third is owned by Rabobank and the remainder is held by similarly-minded, cooperative financial institutions elsewhere in Europe. This means that our cooperative identity is guaranteed right down to our shareholders. Together with Vereniging Achmea, which represents the collective interests of all Achmea customers, we are developing an inspiring complementary range of cooperative features, values and communications that will also prove their worth over the next few years.Expertise is an important basis here and this is why we are investing in the personal development of our employees and in improving our services.

Healthy, safe and future-proof

Our products and services provide solutions to risks too substantial to be borne by any individual party. This is another aspect of solidarity that is inherent to our business. Our mission is to contribute to a healthy, safe and future-proof society and to this end we have defined four focus areas in which we aim to have a positive impact for our stakeholders. These focus areas are:
- Good health closer to everyone
- Clean, safe and smart mobility
- Safe home, living and working environments
- (Financial) solutions for now, tomorrow and later

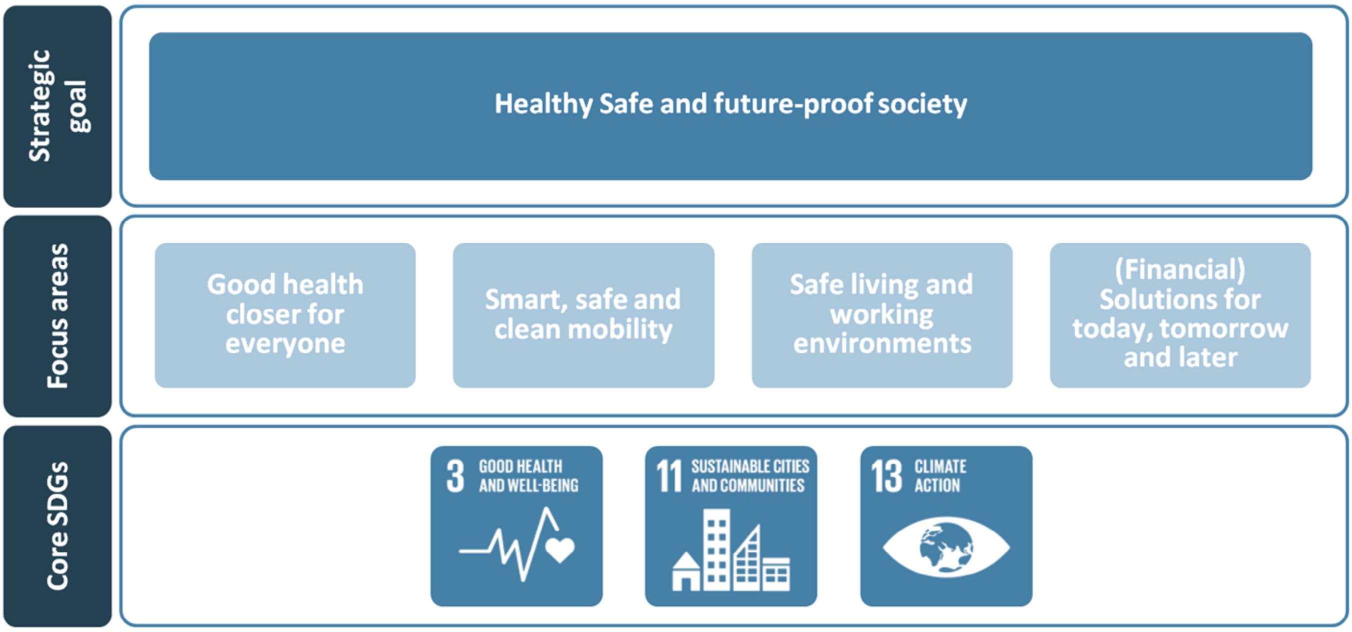
These were selected based partly on insights derived from the dialogue we conduct with our stakeholders and on our extensive environmental analysis.

Sustainable Development Goals

We linked these four focus areas to the United Nation's Sustainable Development Goals (SDGs) in 2018. These 17 SDGs together form the 2030 Agenda for Sustainable Development. We believe it is important to participate in this agenda. We aim to excel in SDG 3 (Good health and well-being), SDG 11 (Sustainable cities and communities) and SDG 13 (Climate action). These three SDGs touch on major trends and risks that our customers and society face and are closely bound up with Achmea's core business. Our choice of SDGs is strategic in nature. They are close to the core of our company, our cooperative identity and encourage innovation and growth.

Our core values

Our core values – empathising, innovating and delivering – are an important foundation for the way we work. Everything we do revolves around our customers. This is why it is essential to know what matters to our customers and what our customers and society need. Achmea gives substance to this by involving customers and partners in developing appropriate insurance policies and services (co-creation). We aim to create an even more customer-driven organisation that communicates using methods customers want and at a time that is convenient to them. This means that we are constantly adjusting and renewing our processes. Living up to our promise to our customers is crucial: our customers need to be able to rely on us being here when they need us.



OUR STRATEGY

WHY WE DO WHAT WE DO

Our stakeholders expect insurance policies of us. Yet we can also play a role with respect to services to prevent damage or loss, investment with a focus on people and planet, the promotion of good health, a safe environment or sound financial planning. This is a validation of our decision to work together with our partners and customers to create a healthy, safe and future-proof society.

Our focus areas are: good health closer to everyone; clean, safe and smart mobility; safe home, living and working environments; and (financial) solutions for now, tomorrow and later. This provides direction for our strategy and our innovation.

The core of our strategy remains unchanged: providing people with security against risks by offering insurance and services. We do this as follows:

Our products and services

We help customers to decide how they wish to protect themselves against these risks and how they can restrict the consequences. We offer insurance and services for retail customers, small and medium-sized businesses, other companies and institutions. We aim to serve customers via a range of different channels and media, with a view to being personally relevant to customers on a daily basis. We do this by ourselves or together with our partners.

We focus on property & casualty, income protection and health insurance. Customers can buy our products directly from us, but also via Rabobank or other intermediaries. And we are expanding retirement services and the service company in the Netherlands. Internationally, we are mainly developing positions in property & casualty and health insurance in countries in which we have identified strategic opportunities.

Our financial ambitions

Our financial ambitions are aligned with our cooperative identity. Long-term value creation for our customers is a priority here. We aim to generate enough financial return and disposable capital to be able to continue investing in renewal and innovation, as well as to retain capital providers and generate larger margins for absorbing volatility and set-backs. We aim to achieve a sufficient level of profitability and free capital generation to be able to invest in innovation. Our main priority in this respect is to improve profitability deriving from normal business operations.

Sustainable distribution

As an insurer, we believe a future-proof and sustainable distribution system to be important. We use online distribution channels plus banking distribution via Rabobank. It is partly thanks to our partnership with Rabobank that we can offer customers good insurance policies. As a result of our improved IT infrastructure, we succeeded in increasing efficiency and reducing complexity in 2018.

CHALLENGES FACING ACHMEA

Achmea works constantly to improve its services. This is how we prepare our company to face the challenges of tomorrow. We see the main challenges as:

Improving existing activities

We work in a competitive industry, one in which ever-higher standards are being demanded of our services. This means that there is constant pressure to further improve products and processes. Robotisation and artificial intelligence are becoming increasingly important in this respect.

Changing environment

There are challenges in processing system changes (pensions, social security, healthcare) and requirements deriving from laws and legislation (IFRS, GDPR, PSD2 etc.). Demographic trends, such as the ageing population, diversity and urbanisation, also have consequences for our products and services.

New technologies in interaction with customers

Digital communications geared to the wishes of our customers are a necessity. Infrastructure, processes and organisational structure need to be designed accordingly. Online platforms and speech technology will play an increasingly important role here.

New propositions and business models

Broader propositions that also comprise services are becoming increasingly popular. We develop these ourselves or together with our partners. This requires us to invest in partnerships.

Employee competencies

New applications and work processes demand of our employees flexibility and the ability to use new technologies. Multi-disciplinary skills are becoming more and more important, as are creativity and the desire to continue learning new things.

WHAT DO WE BELIEVE TO BE IMPORTANT?

Acceleration

We want to accelerate processes in our four focus areas. We do so by employing strategic innovations aimed at boosting our future revenue model. We are introducing innovations at our company relating to retirement services, new initiatives in Property &Casualty and digital business models internationally.

Strengthening

We want to further improve our management and business operations and strengthen our Balance Sheet, allowing us to cut our direct and indirect expenses in the process. We are also introducing innovations with a view to boosting our revenue model in relation to customer retention, written premiums and results. We are experimenting with new propositions and business models. The impact may seem small at the moment, but these measures are already boosting (access to) our basic services and could contribute to customer retention in future.

Towards a more compact and digital company

We are increasingly becoming a data and technology company in our capacity as a financial service provider. We focus our distribution on the requirements of our customers and aim to standardise and automate our processes, integrate systems and cut expenses. This will create a more compact and digital company. We are focusing on online and personalised interaction with our customers. Our approach for retail customers is the same as the one used for small and medium-sized businesses. We support this with new technology, such as chatbots and other types of robotisation.

FOCUS PER SEGMENT

We are expanding the role of Centraal Beheer as a (financial) service provider. We are developing our activities to include banking products and services that can also be sold on the market individually. In the partnership between Rabobank and Interpolis we are increasing our efforts to achieve growth. Here, Interpolis is focusing on supplementary and innovative prevention services, among other things. We have also tightened the focus within the brokerage business.

Non-Life

We are constantly working on further streamlining our company in order to cut expenses. We are working on further claims management measures, apply an additional prudential margin for large claims and are testing new business models, mainly for the home and mobility.

In our commercial business we aim to achieve growth in small and medium-sized businesses and expect growth in the retail customer segment. In the business claims segment the focus lies on improving results. At Income Protection, we are renewing the product portfolio and our interaction with customers.

Pension & Life

Good customer service is a priority at Pension & Life. We are also working on further cutting expenses and making them variable, whilst retaining a high level of customer satisfaction. Robotisation of processes, the integration of systems and machine learning are assisting us in this.

Our ambition is to grow in term life insurance and products that pay benefits (individual pension annuities and annuities). In doing so, we aim to contribute to the success of Retirement Services.

Retirement Services

We provide pensions, banking products and asset accrual from a single chain. The Centraal Beheer General Pension Fund (GPF) provides a group second pillar pension solution. Achmea Investment Management and Achmea Pensioen Services focus on institutional clients. Achmea Bank offers savings and mortgage products for third and fourth pillar solutions via Centraal Beheer's online platform, but also via brokers in the retail customer market.

We are creating opportunities to accelerate processes, for instance for mortgages. And we are strengthening Centraal Beheer as a gateway to retirement services.

Health

We aim to contribute to accessible and affordable high-quality healthcare for everyone and to prevent the formation of waiting lists. In doing so, we are focusing on the vitality of people, on prevention and promoting a healthy lifestyle. We want to contribute to the well-being of people and restrict the cost of healthcare. We are investing in new options for healthcare at home. Our goal is to strengthen our position in health procurement and further cut expenses. We are doing this by contributing to affordable healthcare and to sound business operations with cost-price premiums. We continue to be a relevant partner for employers and other group insurance schemes.

International

We are consolidating our position on markets in which we already operate and temporising our position on markets that are new to us. We do so by selling our range of Property &Casualty insurance policies via direct and banking distribution channels. We are also exploring opportunities for exporting the success of InShared.

A.2. UNDERWRITING PERFORMANCE

The Non-Life business in the Netherlands consists of the entities:
- Achmea Schadeverzekeringen N.V.
- N.V. Hagelunie.

The Health business in the Netherlands consists of the entities:
- Achmea Zorgverzekeringen N.V.
- Zilveren Kruis Zorgverzekeringen N.V.
- Interpolis Zorgverzekeringen N.V.
- Avéro Achmea Zorgverzekeringen N.V.
- FBTO Zorgverzekeringen N.V.
- De Friesland Zorgverzekeraar N.V.

The Life and Pension business in the Netherlands consists of the entity Achmea Pensioen- en Levensverzekeringen N.V.

Our International business consists of the entities:
- Interamerican Assistance General Insurance Company S.A. (Non-Life) - Greece
- Interamerican Property & Casualty Insurance Company S.A (Non-Life) - Greece
- Interamerican Hellenic Life Insurance Company S.A. (Composite) - Greece
- Union Poist'ovna A.S. (Composite) - Slovakia
- Eureko Sigorta A.S. (Non-Life) - Turkey.

We refer to these entities when we mention these businesses. Achmea Reinsurance Company N.V. is mentioned separately.

The result before tax over 2018 increased to €566 million (2017: €321 million).

This includes the transaction result of €175 million from the joint venture with Fairfax in Canada (€8 million) and the sale of Independer (€167 million, +5%-pt on Solvency II ratio). In 2017, the transaction result of €-28 million (+2%-pt on Solvency II ratio) related to the sale of Friends First, completion of the transfer of the Staalbankiers's private banking activities to Van Lanschot (€8 million) and expenses deriving from the migration of five sectoral pension funds to Centric.

The operational result (result before tax excluding transaction results) over 2018 increased to €391 million (2017: €349 million). The strong result is supported by Pension & Life and Health. Non-Life also significantly contributed to the operational result. Additionally, Retirement Services and our International activities have also shown an improvement compared to 2017.

At 95.5%, the combined ratio of our Non-Life business is the same as last year. The underlying result of our Non-Life insurance activities improved further. The January storms, with an impact of €85 million and 2.6%-pt on the combined ratio, were fully absorbed by this. The underlying results improved due to premium measures, claims management and operational expense measures. The lower operational result, compared to 2017, is caused by lower investment income.

Our Health activities realised a higher result than in 2017, caused by a better result on previous years. In 2018, basic Health insurance is still loss-making. If the loss provision of €108 million, formed in 2017, is excluded, the result of basic Health is negative. We were able to set basic healthcare premiums for 2019 closer to cost price than in previous years, meaning we only had to make a loss provision of €21 million in the 2018 results. The result on supplementary health insurance increased due to lower use of healthcare services by our customers compared to 2017.

Pension & Life showed a strong and stable result over 2018 in which the higher technical result and lower operating expenses largely compensated the lower investment results. We also continued to optimise our processes and systems in 2018 and further reduced our operational expenses.

The result of Retirement Services improved in 2018. The improvement is due to a higher interest margin at Achmea Bank, lower expenses as a result of outsourcing and lower start-up expenses for the Centraal Beheer General Pension Fund (APF). The result of Achmea Investment Management has also improved further and the Assets under Management (AuM) increased to €129 billion. The phasing out of pension administration to mandatory sectoral pension funds was successfully completed as of 1 July 2018.

Our International activities show a sharp improvement in the operational result compared to 2017. With the launch of our online services in the Canadian property & casualty market and completion of the sale of Irish Life insurance company Friends First, we took further steps in the implementation of our international strategy, which focuses on our core qualities: Non-Life and Healthcare expertise via digital and banking distribution channels.

The Other activities segment has a lower result this year compared to 2017. In addition to financing and shareholder expenses, the result was adversely affected by a higher cost of claims at Achmea Reinsurance Company N.V., caused by storm Friederike on 18 January 2018. The reorganisation provision for reductions in the number of employees and office locations has been increased further within the context of our business plan “Delivering Together”. The lower result compared to last year can also be partly attributed to one-off windfalls in 2017, a change in cost allocation and higher investments in innovation.

Gross earned premiums increased by 3% to €19,918 million (2017: €19,350 million) in 2018. The increase in premiums was mainly driven by our basic Health insurance activities in the Netherlands.

Gross earned premiums in Retail and commercial Non-Life increased further due to portfolio growth and premium measures. Internationally, gross earned premiums also increased for our property & casualty activities in local currency, but decreased in euros due to exchange-rate effects. Gross earned premiums from life insurance activities decreased, in line with our expectations, as a result of our decision to stop actively selling pension insurance products in the Netherlands. Additionally, gross earned premiums were also lower due to the sale of Irish life insurance company Friends First as of 1 June 2018.

Gross operating expenses increased to €2,211 million in 2018 (2017: €2,136 million). Adjusted for one-off effects, gross operating expenses decreased by €58 million (-3%). This decrease is mainly due to a reduction of the total workforce and lower housing expenses as a result of centralising office locations.

The reorganisation provision within the context of “Delivering Together” was further increased in 2018 in order to achieve these structural decreases. This will be used to fund a further reduction in the number of employees and office locations, partly because of merging of activities.

The total number of internal and external employees in the Netherlands declined to 13,772 FTE in 2018 (year-end 2017: 14,484 FTE). The decrease in the number of internal employees in the Netherlands with more than 700 FTE is due to the continued optimisation of processes and systems as well as strategic choices. An example is the sale of Independer which lead to a decrease of 292 FTE. We previously stated that the number of employees at Achmea will decrease by 2,000 in the business plan period up to 2020. Since the start of the business plan period, the number of employees in the Netherlands has decreased by over 1,500. This means that we are well on track with the execution of the business plan.

The number of internal and external employees outside the Netherlands decreased to 2,864 FTE (year-end 2017: 2,946 FTEs). This decrease is due to the sale of Irish life insurance company Friends First. When adjusted for this, the number of international employees has increased by 240 to support growth in our international business.

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

INCOME STATEMENT NON-LIFE NETHERLANDS

€ MLN.

	2018	2017
Gross written premiums	3,364	3,290
Reinsurance premiums	-112	-152
Changes in the provision for unearned premiums and current risks (net of reinsurance)	-24	22
Net earned premiums	**3,228**	**3,160**
Investment income	60	111
Other income	19	27
Total income	**3,307**	**3,298**
Net expenses from insurance contracts	2,339	2,286
Operating expenses related to insurance activities	821	798
Other operating expenses	24	20
Interest and similar expenses	3	3
Other expenses	23	14
Total expenses	**3,210**	**3,121**
Operational result	**97**	**177**

Achmea is market leader in the Dutch property & casualty and income protection insurance markets. We provide our retail and commercial customers with car insurance, fire insurance, liability insurance and travel insurance. In addition, we offer various types of sickness and disability insurances. We assist our customers via innovative services that, for example, give them insight into the potential risks they run. In doing so, we help our customers to prevent or restrict damage or loss as much as possible. Our property & casualty and income protection products are distributed by our brands Centraal Beheer, Interpolis, FBTO, Avéro and InShared, whereby our focus is on a high level of customer satisfaction, innovative services and digitised processes. Our focus on customer satisfaction is already visible. In 2018 Centraal Beheer was chosen as the most client friendly insurance company in the Netherlands for Retail insurances (CustomerFirst Award). Our services increasingly allow customers to communicate with us at any time and using different methods.

Gross written premiums

Gross earned premiums increased by €74 million to €3,364 million in 2018 (2017: €3,290 million). Gross earned premiums from our property & casualty insurance business increased to €2,784 million (2017: €2,690 million) as a result of portfolio growth and premium measures in both the retail and commercial segments. Gross earned premiums from the income protection insurance business amounted to €580 million (2017: €600 million).

Operating expenses

Operating expenses increased by 3% to €845 million in 2018. These higher expenses can be attributed to further investment in digitising our customer service processes and investments in reducing the cost of claims. Thanks to the growth of our portfolio, the expense ratio declined slightly to 25.4% (2017: 25.5%).

Results

The operational result for 2018 was €97 million (2017: €166 million). The decrease is mainly due to lower investment income in 2018 (€51 million) as a result of relatively high realised gains on fixed-income investments in 2017 and the development of foreign exchange results in 2018. Our continued focus on claims management and premium measures has contributed to the positive growth of the operational result. These measures have enabled us to absorb the higher cost of claims caused by the January storms (impact on the combined ratio of 2.6%-pt). Partly as a result of this, the combined ratio remains stable at 95.5%.

Property & Casualty

The operational result from our property & casualty business decreased to €72 million in 2018 (2017: €119 million) and this can be attributed almost entirely to the lower investment income in 2018. The insurance result remained stable. The impact of the January 2018 storms (net impact on claims ratio: 3.2%) was absorbed entirely by the sharp improvement in regular results thanks to the implemented improvement measures in the retail and commercial property & casualty portfolio. These measures comprise adjustments in premiums and claims management. One important pillar within claims management is the prevention of damage or loss to customers. We achieve this by, for example, developing innovative solutions, such as the AutoModus app, BlueLabel and AgroAlarm. These solutions are also available for non-insurance customers and contribute to a safer and more climate-proof society. The combined ratio of our property & casualty insurance business was 96.0% in 2018 (2017: 96.0%). If we exclude the January storms, the combined ratio is 92.8%. The claims ratio adjusted for the January storms stood at 66.8% (2017: 69.4%). The expense ratio improved by 0.6% to 26.0% in the current period (2017: 26.6%).

Income Protection

The operational result for income protection insurance was €25 million (2017: €47 million). The lower result can be attributed almost entirely to the lower investment income. There has been a slight improvement in the insurance result. In the insurance result, the lower result from disability insurance for the self-employed and sickness insurance are compensated by the higher result from group disability insurance. We assist our customers by placing the emphasis on recovery and re-integration. Continuous improvements to our approach allow us to accelerate the return to work of customers, which has a positive impact on the result.

The combined ratio of our income protection business improved to 93.2% in 2018 (2017: 93.3%). The claims ratio was 70.6% in 2018 (2017: 72.8%), while the expense ratio was 22.6% (2017: 20.5%)

BREAKDOWN OF NET PROFIT ASNV AND HU — € MLN.

	2018		2017	
	ASNV	HU	ASNV	HU
Gross written Premiums	3,324	85	3,250	81
Reinsurers' Share	103	35	148	37
Net written Premiums	3,221	50	3,102	44
Change in Provision unearned Premiums	23	1	-18	-3
Net earned Premiums	3,197	49	3,120	47
Gross Claims Incurred	2,398	56	2,341	15
Reinsurers' Share	88	13	63	2
Net Claims Incurred	2,311	43	2,278	13
Investment Income Technical Account	18	0	4	0
Other Technical Income/ Expenses	-3	-1	11	0
Profit Sharing and Rebates	2	0	2	0
Operating Expenses	844	10	823	25
Result on Technical Account	55	-5	32	9
Investment Income Non-Technical Account	46	0	109	2
Other Income and Expenses	-15	0	-19	0
Profit before Tax	87	-5	122	27
Taxes	10	-2	29	7
Net Profit	77	-3	93	20

**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.

	2018	2017
Gross written premiums	13,942	13,184
Reinsurance premiums	1	8
Changes in the provision for unearned premiums and current risks (net of reinsurance)	88	326
Net earned premiums	**14,031**	**13,518**
Investment income	3	47
Other income	107	107
Total income	**14,141**	**13,672**
Net expenses from insurance contracts	13,426	13,249
Operating expenses related to insurance activities	426	410
Other operating expenses	100	101
Interest and similar expenses	1	1
Other expenses	60	39
Total expenses	**14,013**	**13,800**
Operational result	128	-128

Zilveren Kruis Zorgverzekeringen N.V., De Friesland Zorgverzekeraar N.V., FBTO Zorgverzekeringen N.V., Avéro Achmea Zorgverzekeringen N.V. andInterpolis Zorgverzekeringen N.V. provide basic health insurance. Achmea Zorgverzekeringen N.V. provide supplementary health insurancen. Alarmcentrale Eurocross provides medical support worldwide.

In the Dutch health system, basic health insurance is for everyone and there are no acceptance criteria. This means that there is solidarity between young and old, poor and rich and sick and healthy people. This is unique in the world: less than 5% of the world population lives in a country where everybody has access to the same healthcare. Developments such as ageing of the population, new treatments and medicines and shortage on the labour market in the Netherlands put pressure on the affordability and accessibility of healthcare. This underlines the importance to organize better and give more attention to prevention and a healthy lifestyle. Zilveren Kruis and the other health brands of Achmea want to bring health closer to everyone. We have the ambition to bring healthcare at home. This makes the impact of treatment less invasive, improves the quality of life and helps keep premium levels affordable. With initiatives such as Gezond Ondernemen and the lifestyle platform Actify we help customers to work and live healthier.

In 2019 approximately 5 million residents of the Netherlands chose for health insurance from one of Achmea's health brands. With this number of insured clients, Achmea is market leader with a market share of 29%. Organizing solidarity between customers and uniting interests in the healthcare sector fits the cooperative identity of Achmea. Through this we fulfill our societal role. Health Insurance also contributes to synergy advantages such as lower execution costs and capital requirements. As Achmea we can assist in broader societal issues such as ageing of the population, employment conditions and living.

Gross written premiums

Gross earned premiums from basic and supplementary health insurance increased by 6% to €13,942 million (2017: €13,184 million). Gross earned premiums from basic health insurance amounted to €12,621 million (2017: €11,869 million). The increase in gross earned premiums is due to higher premiums for basic health insurance and a larger contribution from the health insurance Equalisation Fund as a result of the increase in healthcare expenses in the Netherlands. Gross earned premiums from supplementary health insurance remained more or less stable at €1,321 million (2017: €1,315 million).

Operating expenses

Operating expenses of our health activities increased to €526 million (2017: €511 million). The increase is due to the reorganisation provisions made in 2018 (€29 million). These relate to the merger of De Friesland Zorgverzekeraar and Zilveren Kruis and the upcoming closure of the office location in Zwolle. The merger will result in lower operating expenses in the future. In 2017, there was a one-off windfall of €24 million from amendments to the pension scheme for our employees at several health entities. When adjusted for these items, operating expenses decreased by €38 million (-7%). The decrease is a direct result of initiatives to standardise systems and business processes, enabling a reduction in the number of employees.

Operational result basic health insurance

The operational result of basic health insurance was €45 million over 2018 (2017: €-175 million). The operational result for the 2018 underwriting year was €-18 million (2017: €15 million). The 2018 underwriting year has higher healthcare expenses, including higher expenses due to price inflation and expensive medicines, nursing & care and geriatric rehabilitation caused by the ageing population, than estimated in November 2017 when premium levels were set. This is partly compensated by a higher contribution from the health Insurance Equalisation Fund. Reorganisation provisions were also made in 2018. The incidental result from previous years amounts to €84 million (2017: €-83 million). In 2018, this positive result can be attributed to lower healthcare expenses mainly relating to specialised medical care and mental healthcare for the 2017 underwriting year. The negative result in 2017 was largely caused by an adjustment to the contribution from the National healthcare Institute (Zorginstituut Nederland). In 2018, a limited amount of capital reserves was used for premium-setting in 2019. A provision of €21 million was made for two labels, while in 2017 a provision of €108 million was made for setting premiums below cost in 2018. The limited use of the capital reserves is in line with our objective of setting premiums at cost price for the basic health insurance business.

The combined ratio of basic health insurance is 99.4% (2017: 101.6%) and has improved as a result of lower healthcare expenses than expected on previous years.

Operational result supplementary health insurance

Supplementary health insurance accounts for €85 million of the operational result from the health business (2017: €55 million). The higher result derives from the 2018 underwriting year as well as previous years. The higher result for the 2018 underwriting year is due to a lower cost of claims. Healthcare expenses for previous underwriting years were less than expected in 2017. The percentage of basic health insurance policyholders with supplementary coverage has remained stable at around 80% in 2018. This reaffirms the value of supplementary health insurance for our customers. The combined ratio of supplementary health insurance policies improved to 92.4% in 2018 (2017: 96.0%).

Operational result other

The operational result for Other was €-2 million in 2018 (2017: €-8 million). Category Other relates to healthcare offices that implement the Long-term Care Act (Wlz) and activities related to healthcare services. The higher operational result can be attributed to higher reimbursements for administrative expenses relating to the Wlz and a decrease in operating expenses.

BREAKDOWN OF NET PROFIT HEALTH INSURANCE

€ MLN.

	2018			2017		
	ZILVEREN KRUIS ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	AVÉRO ZORG-VERZEKERINGEN	ZILVEREN KRUIS ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	AVÉRO ZORG-VERZEKERINGEN
Gross written Premiums	9,222	468	920	128	443	799
Reinsurers' Share	-2	0	0	0	0	1
Net written Premiums	9,224	468	920	128	443	798
Change in Provision Unearned Premiums	-67	0	-16	4	19	-7
Net earned Premiums	9,291	468	936	132	424	805
Gross Claims Incurred	9,034	447	900	128	433	818
Reinsurers' Share	0	0	0	0	0	1
Net claims Incurred	9,034	447	900	128	433	817
Investment Income Technical Account	13	1	1	0	0	0
Other Technical Income/ Expenses	-28	0	-3	-1	-1	0
Profit Sharing and Rebates	0	0	0	0	0	0
Operating Expenses	180	14	34	5	15	37
Result on Technical Account	62	8	1	-1	14	-49
Investment Income Non-Technical Account	-7	0	0	0	1	3
Other Income and Expenses	-1	0	0	0	0	-1

BREAKDOWN OF NET PROFIT HEALTH INSURANCE

€ MLN.

	2018			2017		
	ZILVEREN KRUIS ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	AVÉRO ZORG-VERZEKERINGEN	ZILVEREN KRUIS ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	AVÉRO ZORG-VERZEKERINGEN
Profit before Tax	53	7	1	-1	15	-47
Taxes	0	0	0	0	0	0
Net Profit	53	7	1	-1	15	-47

€ MLN.

	2018			2017		
	ACHMEA ZORG-VERZEKERINGEN	FBTO ZORG-VERZEKERINGEN	DE FRIESLAND ZORG-VERZEKERINGEN	ACHMEA ZORG-VERZEKERINGEN	FBTO ZORG-VERZEKERINGEN	DE FRIESLAND ZORG-VERZEKERINGEN
Gross written Premiums	1,321	622	1,389	9,898	619	1,297
Reinsurers' Share	1			9		-18
Net written Premiums	1,320	622	1,389	9,889	619	1,315
Change in Provision Unearned Premiums	1	-10	13	182	36	44
Net earned Premiums	1,321	612	1,402	10,072	655	1,359
Gross Claims Incurred	1,086	633	1,328	9,982	621	1,329
Reinsurers' Share	2			8		-17
Net claims Incurred	1,084	633	1,328	9,974	621	1,345
Investment Income Technical Account	1	1	2	3		5
Other Technical Income/ Expenses	-10			-18	-1	
Profit Sharing and Rebates						
Operating Expenses	136	20	41	333	16	24
Result on Technical Account	91	-40	35	-251	17	-5
Investment Income Non-Technical Account	41	-2	-3	31		5
Other Income and Expenses	-4		-6	-4	1	
Profit before Tax	129	-42	26	-224	18	0
Taxes						
Net Profit	129	-42	26	-224	18	0

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

INCOME STATEMENT PENSION AND LIFE NETHERLANDS

€ MLN.

	2018	2017
INCOME		
Gross written Premiums	1,420	1,569
Reinsurers' Share	-32	-32
Change in Provision Unearned Premiums	1	
Net earned premiums	**1,389**	**1,537**
Income from associates and joint ventures		4
Investment income	555	1,464
Other income	9	18
Total income	**1,953**	**3,023**
EXPENSES		
Net expenses from insurance contracts	1,459	2,481
Operating expenses related to insurance activities	150	172
Interest and similar expenses	1	9
Other expenses	9	19
Total expenses	**1,619**	**2,681**
Operational result	**334**	**342**

Pension & Life administers the group pension contracts and traditional savings and life insurance products. In addition, the service organisation services a growing open-book portfolio containing term life insurance policies and individual annuities and pension products. The service organisation focuses on generating a stable result with positive capital generation, while maintaining a high level of customer satisfaction.

Gross written premiums

Gross earned premiums decreased by 9% to €1,420 million in 2018 (2017: €1,569 million). Of this amount, €1,193 million comes from the service book and €227 million from the open book.

Gross earned premiums on our service-book pension portfolio decreased by 13% as a result of normal portfolio trends and expirations. Total gross earned premiums amounted to €424 million (2017: €490 million). In line with our strategy, no new pension insurance contracts have been sold in this portfolio. Given the long duration of the contracts in our pension portfolio, the liabilities will decrease slowly. Premium lapse for the service-book Life portfolio stands at 7% and total gross earned premiums decreased to €769 million (2017: €831 million). The decline in the portfolio for both Pension & Life is in line with our expectations.

Gross earned premiums from term life insurance increased to €54 million (2017: €49 million). However, the growth in new term life insurance products has declined as there is no longer an obligation to take out such products when arranging NHG-guaranteed mortgages. Production of individual annuities and pensions amounted to €173 million in 2018 (2017: €199 million).

Operating expenses

Operating expenses decreased by a further 13% to €150 million in 2018 (2017: €172 million). The decrease is the result of reducing the number of employees in line with the decrease in the portfolio, reducing the number of IT systems, optimising processes and changes to cost allocation. An additional investment programme was initiated in 2018 aimed at further reducing the number of IT systems step-by-step over the coming years.

Operating result

The operational result remained fairly stable in 2018 at €334 million (2017: €342 million). The slight decline in the result is due to the lower investment results, which is largely compensated for by improved technical and expense results.

The technical result increased by €8 million in 2018 compared to 2017. This was mainly due to the addition to the provision for contribution waivers in the case of disability in 2017.

The investment result decreased by €29 million compared to 2017. The decrease is due to lower foreign exchange results and revaluations as a result of downward trends on the financial market in 2018. The increase in the value of real estate investments partly compensates for this, while the widening swap spread also had a positive impact. These two trends combined only succeeded in partially absorbing the decrease.

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

	2018	2017
Gross Written Premiums	1,420	1,569
Reinsurers' Share	32	32
Net Written Premiums	**1,388**	**1,537**
Gross Claims Incurred and Changes in Insurance Liabilities	1,502	3,098
Reinsurers' Share	11	10
Net Claims Incurred and Changes in Insurance Liabilities	**1,491**	**3,088**
Investment Income Technical Account	189	912
Other Technical Income/ Expenses	26	24
Profit Sharing and Rebates	-32	-580
Operating Expenses	167	189
Result on Technical Account	**-22**	**-224**
Investment Income Non-Technical Account	316	535
Other Income and Expenses	-5	-57
Profit Before Tax	**288**	**254**
Taxes	183	38
Net Profit	**106**	**216**

INTERNATIONAL ACTIVITIES

INCOME STATEMENT INTERNATIONAL € MLN.

	2018	2017
Gross written premiums	1,106	1,206
Reinsurance premiums	-174	-205
Changes in the provision for unearned premiums and current risks (net of reinsurance)	-8	3
Net earned premiums	**924**	**1,004**
Income from associates and joint ventures	6	7
Investment income	71	202
Other income	55	50
Total income	**1,056**	**1,263**
Net expenses from insurance contracts	699	755
Fair value changes and benefits credited to investment contracts	23	150
Operating expenses related to insurance activities	238	271
Other operating expenses	28	36
Interest and similar expenses		
Other expenses	31	74
Total expenses	**1,019**	**1,286**
Operational result	**37**	**-23**

Achmea International focuses on the core qualities of Non-Life, Health and Agri insurance products, distributed via the online (direct) and banking channels. Achmea pursues an international growth strategy by exporting knowledge of niche markets and online expertise gained in the Netherlands. This expertise is used in specific international markets using a limited capital lock-up. We are accelerating growth and gaining market share in existing and new markets. Moreover, our online brand Anytime has expanded its operations to Cyprus. Via its partnership with Fairfax, a Canadian holding, Achmea has entered the Canadian Property & Casualty insurance market with the launch of its completely online proposition under the Onlia brand name. The sale of Friends First to Aviva was completed successfully.

Gross written premiums

Gross earned premiums in euros decreased by 8% to €1,106 million last year (2017: €1,206 million). This decrease in euros is mainly due to the sale of Friends First in May (five months of premiums in 2018) and the depreciation of the Turkish lira. When adjusted for exchange-rate effects, gross earned premiums increased by 11% in Health and 7% in Non-Life.

In Slovakia, both Health and Non-Life product ranges performed well, with growth of 8% for Health and 11% for Non-Life. Our online channel is evolving fast and noted an increase in premiums of 13%.

In Greece, the Health and Non-Life product ranges displayed strong growth compared to last year (5% and 19% respectively). The Greek economy is growing again after eight years of recession. Interamerican's direct online insurance brand, Anytime, grew to approximately 355,000 customers in 2018 (2017: approximately 315,000). Building on the success of Anytime in Greece, these operations were expanded to include Cyprus in July 2018.

In Turkey, gross earned premiums grew by 10% to TRY1,522 million (2017: TRY 1,379 million). Health (+21%) and Non-Motor (+23%) performed well, while the Motor portfolio decreased by 13%. This is mainly due to lower car sales and a focus on other Property & Casualty products.

In Australia, gross earned premiums increased in local currency by 29% to AUD32 million (2017: AUD25 million) thanks to a successful partnership with Rabobank and our innovative distribution strategy.

Operating expenses

Operating expenses decreased by 13% to €266 million in 2018. This decrease can largely be attributed to the depreciation of the Turkish lira and the sale of Friends First. When adjusted for this, there is slight growth in operating expenses. This increase can be attributed to the investments in the digital channel, the launch of Onlia in Canada and also the higher expenses related to autonomous growth in the individual countries.

Operational result

The total operational result was €29 million (2017: €16 million). Significant positive contributions to the operational result came from Slovakia, Turkey and Greece in particular. In 2018, the international business also profited from higher investment results and cost reductions.

ACHMEA REINSURANCE COMPANY N.V.

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

	2018				2017			
	NON LIFE	LIFE	OTHER NON TECHNICAL	TOTAL	NON LIFE	LIFE	OTHER NON TECHNICAL	TOTAL
Gross written premiums	115	89		204	149	106	-	255
Reinsurance premiums	72	20		92	-91	-24	-	-116
Movement in insurance liabilities for net unearned premiums	2			2	-10	0	-	-10
Net reinsurance premiums	**44**	**69**		**113**	**47**	**82**	**-**	**129**
Investment income	2	-3	5	4	0	-21	14	-7
Total income	**46**	**66**	**5**	**117**	**47**	**61**	**13**	**121**
Net expenses from insurance contracts	56	17		73	49	2	-	51
Operating expenses	11	46		57	11	54	-	65
Other expenses					-	-	4	4
Total expenses	**67**	**63**		**130**	**60**	**57**	**4**	**121**
Result before taxes				**-13**	**-13**	**4**	**9**	**0**
Taxes				3	-	-	0	0
Net profit				**-10**	**-13**	**4**	**9**	**0**

As Achmea's reinsurance expert, Achmea Reinsurance Company N.V. has three roles: advisor, purchaser and risk carrier. In its role as group reinsurer and risk carrier, Achmea Reinsurance Company N.V. provides reinsurance cover to the Dutch and foreign legal entities in the group. The purpose of Achmea Reinsurance Company N.V. external reinsurance portfolio is diversification of insurance risks and earnings growth for Achmea.

The net result was €10 million negative in 2018 (2017: €0 million). The decrease in the result was primarily caused by €30 million in net claim costs generated by the severe storm that passed over the Netherlands and other parts of northwest Europe on 18 January 2018. Investment results were also lower than in 2017. The external reinsurance portfolio earned a positive result of €4 million, despite a number of global catastrophes. Over 2017 this was a loss of €17 million due to a record number of global natural disasters.

Gross earned premiums stood at €204 million in 2018 (2017: €255 million). Premiums were €37 million higher in 2017 due to the one-off effect of moving the renewal date for the group reinsurance programme in that year.

A.3. INVESTMENT PERFORMANCE

In the table below, the direct investment income (IFRS accounting) 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.

	2018	2017
Dividends	378	201
Rent	68	101
Interest	1,331	1,430
Bonds	510	605
Mortgages and loans	219	210
Derivatives	225	204
Other	377	411

The return on equities, presented as dividends, increased from €201 million in 2017 to €378 million in 2018. This is mainly caused by dividend payments of Achmea Friends First Holding DAC (€178 million), Achmea Bank N.V. (€50 million), Garanti Emeklilik (€36 million), Union Zdravotna Poist'ovna A.S. (€11 million) and Achmea Investment Management B.V. (€10 million). These dividend payments have a negative effect on the valuation of the participations.

Rental income decreased from €101 million in 2017 to €68 million in 2018. Rental income consists of Achmea Pensioen- en Levensverzekeringen N.V. for €53 million and N.V. Interpolis Onroerend Goed for €16 million.

Interest income decreased from €1,430 million in 2017 to €1,331 million in 2018. The received interest on bonds decreased from €605 million to €510 million due to derecognition and recognition of bonds during the year together with decreasing interest rates. Received interest on loans increased from €210 million in 2017 to €219 million in 2018 and consisted mainly of received interest on mortgages (€187 million).
As a result of an increased receiver swap portfolio in 2018 received interest on derivatives has increased from €204 million in 2017 to €225 million in 2018 despite decreasing interest rates.
Other interest income consists of savings relating to mortgage products.

The table below presents the investment gains and losses (IFRS accounting) of Achmea. Both unrealised and realised net gains & losses are presented.

GAINS AND LOSSES

€ MLN.

	2018	2017
Equity investments	-960	840
Bonds	-63	-762
Loans and Mortgages	-33	-9
Other	-459	41

Gains and losses in equity investments mainly comprise revaluations within legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€-534 million), of which €-479 million is attributable to investments held for unit linked and index linked funds.

Achmea holds many participations which pay out dividend on an irregular basis. In 2018, this comprises an amount of €337 million (mainly Achmea Friends First Holding DAC €178 million) which is presented in the table 'Investment income' under dividends. Since these dividend payouts decrease the net asset value of the participation, the payouts are presented as a negative figure in the table 'Gains and Losses' under Equity investments.

Gains and losses on bonds originated from Achmea Pensioen- en Levensverzekeringen N.V. amount to €52 million as a result of decreasing interest rates. An amount of €-68 million originates from the bond portfolio of Achmea Schadeverzekeringen N.V., the Health entities amount to €-39 million and Achmea Reinsurance Company N.V. amount to €-6 million as a result of widening credit spreads mitigated by decreasing interest rates.

Revaluations on Loans and mortgages originate from the portfolio of Achmea Pensioen- en Levensverzekeringen N.V. for an amount of €-33 million.

Finally, gains and losses on other investments are mainly attributable to Achmea Pensioen- en Levensverzekeringen N.V. as well Achmea Reinsurance Company N.V. Devaluations of these products within Achmea Pensioen- en Levensverzekeringen N.V. sum up to a total of €-253 million and consist mainly of savings related to mortgage products. Furthermore, Achmea Reinsurance Company N.V. presents a recapture regarding a contract with a British Life insurer for €-148 million.

A.4. PERFORMANCE OF OTHER ACTIVITIES

Retirement Services

Achmea's Retirement Services provides pension funds, employers and retail customers with pension services, capital accrual and mortgage solutions. The Centraal Beheer General Pension Fund (APF) provides an alternative to pension insurance in the second pillar of the Dutch pension system. Combined with products for capital accrual and mortgage solutions in the third and fourth pillars, customers can choose from a wide range of financial services. These products and services are sold under the Centraal Beheer brand and administered by Achmea Bank, Achmea Investment Management and Achmea Pension Services.

The operational result for Retirement Services increased to €15 million in 2018 (2017: €12 million). The improved result was mainly driven by a higher net interest margin of Achmea Bank, a fee income increase at Achmea Investment Management and cost reductions. Start-up investments for the APF were also lower in 2018 than in 2017. The operational result for Achmea Pension Services decreased as a result of expenses relating to phasing out the sectoral pension fund business.

Achmea Bank

Achmea Bank's result increased to €36 million in 2018 (2017: €24 million). This increase is the result of a decrease in expenses and an improvement in the interest result. The latter improved due to lower financing expenses. This is despite lower interest income caused by a decrease in the mortgage portfolio and lower rates on newly-arranged mortgages and rate revisions.

Operating expenses decreased as a result of outsourcing mortgage administration, implementation of a new savings system, a decrease in corresponding project expenses and a lower contribution to the start-up costs of the Centraal Beheer APF.

As of year-end 2018, the Common Equity Tier 1 ratio was 20.8% (31 December 2017: 20.4%), an increase due to a decrease in the mortgage portfolio and retained profit.

Achmea Investment Management

As of 31 December 2018, AuM increased to €129 billion (31 December 2017: €120 billion). The AuM has increased due to the inflow of new customers, including Stichting Pensioenfonds Huisartsen.

Achmea Investment Management's contribution to the segment result increased to €8 million (2017: €4 million) due to an increase in fee revenue and a decrease in expenses. The higher revenue was driven by the inflow of new customers, new mandates and revenue growth at the Centraal Beheer APF. Expenses have decreased due to insourcing external asset managers and no further contribution to start-up expenses for the Centraal Beheer APF. These lower expenses are partly compensated for by a slight increase in personnel and other expenses.

Pension management activities

Achmea has opted to phase out administrative services to mandatory sectoral pension funds. The phasing out of services to these pension funds was successfully completed as of 1 July 2018. As a result, Achmea Pension Services focuses on services to the Centraal Beheer APF and to company, occupational and exempt sectoral pension funds. The number of pension funds in the Centraal Beheer APF will soon be increased with the planned transfer of Stichting Pensioenfonds Cindu and the Delta Lloyd APF as of 1 January 2019. Besides this, 2018 was a successful year for the employers market.

Achmea Pension Services welcomes two new clients, Pension fund Alliance and Metro. Furthermore, the number of administered members from company, occupational and exempt pension funds has increased.

The operational result of Achmea Pension Services decreased to €29 million negative in 2018 (2017: €16 million negative). The lower result is due to expenses relating to the strategic decision to phase out the sectoral pension fund business. Achmea Pension Services is investing in further optimising its processes and further reducing its operating expenses, while continuing to guarantee services that are highly rated by customers

Syntrus Achmea Real Estate & Finance

AuM in real estate and mortgages increased to €21.5 billion (2017: €19.7 billion). This increase is due to the new mandates for institutional investors and higher revaluations of existing portfolios. Of the individual asset classes, mortgages and residential property in particular experienced strong growth. Management fees increased to €82 million (2017: €72 million). This is due to an increase in the number of mortgages issued to retail customers thanks to higher mortgage mandates, as well as higher revaluations across all product groups, but primarily at residential property investments. Higher fees led to the result increasing to €11 million (2017: €8 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, operational 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, operational 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, policy-making departments, operational 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 'Hoofdlijnen van Organisatie en Besturing' 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 where they carry out activities at the risk and expense of other legal entities, they 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 (for example within the scope of a 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 five 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;
- Group Risk Committee ('GRC')
  GRC is a platform for the management, monitoring and advising with regard to the Achmea risk management system, including the internal control and key risks.
- Asset Liability Committee ('ALCO')
  ALCO is a platform for the optimisation and monitoring of the composition of assets and liabilities of Achmea within the policy frameworks set by the GRC and the Executive Board.
- 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 on aspects such as impact and nature of the responsibilities of the position, complexity of the managerial context in which they operate and the necessary knowledge, experience and competencies.

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

For more detailed information, Achmea refers to the Annual report of 2018.

Transactions with shareholders

In 2018 Achmea B.V. redeemed 10,056,237 shares from its shareholder Vereniging Achmea/Stichting Administratiekantoor Achmea and 425,943 shares from its shareholder Fundo de Pensões de Grupo Banco Comercial Português. €123.6 million dividend was paid on the ordinary shares and €17.1 million on the preference shares. Furthermore, 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 DNB and/or the Autoriteit Financiële Markten ('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 ASSESEMENT

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.

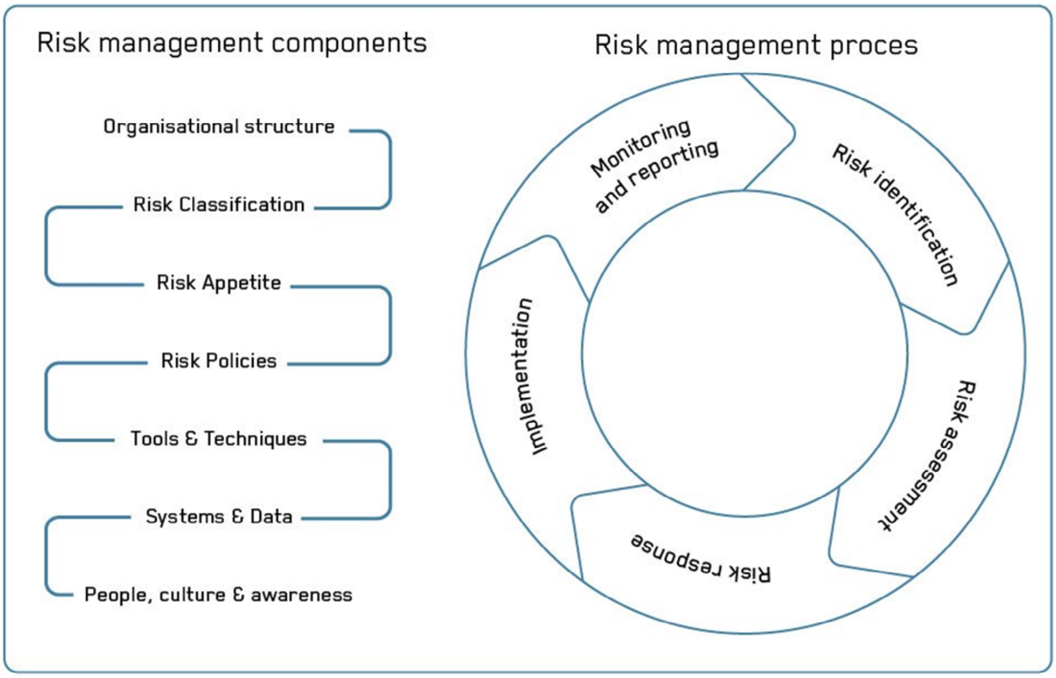
For an adequate risk management system at Achmea, there needs to be a understanding and clarity of the key principles for risk management in the organisation, with these principles being followed uniformly and completely. The Achmea risk strategy sets out the main principles:
- Principles pertaining 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 and the chosen integrated approach for the management of risks. Achmea assesses the various risk types and the risks inherent in the various business units 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.

The Integrated Risk Management Framework (IRMF) describes the risk management system of Achmea and sets out in more detail the principles.

INTEGRATED RISK MANAGEMENT FRAMEWORK (IRMF)

The IRMF describes how the risks at Achmea are managed when achieving the realisation of the business objectives. The IRMF ensures that risk information is generated and reported correctly and that it is used as the basis for decision-making and accountability at all relevant organisation levels. The IRMF also supports Achmea in managing its risks effectively by applying the risk management process at different levels and within specific contexts in the Achmea organisation.

RISK MANAGEMENT FRAMEWORK



The IRMF consists of seven risk management components that support the risk management process in the necessary steps to identify, assess, mitigate, monitor and report the risks of all risk categories on a permanent basis.

THREE LINES OF DEFENCE MODEL

Achmea's organisation structure is based on the 'Three Lines of Defence' model.

THREE LINES OF DEFENCE

FIRST LINE	SECOND LINE	THIRD LINE
EXECUTION AND CONTROL	SUPPORT, MONITORING AND REPORTING	TESTING AND JUDGEMENT
• Executive Board, Group Risk Committee and Asset Liability Committee on group level • Business management and decentral risk committees within the business units	• The staff department Risk & Compliance covers the risk management, actuarial and compliance function on group level • Complementary second line departments are present in the business units such as the Operational Risk & Compliance departments within the Dutch business units	• The staff department Internal Audit, operating on both group and business unit level

Achmea's line organisation, the first line of defence, is primarily responsible for risk management. The Executive Board ensures a sound basis for the design and execution of the risk management system. The presence of a Chief Risk Officer on the Executive Board helps ensure a permanent focus on risk management in our business operations. The Executive Board renders account to the Supervisory Board and the general meeting of shareholders of Achmea. The first line is supported by the second line, which also monitors the execution by the first line and 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.

RISK COMMITTEES

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

The Audit & Risk Committee assists the Supervisory Board in its supervision of, amongst other things, financial, administrative organisational and compliance matters, as well as on the risk profile and the effectiveness of the risk management system. The Supervisory Boards of Achmea Schadeverzekeringen N.V., Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Zorgverzekeringen N.V. (including the subsidiaries of the latter) do not have their own Audit & Risk Committee, where the Audit & Risk Committee of Achmea B.V. also acts as their Audit & Risk Committee.

The GRC provides a framework and advises the Executive Board. It is a platform for Achmea policymakers and consists of members of the Executive Board, the management of some business units and the key function holders of Risk & Compliance for the management, monitoring and advising with regard to the Achmea risk management system, including the internal control and key risks.

The GRC has instituted as subcommittee the Model Approval Committee (MAC), with delegated responsibility for approving risk models.

The ALCO is an executive and advisory committee of the Executive Board. It is a platform for Achmea policymakers and consists of members of the Executive Board, the management of some business units and staff departments for the optimisation and monitoring of the composition of assets and liabilities of Achmea within the policy frameworks set by the GRC and the Executive Board.

Aligned with the GRC at the Group level, there are Risk Committees within the business units that discuss and manage risks, possibly complemented by specific committees such as the Product Approval and Review Processes (PARP) Committee, the Underwriting Committee at Achmea Reinsurance Company N.V. and the Asset & Liability Committee and the Credit Committee at Achmea Bank.

SOLVENCY II KEY FUNCTIONS

The risk management function, the actuarial function, the compliance function and the internal audit function have been set up in line with the Solvency II requirements at Group level and for the entities under supervision.

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

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 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 a Risk Management Function Holder.

The risk management function is defined in the Risk & Compliance Charter of Achmea. The risk management function has the following main tasks:

1. To manage and render advice regarding the risk strategy and risk appetite statements at Group level and for the individual supervised undertakings;
2. Management and communication related to the IRMF. Elements of this are:
   - Management and advice regarding the IRMF policy documents at Group level;
   - Setting up, maintaining, validating and, where necessary, supplying tools and techniques for risk management, including risk models;
   - Structuring and maintaining the assumptions and requirements for data to be used in risk monitoring and reporting tools;
3. Support for the Executive Board and line management in their execution of the risk management process, consisting of the identifying and assessing risks, risk response and implementing the risk control measures and the monitoring and reporting on the risks in the business units;
4. The following responsibilities apply to monitoring and reporting:
   - Monitoring the execution of the IRMF.
   - To report to the Executive and Supervisory Boards (and the A&RC of the Supervisory Board) , and internal and external stakeholders including regulatory authorities about:
     - Achmea's consolidated risk profile;
     - The effectiveness of the IRMF;
     - Developments in risk management and in the area of expertise;
   - Monitoring the calculation of the SCR (and where appropriate, additional Pillar II capital) as reported to the regulators;
   - Preparing reports on the results of the ORSA and the update of the Recovery Plan;
5. To provide expert assessment of the risk profile and the key risks of Achmea including exceptional transactions and such as mergers and acquisitions;
6. To increase risk awareness within the organisation.

MODEL GOVERNANCE

The Model Management and Validation Policy sets out that the development and management of models (such as value and capital models) with respect to, amongst other things, risk measurement, financial and business management calculations is subject to strict model governance. This ensures that the models are managed properly. Models are assessed and the models with a high gross risk are documented, implemented, tested and periodically validated by the independent model validation function of the staff department Risk & Compliance and approved by the MAC. Part of the management is that model changes are implemented and approved in accordance with a controlled change procedure. This model governance is implemented gradually for all models within Achmea.

Besides the approval in the MAC the PIM is also approved by the Executive Board, the boards of the entities that use the PIM, the Audit & Risk Committee and the Supervisory Board. After the internal governance is completed a newly developed model (or any major changes to models) will be submitted to the College of Supervisors for approval.

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 qualitative statements and corresponding Key Risk Indicators (KRIs) to monitor whether the risk profile is within the limits of the risk appetite.

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

Financial	Principles	KRI's
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.	• Fixed Charge Coverage Ratio • Free Capital Generation
Capital	Achmea has a strong capital position.	• Solvency II ratio • Capital surplus S&P • Economic solvency • Debt ratio • Double leverage ratio
Liquidity	Achmea's current and future liquidity position is sufficient to meet its obligations.	• Available liquidity in a going concern situation • Liquidity after a stress situation.
Financial Risk Policy	Achmea knows as insurer its financial risks and pursues an adequate financial risk policy that aims to avoid undesired risk concentrations. Achmea utilises an important part of its risk capital for insurance risk.	• Market Risk budget variance • Impact interest rate shock Solvency II • Counterparty limit breaches • Amount of SCR for insurance risks • Deviation from expected annual result due to catastrophic events

Non-Financial	Principles	KRI'S
Product quality and services	Achmea offers a secure and transparent solution to clients that continuously meet the clients' needs, at a fair price.	• Certification Customer Oriented Insurer • Achmea KBC customer interest Dashboard
Operational Risk / internal control	Achmea knows as insurer and service provider its Operational Risks and has an adequate Operational Risk policy aimed at the prevention of material financial losses due to insufficient or failing internal processes or personnel and systems or external events.	• Internal Control Framework • Reputational score • Financial loss because of Operational Risks • Very urgent issues • Disruption of business-critical chains
Compliance	Achmea has an adequate compliance policy to comply with laws and regulations. Employees, clients, suppliers and other partners of Achmea operate with integrity.	• Violations and implementation of laws and regulations • Integrity violations
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.	• Benchmark of the Dutch Association of Investors for sustainable development. • 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.

RISK MANAGEMENT PROCESS

The risk management process is applied both at individual level per risk and at aggregated risk level to identify, assess, mitigate, monitor and report the risks. This section provides more information on the risk assessments performed during the year and on the process of monitoring and reporting. The risk response is described in more detail below and the main risks are detailed.

During the year various risk assessments are performed:

- Risk Self Assessments focus on areas such as strategy, projects and Operational Risks. This includes, amongst others, a qualitative risk assessment with the boards 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 the risk profile, including the Solvency II PIM. These risk models are among those used in the planning & control cycle, product development and pricing, determining the reinsurance programme, preparing the investment plan and balance-sheet management.
- Finally, scenarios and stress tests provide insight into what happens under extreme circumstances or when several factors occur simultaneously. These scenario and stress tests are used as part of the periodic monitoring of the risk profile. Annually, they are used to analyse the key risks in greater depth.

The Strategic Risk Analysis is performed annually at Group level and for the business units, with a qualitative assessment by management of the key risks. The insights from this Strategic Risk Analysis are used to manage the specifically identified key risks, to reassess the stress and scenario set for the ORSA and to review the Achmea Recovery Plan, and may be reason for re-evaluation of the strategy.

Periodically, aggregate-level reports are drafted for the Executive Board, the Audit & Risk Committee and the Supervisory Board. For the main risk types, line management periodically verifies that the risk is still within the risk limits set on the basis of the risk appetite. Line management also monitors the management of the key risks. Finally, an Internal Control Framework is used to systematically monitor key controls throughout the organisation. Cross-references are included in the framework to among other things information security and Solvency II.

Own Risk & Solvency Assessment (ORSA)

In addition to the periodic monitoring of our risk profile, a group-wide 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) ORSA report sheds light on and evaluates the company’s current and future risk profile and developments in solvency and liquidity during the planning period. The ORSA is consistent with our regular processes and the reporting 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 PIM is also assessed in the ORSA.

The information gleaned 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’).

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);
- Strategic Risk Assessment (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 Group 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 financial crisis' and 'catastrophe (extreme storm)'.

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.

B.4. INTERNAL CONTROL SYSTEM

Internal Control Framework

For identified risks and control measures an Internal Control Framework is used, which is based on the COSO model and common market standards and uses key risks and key controls. Annually, after the risk analyses are performed, the key risks and key controls of the framework are updated. Subsequently the framework is used to systematically monitor the effectiveness of control measures throughout the organisation. Cross-references are included in the framework to information security of DNB and Solvency II. In addition an organisation-wide systematic issue and incident management process has been set up.

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.

Compliance function

Compliance Risk is the risk of diminishing reputation or current of future threats to the capital 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 the three lines of defence system.

- 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.

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.

The control of integrity 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.

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. Internal Audit is 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 concerned, Internal Audit reports on the outcome of its investigation directly to both the responsible management and/or the Achmea Executive Board and its Chairman, depending on the circumstances. At least once a year, Internal Audit reports by means of the Audit Memorandum on the internal control of high risks. Internal Audit provides an overview of the outcome of audits on a quarterly basis, including the most important findings noted in the recent period and 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.

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;
- Internal control is supported by appropriate behaviour and culture for Achmea;
- 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.

B.6. ACTUARIAL FUNCTION

As described in section B.3. the actuarial function is part of the second line of defence in the 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. 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 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

The 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

Achmea uses a combination of a PIM and the SF to determine the SCRs. The following table provides a summary per insurance legal entity.

PIM – SF

	MARKET RISK(*)	LIFE RISK	NON-LIFE RISK	HEATLH RISK	COUNTERPARTY DEFAULT RISK	OPERATIONAL RISK
Achmea B.V.	PIM	SF	PIM	PIM	SF	SF
Achmea Pensioen- en Levensverzekeringen N.V.	PIM	SF	n.a.	n.a.	SF	SF
Achmea Zorgverzekeringen N.V and subsidiaries	SF	n.a.	n.a.	SF	SF	SF
Achmea Reinsurance Company N.V.	PIM	SF	PIM	SF	SF	SF
Achmea Schadeverzekeringen N.V.(**)	PIM	n.a.	PIM	PIM	SF	SF
N.V. Hagelunie	PIM	n.a.	PIM	n.a.	SF	SF
Interamerican Property & Casualty Insurance Company S.A.	SF	n.a.	PIM	SF	SF	SF
Interamerican Hellenic Life Insurance Company S.A.	SF	SF	n.a.	SF	SF	SF
Interamerican Assistance General Insurance Company S.A.	SF	n.a.	SF	SF	SF	SF
Union Poist'ovna A.S.	SF	SF	SF	SF	SF	SF
Eureko Sigorta A.S.	SF	n.a.	SF	n.a.	SF	SF

* *For Interamerican Property & Casualty Insurance Company S.A. Market Risk is still determined by the Standard Formula. Inflation Risk is assessed on a stand-alone basis whether the interest rate risk scenario has to be adjusted. If the assessment present a too significant deviation, a capital correction is added to the outcome of the market risk calculations.*

** *Within Achmea Schadeverzekeringen N.V. several insurance portfolios are classified in the Lines of Business Income Protection. This is also included in the Health NSLT section. For this Line of Business the Internal Model is used*

The risk taxonomy as presented in the graph in chapter E.2.2 is used.

C.1. UNDERWRITING RISK

From the perspective of an insurer Insurance Risk is the risk of loss, or of adverse change in the value of liabilities related to insurance contracts, resulting from inadequate pricing and provisioning assumptions and encompasses Life Risk, Non-Life Risk and Health Risk.

The Insurance Risk Policy describes how insurance risks are managed. A key ingredient is the Product Life Cycle (PLC) approach, which consists of the following phases: business planning - product development - underwriting - reinsurance - policy management - claim process - determination of assumptions - reserving - product review - reporting and analysis.

The different phases of the product life cycle approach contribute to the management of the Insurance Risk. These phases are explained in more detail below and in the sections on Life, Non-Life and Health Risks.

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

Reinsurance is described in more detail in section C.6.3. Use of reinsurance and financial mitigation techniques.

C.1.1. LIFE UNDERWRITING RISK

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

It encompasses Mortality, Longevity, Lapse, Expense and Catastrophe Risk.

Risk profile

The Netherlands is the main market where Achmea is exposed to Life Risk. In the Netherlands Achmea is closed to new business except for the annuities and term life insurance products. The same goes for Achmea in Slovakia (Union). In Greece (Interamerican) Achmea offers Unit Linked life insurances and term life insurances.

The Life portfolio consists of life insurance with and without profit participation and Unit Linked insurance:
- Life insurances with profit participation are traditional life products with profit participations, like saving products and group contracts;
- Traditional life insurances without profit participation mainly include term insurances, both stand-alone and linked to mortgages;
- For Unit Linked insurance the policyholders bear the investment risks.

Longevity Risk and Expense Risk are predominant in Life Risk and therefore these exposures are monitored closely. For Life, Concentration Risks are associated with a significant increase in the number of deaths, for example as a result of a pandemic, or an unexpected increase of the life expectation.

The product approval and review policy ensures an adequate pricing, accurately reflecting the risks. For managing the risks at individual level tariffs are differentiated by risk category (for example smoking / non-smoking) and medical examinations are required for life insurance acceptance.

At portfolio level reinsurance is used and an 'en bloc' clause can be used which allows the premium to be increased in extreme cases. With this instrument, the consequences of adverse mortality and increased expenses can be mitigated.

The decision to no longer offer group pension contracts has resulted in a substantial decrease in new Longevity Risk. Longevity Risk for individual annuities is adequately priced. The Expense Risk is managed by keeping the expenses in line with the decrease of the portfolio.

The mortality tables used in the Netherlands take into account a future increase of the life expectancy and are adjusted for the specific nature and composition of Achmea’s insurance base. In other countries, to ensure adequacy, standard mortality tables are adjusted in various ways, such as age adjustments.

C.1.2. NON-LIFE UNDERWRITING RISK

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

Non-Life Risk encompasses premium and Reserve Risk, Lapse Risk and Catastrophe Risk.

The Netherlands is the main market where Achmea is exposed to Non-Life Risk with a comprehensive range of Non-Life insurance products. Greece (Interamerican), Turkey (Eureko Sigorta A.S.), Slovakia (Union), Australia and Canada are the Non-Life markets outside the Netherlands where Achmea operates. In Greece, Turkey and Slovakia a comprehensive range of Non-Life insurance products are offered. In Australia products for the agricultural sector are offered. At the end of 2018 the first products (online car and home insurances) were launched in Canada. These products are offered through a joint venture (Onlia).

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.

Within Non-Life, Catastrophe Risk is a large risk. Mainly the property and motor hull insurance lines are exposed to Catastrophe Risk. The predominant risk sources are wind damage and hail risk in the Netherlands and earthquake risk in our entities in Greece (Interamerican) and Turkey (Eureko Sigorta A.S.). Motor hull insurance in the Netherlands includes also the flood risk. For Non-Life Concentration Risk refers to major claims resulting from the above-mentioned natural perils and large fires.

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

Developments related to climate change are being monitored. In the Netherlands climate change mainly has an impact on the risk of extreme precipitation and hailstorms. Climate change is taken into account in setting premiums and in reinsurance. In recent years premium increases have been implemented and the own retention in the catastrophe programme has been reduced. Over the long term we encourage policyholders, in cooperation with municipalities, to take preventive measures.

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

C.1.3. HEALTH UNDERWRITING RISK

Health Risk is present in medical expenses (short-term, health Not Similar to Life Techniques (health NSLT)), disability insurance (long-term, health Similar to Life Techniques (health SLT)) and sickness and accident insurance (short-term, health Not Similar to Life Techniques (health NSLT)).

Health Risk is the risk of loss or of adverse change in the value of Insurance liabilities resulting from:
- Changes in the level, trend, or volatility of the medical expenses incurred in servicing insurance contracts (health NSLT);
- Changes in the level, trend or volatility of the underlying risk drivers (longevity, incidence, lapse, expense, recovery and revision percentages) for disability insurance (health SLT);
- Fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of claim settlements (health NSLT);
- 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).

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

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

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

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

The uncertainties for a health insurer are specifically in basic health care and mainly arise from political decisions and growing competition. This is because a large part of the activities of the Achmea health insurers is governed by the Dutch Health Insurance Act [Zorgverzekeringswet]. The core of this act is a private-law health insurance system of regulated competition. The market and government are closely intertwined and efficiency and innovation are partly realised through market forces between parties such as healthcare providers and health insurers. There is also uncertainty related to settlements with Zorginstituut Nederland (ZiNL) per occurrence year, and the clearing of over and underfunding. The uncertainty of the health-related expenses arises from the dependence on the timely receipt and processing of invoices from health care providers, the settlement of claims and the availability of reliable historical data.

Disability products cover the risk of a reduction in income resulting from inability to work due to disability (long-term, Health SLT). In the Netherlands, Achmea offers disability products based on local regulatory requirements. In the Dutch regulations there is a distinction between employers (including self-employed) and employees. For employers and the self-employed there is no public insurance and a full private insurance is available. For employees there is a public insurance, the Work and Income according to labour ability (Wet werk en inkomen naar arbeidsvermogen, WIA) which consists of two covers: the income provision in case of full and permanent disability (Inkomensvoorziening volledig en duurzaam arbeidsongeschikten, IVA) and the return to work provision in case of partial or non-permanent disability (Werkhervatting gedeeltelijk arbeidsgeschikten, WGA).
There are two types of private insurance: supplements to the public insurance and (re)insurance of the WGA, since a company can choose to bear the WGA risk itself and exit the public insurance. Main uncertainties in the WGA insurance cover are the inflow and duration of the disability.

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.

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

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

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 market prices of assets, liabilities and financial instruments. It encompasses Interest Rate Risk, Equity Risk, Property Risk, Spread Risk, Currency Risk and Market 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, insurance products and retail banking products (mortgages, deposits, savings accounts and current accounts).

The Market Risk Policy describes the steps of the Market Risk management process:
- The primary purpose of the hedge on the Interest Rate Risk is to stabilise the Solvency II ratio. For Achmea Pensioen- en Levensverzekeringen N.V. the interest-rate sensitivity is also managed from an economic perspective in accordance with the policy;
- The limit on the Market Risk is annually set within the limits of the risk appetite, as a fixed amount for Achmea Group and the Dutch and foreign supervised entities;
- In the investment plan of the Dutch entities 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 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.

C.2.1. PRUDENT PERSON PRINCIPLE

Achmea complies with the prudent person principle as set out in Solvency II. This 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.

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.

The Market Risk Policy describes how this Interest Rate Risk is managed:
- Achmea's interest rate policy is to mitigate 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 at parallel interest rate shocks of 50 basis points and a limit for the sensitivity of the volatility of interest rates. Furthermore, the long-term effects of parallel interest movements and changes in the shape of the interest rate curve are 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 50 basis points.
- Achmea's foreign subsidiaries apply a duration matching approach within bandwidths laid down in the local investment plans.

Sensitivities

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

SENSITIVITIES

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline(*)	8,925	4,497	198%	184%
No Ultimate Forward Rate (UFR)	8,006	6,009	133%	143%
UFR 3.60% (level applicable from 1 January 2021)	8,729	4,508	194%	177%
UFR 3.90% (level applicable from 1 January 2019)	8,861	4,507	197%	n.a.
Last liquid point 30 years	8,145	5,216	156%	149%

* *After dividends*

SENSITIVITIES INTEREST

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	8,925	4,497	198%	184%
Interest -50bps	9,117	4,600	198%	177%
Interest +50bps	8,747	4,387	199%	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 offer diversification potential. Equities are spread across several asset classes to capitalise on diversification benefits. Derivatives are not used to mitigate Equity Risk. Achmea does not apply specific limits for Equity Risk, but limits are applied at Market Risk level.

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 regard 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 2018	SOLVENCY RATIO 2017
Baseline	8,925	4,497	198%	184%
Equity prices -20%	8,532	4,360	196%	179%

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, taking into account expected return, volatility and 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.

SENSITIVITIES PROPERTY

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	8,925	4,497	198%	184%
Property Prices -20%	8,674	4,484	193%	179%

C.2.5. SPREAD RISK

Spread Risk is the risk of loss resulting from the sensitivity to changes in the level or volatility of credits spreads in interest rates.

Spread Risk is managed and monitored as part of the Counterparty Risk Policy and the Market Risk Policy (please refer to section G for a more detailed description of the framework). Achmea mitigates the Spread Risk through a conservative investment strategy that balances the exposure types (corporates, financials, covered bonds, government related bonds and asset backed securities), the credit rating, the maturity profile and the regional allocation. On the basis of the approved internal model for Market Risk the composition of the investment portfolio is improved further.

SENSITIVITIES SPREAD

€ MLN.

	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	8,925	4,497	198%	184%
Credit Spread -50bps	8,980	4,530	198%	179%
Credit Spread +50bps	8,885	4,456	199%	185%
Spreads Government -50bps	9,295	4,525	205%	194%
Spreads Government +50bps	8,658	4,474	194%	171%

C.2.6. MARKET CONCENTRATION RISK

Market Concentration Risk is the risk of loss resulting from the lack of diversification in investments and liabilities for Market Risk or due to an increased sensitivity to bankruptcy of an individual counterparty or group of affiliated counterparties.

The investment portfolio of Achmea does not comprise any material Market Concentration Risk. On a solo level Market Concentration Risk is recognised mainly due to Intra-Group positions between the insurance entity and Achmea Bank.

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 incoming reinsurance contracts denominated in foreign currency. Another significant exposure is the Turkish lira, through the investments in Eureko Sigorta A.S. and Garanti Emiklilik.

The exposure in the investment portfolio is generally hedged with foreign exchange contracts. Achmea Reinsurance Company N.V. hedges the Currency Risk of the expected profit from the reinsurance and retrocession contracts on an economic basis.

The net investment in, or the income streams from, non-euro subsidiaries of Achmea are not hedged, because the operations of these subsidiaries are regarded as part of Achmea's long-term strategy. However, dividends declared are hedged.

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 €18,138 million and the total amount of collateral pledged is €535 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. In 2018 €4.1 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 2018.

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 derivatives, bank balances, reinsurance, receivables of 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 Group level governance framework is set out in the Counterparty Risk Policy, which describes amongst others the process for initiating transactions with new counterparties, the limits and distribution per counterparty within Achmea departments and entities and the limit revision and exposure control process, 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. For healthcare providers the aim is to prevent negative net positions to limit the counterparty risk.

Limits per rating

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

MAXIMUM EXPOSURE ON GROUPLEVEL € MLN.

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

Reinsurers are subject to a higher credit rating with a minimum rating restriction at level A-. The Counterparty Default Risk policy also contains deviating limits for specific exposures and makes it possible to apply for exemptions in specific situations. For instance, these maximum exposure limits do not apply at Group level to exposure to Rabobank Group. This exposure is mainly comprised of savings premiums associated with mortgage loans. In 2018 further agreements were made with Rabobank Group concerning additional security.

Only ratings given by the following Credit Rating Agencies (ECAI) and its affiliates registered with the European Authorities are used within Achmea: S&P, Moody’s, Fitch, DBRS and AM Best (for reinsurers). Ratings according to national and regional credit rating scales are not used.

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.

Reinsurers

Reinsurers are part of the Counterparty Risk governance framework, which provides guidelines for entering into transactions with new counterparties, limits and allocations per counterparty. At Achmea Reinsurance Company N.V. the Underwriting Committee decides on the composition of the panel of reinsurers. The Achmea Reinsurance Committee monitors the Counterparty Default Risk on a periodical basis. The monitoring of Counterparty Default Risk is conducted on a quarterly basis by the Achmea Reinsurance risk committee.

Policyholders

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

Healthcare providers

The Counterparty Risk relating to healthcare providers is mitigated by monitoring the net position (the advances minus work in progress). The negative net position is kept as low as possible.

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

C.4. LIQUIDITY RISK

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

Achmea runs Liquidity Risk at Group level and with regard to its insurance and banking activities.

The liquidity position of the group at holding company level is affected by the outflow of financing charges, external dividend and other holding company expenses, and the inflow of dividend from subsidiaries as set in the upstream policy. In addition transactions of a more incidental nature have an impact, such as external funding, internal capital injections or M&A transactions.

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. The metrics provide insight in Achmea's liquidity position and Liquidity Risk exposure for various time horizons under normal conditions as well as for a range of stress scenarios.

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

Expected profits in future premiums

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.

EPIFP

€ MLN.

	2018	2017
Achmea Pensioen- en Levensverzekeringen N.V.	888	1,084
Achmea Zorgverzekeringen N.V. (consolidated)	123	60
Other Entities	97	158
Group EPIFP	1,108	1,302
EPIFP % Tier 1 EOF	16%	21%

C.5. OPERATIONAL RISK

Operational Risk is defined as the risk of loss arising from inadequate or failing 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 Operational Risks include risks with respect to information security and cybercrime, risk related to the digitisation of our services and liability risk on products and services. The cybercrime risks are high, as a result of malware and ransomware attacks by cybercriminals using changing techniques. Risks surrounding the security of websites and privacy sensitive information also remain high, due to the digitisation of our services encompassing changes in our websites and IT environment. The risk of irresponsible behaviour with handling big data is increasing in a world where data become increasingly important. The reputation of insurers as part of the financial sector is still under pressure. Everything an insurer does is judged from a social perspective.

The Operational Risk Policy describes how Operational Risk is managed. Additional policies and procedures apply to specific risk events, such as information security, business continuity and outsourcing:
- Information security: all activities towards the realisation of a continuously optimal level of availability, integrity and confidentiality of information and information systems to ensure business continuity, protect customers' interest, prevent financial loss and reputational damage and comply with laws and regulations. The Internal Control Framework includes control measures focusing on Cyber Security, IT Architecture, Datacentre Facilities, IT Operations, Logical Access Security and Change Management;
- Business Continuity Management (BCM): this concerns identifying threats and their potential impact, determining the minimum service level required for customers and other stakeholders, and implementing and testing measures to prevent major disruptions of business-critical chains and to mitigate the impact of the disruptions to an acceptable level. The Internal Control Framework includes control measures focusing on the prevention of system downtime and the backup and recovery of data and systems;
- Outsourcing: outsourcing processes must be managed carefully, based on a risk/return evaluation and written documentation of reciprocal obligations. The Internal Control Framework includes control measures focusing on contracting, compliance with Service Level Agreements and registration of outsourcing.

Annually risk analyses are performed to identify the Operational Risks within Achmea and appropriate control measures. Also during the year risk analyses are conducted at various levels and on various topics, for example in the form of project risk assessments.

For identified risks and control measures an Internal Control Framework is used, which is based on the COSO model and common market standards and uses key risks and key controls. Annually, after the risk analyses are performed, the key risks and key controls of the framework are updated. Subsequently the framework is used to systematically monitor the effectiveness of control measures throughout the organisation. Cross-references are included in the framework to information security of DNB and Solvency II. In addition an organisation-wide systematic issue and incident management process has been set up.

C.6. OTHER MATERIAL RISKS

The key risks are described below, although not in a specific order of priority. Annually these risks are identified and the measures taken are assessed with the boards of the business units 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.

It is important that Achmea innovates its processes and products/services fast enough in response to new developments. The technological and other developments in financial services are occurring at a rapid pace. Particular points of attention are the possibility of other providers introducing new distribution, product and/or service models and declining insurance needs because technological developments reduce or eliminate certain risks (such as self-driving cars, fireproof houses, shift from ownership to use-related insurances (increased liability)), making related insurance less necessary or unnecessary. This mainly plays a role in Non-Life insurance.

To be able to innovate and make strategic responsible investments, it is important to have sufficient room for investments. For this purpose it is important to have sufficient Free Capital Generation resulting from ongoing profitability or Balance Sheet optimisation.

The initiative for a law on ring-fencing health insurers' capital may have an impact on the amount of the available capital and therefore on the solvency of the group.

As a financial service provider with an investment portfolio, products with minimum guarantees and provisions for profit sharing, 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 managed by means of a diversified investment portfolio and active management of the different financial positions.

If interest rates remain low for an extended period of time or decline even further, this will result in lower investment returns in the future. Particular attention will be paid to the valuation of the technical provisions under Solvency II and the liability adequacy test under IFRS, because with a continued low interest rate it will not be possible to earn, risk-free, the interest in the valuation curve after 20 years (because of the use of the UFR) with investment income.

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

Given the long-term nature of pension and life insurance contracts, Achmea is exposed to Longevity Risk. For example, breakthroughs in medical science and changing lifestyle habits could have a significant impact on the future pay-out level of the life and pension activities. Longevity Risk is managed by diversification of the life and pension portfolio, and transfer of the risk.

Setbacks may manifest in the Non-Life portfolio due to higher than expected injury claims and/or differences in the estimated disability and rehabilitation probabilities, resulting in higher claims than provided for by the current reserves. Catastrophes such as earthquakes and storms may have a significant impact, and the risk of catastrophes occurring appears to be increasing as a result of climate developments. Catastrophe Risk is largely mitigated by reinsurance.

Key recognised operational and compliance risks are related to information security and cybercrime, possible liability claims and Achmea's reputation which is increasingly affected by incidents on social media and/or loss or theft of privacy sensitive information. In addition, the reputation of insurers as part of the financial sector is still under pressure.

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 and other regulations, as well as by the different organisation of societal solidarity. This risk mainly concerns health, pensions and income protection insurances.

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

Achmea monitors these risks closely, as part of the periodic monitoring of the risk profile and the annual ORSA report.

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 has a Reinsurance Policy in which all responsibilities with regard to the reinsurance process are laid down. Achmea Reinsurance Company N.V. is the reinsurance company of the group and fulfils three roles: advisor, risk carrier and purchaser. Achmea Reinsurance Company N.V. provides reinsurance cover for the Achmea entities. To that end it enters into reinsurance contracts with the Achmea entities, including the non-Dutch entities as well as with third parties. Through retrocession the contracts are partially placed with external reinsurers. In addition to the group reinsurance programme Achmea Reinsurance Company N.V. 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.

The Underwriting Committee of Achmea Reinsurance Company N.V. decides on the retention within the framework of the reinsurance policy, Achmea's risk appetite and the risk appetite of Achmea Reinsurance Company N.V. After approval by the Executive Board the reinsurance programme is placed in the market. The purchase of reinsurance cover for non-Dutch entities is arranged by the entities themselves. Within the framework of the reinsurance policy the non-Dutch entities have the opportunity to decide by themselves where they purchase their reinsurance. In practice Achmea Reinsurance Company N.V. to a greater or lesser extent carries the risk in most programmes of the non-Dutch entities.

The reinsurance programme mainly consists of catastrophe excess-of-loss contracts and per risk excess-of-loss contracts. Individual risks that exceed the treaty limit of the 'per risk' programmes are covered on a facultative basis. The reinsurance programme consists of several layers to place the programme as efficiently as possible. In 2018 the catastrophe programme was the main reinsurance programme. In order to protect the result for IFRS purposes, Achmea Reinsurance Company N.V. purchased aggregate excess-of-loss cover. Furthermore Achmea uses insurance-linked securities (catastrophe bonds) on a limited scale.

Dutch supervised undertakings

Reinsurance is used in Life Risk to limit Mortality and Catastrophe Risk. Achmea Reinsurance Company N.V. has a quota-share agreement with Achmea Pensioen- en Levensverzekeringen N.V., part of which is placed in the market. These contracts are sensitive for the Mortality and Catastrophe Risk. The risk of a pandemic is not reinsured by Achmea, but a periodic review is undertaken to assess whether reinsurance would be beneficial.

For Non-Life Underwriting Risk reinsurance is used to manage exposure to weather-related events, natural disasters, accidents involving multiple victims, major fires and large claims in general and motor third-party liability. Part of the retention is maintained at Achmea Reinsurance Company N.V.

The reinsurance programme provides the following covers:

- Catastrophe:
  This is an excess-of-loss programme for the cumulated (mainly natural) catastrophe claims of the portfolios property/engineering (residential, commercial, agro farmers), greenhouse (horticulture) and motor hull. These portfolios are pooled in an external programme with different retentions. For the Dutch entities Achmea Reinsurance Company N.V. provides three individual excess-of-loss programmes with also different retentions. For the catastrophe programme of the Dutch entities storm risk is the dominant risk type. Achmea Reinsurance Company N.V. also applies (annual) aggregate excess-of-loss cover to protect the financial result and the capital position.
- Property:
  This is an excess-of-loss programme for the individual claims (mainly fire claims) of the relevant portfolios. Achmea Reinsurance Company N.V. maintains a retention on this programme.
- 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 Reinsurance Company N.V. takes a small participation in some of the Non-Life catastrophe reinsurance programmes of the foreign supervised undertakings. For the non-Dutch entities Achmea Reinsurance Company N.V. carries the risk in reinsurance programmes for earthquake risk in Greece, Turkey and Slovakia and flood risk in Turkey and Slovakia. Eureko Sigorta A.S. has reinsured its largest Catastrophe Risk, earthquake risk, partly through the Turkish Catastrophe Insurance Pool and proportional treaties.

- 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.

C.6.3. USE OF FUTURE ACTIONS

Within the determination of the Loss-Absorbing Capacity of Deferred Taxes (LAC_{DT}), the various legal entities, describe Future Management Actions. Based on the underlying scenarios which constitutes the LAC_{DT} -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 Committed 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 LAC_{DT}.

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 €450 million(2017: €456 million).

SIGNIFICANT RISK CONCENTRATIONS

€ MLN.

COUNTERPARTY	TYPE	EXPOSURE
Banque de France		1,062
	Assets – Bonds	1,061
	Assets – Equity	0
The Bank of New York Mellon		465
	Assets – Equity	1
	Assets – others	463
The Kingdom of The Netherlands		9,115
	Assets – Bonds	6,115
	Assets – others	3,000
Federal Republic of Germany		2,384
	Assets – Bonds	2,384
Republic of Austria		523
	Assets – Bonds	522
	Assets – Equity	0
Coöperatieve Rabobank U.A.		2,239
	Assets – Bonds	25
	Assets – others	2,214
Total		**15,788**

The majority of Achmea's risk concentration is related to exposures in government bonds (France, The Netherlands, Austria and Germany), our relationship with our shareholder and main distribution partner (the Coöperatieve Rabobank) and our custodian (Bank of New York Mellon).

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	2018	2017
Intangible assets	0	2
Deferred Tax Assets	542	758
Property, plant & equipment held for own use	333	343
Investments (excl. index-linked and Unit Linked funds)	46,228	40,588
Assets held for index-linked and Unit Linked funds	8,337	19,582
Loans and mortgages	8,360	8,125
Reinsurance recoverables	584	878
Deposits to cedants	4	4
Insurance and intermediaries receivables	2,798	2,899
Reinsurance receivables	2	29
Receivables	1,799	2,362
Own shares (held directly)	335	235
Cash and cash equivalents	1,165	1,796
Any other assets, not elsewhere shown	281	222
Total assets	70,768	77,823

ECONOMIC BALANCE SHEET

€ MLN.

LIABILITIES	2018	2017
Technical provisions – Non-Life (excluding Health)	3,216	3,154
Technical provisions – Health (similar to Non-Life)	4,904	5,530
Technical provisions – Health (similar to Life)	2,735	3,013
Technical provisions – Life (excluding Health and index-linked and Unit Linked)	36,065	31,644
Technical provisions – index-linked and Unit Linked	7,909	18,995
Contingent liabilities	0	0
Provisions other than technical provisions	200	193
Pension benefit obligations	860	907
Deposits from reinsurers	1	2
Deferred Tax Liabilities	25	21
Derivatives	261	196
Debts owed to credit institutions	1,022	1,077
Financial liabilities other than debts owed to credit institutions	63	4
Insurance & intermediaries payables	1,043	1,159
Reinsurance payables	28	29
Payables (trade, not insurance)	279	317
Subordinated liabilities in Basic Own Funds	2,076	1,940
Any other liabilities, not elsewhere shown	1,747	1,633
Total liabilities	62,433	69,813
Excess of assets over liabilities	8,335	8,011

D.1. ASSETS

D.1.1. KEY ASSUMPTIONS USED BY ACHMEA

Discount rate for non-insurance assets and non-insurance liabilities

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

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.

D.1.2. 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. The amortisation is deemed to represent the economic obsolescence 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.

	2018	2017
Closing balance	0	2

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.

Achmea has classified these exposures as part of level 4 of the valuation hierarchy. 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 ‘Nederlandse Register Vastgoed Taxateurs’ (NRVT), 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. “Equipment” is measured at acquisition cost minus amortisation. Achmea assumes the amortisation amount to reflect the economic wear-down of the equipment in normal economic use.

PROPERTY, PLANT & EQUIPMENT FOR OWN USE

€ MLN.

	2018	2017
Closing balance	333	343

The economic value at 2018 year-end can be split into “Equipment (€50 million, 2017: €60 million)”and “Property for Own use (€284 million, 2017: €283 million)”.

“Equipment” is recognised in all countries where Achmea pursues insurance business: The Netherlands (79%), Greece (15%), Turkey (3%) and Slovakia (3%). 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 €46 k (2017: €37 k).

“Property for own use” is mainly located in The Netherlands (91%), Turkey (4%) 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.

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. 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
Closing Balance	1,103	1,057	1,243	27,162	1,076

INVESTMENTS € MLN.

	DERIVATIVES (INCL LIABILITIES.)	DEPOSITS	OTHER	TOTAL 2018	TOTAL 2017
Closing Balance	3,057	673	10,597	45,967	40,392

Investments have increased with €5,575 million mainly due to reclassifications of mortgage saving accounts of €7,536 million from assets held for Unit Linked due to SII regulations and due to the removal of instruments owned by Friends First; this legal entity was sold in 2018, and therefore removed from the Economic Balance Sheet (€-1,400 million).

The investments presented are recognised in the various insurance legal entities, Ancillary Service Entities and the Holding (excluding Intra-group transactions).

Achmea Pensioen- en Levensverzekeringen N.V. has €32,959 million of the €45,967 million investments. This mainly consists of investments in bonds (€17,078 million). The other investment categories are mortgage savings (€9,924 million), collective investments undertakings (€596 million), investment property (€1,064 million), equities (€543 million), Non-UCITS[3] funds (€581 million) and derivatives (€3,091 million).

Achmea Schadeverzekeringen N.V. has in total €5,728 million in investments. The largest part consists of investments in bonds (€5,051million). The other investment categories consist mainly of equities (€212 million), collective investments undertakings (€283 million), Non-UCITS funds (€581 million) and deposits (€15 million).

Achmea Zorgverzekeringen N.V. has in total €3,744 million in investments. These consist mainly of bonds (€3,208 million), equities (€317 million), deposits (€67 million), collective investments undertakings (€124 million) and Non-UCITS funds (€16 million).

Achmea Reinsurance Company N.V. has in total €851 million in investments. These mainly consist of deposits (€457 million), bonds (€261 million), equities (€72 million) and collective investments undertakings (€61 million).

N.V. Hagelunie has in total €213 million in investments, mainly consisting of bonds (€191 million).

Within the foreign entities, the total investments are €875 million, mainly consisting of bonds (€811 million).

Achmea B.V. has in total €1,503 million in investments. These mainly consist of participations (€1,031 million) (including CRD entities), bonds (€411 million) and equities (€63 million).

[3] Undertakings for Collective Investments in Transferable Securities.Essentially, UCITS are investment funds regulated by the European Union.

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

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

Achmea has investment property which is still under construction and also land. They are measured at the economic value. However, in the rare cases that the fair 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 quarterly appraised. Each quarter 25% of the whole portfolio is appraised, while the remainder of the portfolio is updated. The valuations are carried out by external independent appraisers who have been officially recognised with relevant professional qualifications. External appraisal parties rotate every three years. All valuations are carried out following generally accepted valuation guidelines in the industry.

The economic value of investment property is determined mainly using the gross yield and net yield method. The discounted cash flow method is used to benchmark. Gross yield is the return on investment before expenses are deducted. Gross yield is calculated by dividing a property's annual rental income by the property value. Net yield is the income return on an investment after expenses have been deducted. The expenses or operational costs associated with an investment property include acquisition and transactions costs, management fees, repairs and maintenance costs, rates and insurance. Net yield is determined by first subtracting the property's annual operational costs from its annual rent and then dividing this by the property value.

In the property market this formula is reversed and the rental income is divided by the gross yield. The outcome is the property value. Based on the quality, segment and region of the property a gross yield percentage is allocated to the property. For instance the better the location, the lower the gross yield.

The discounted cash flow (DCF) projections are 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. The assumptions used in applying the DCF-method are supported by the terms of any existing lease and other relevant contracts and by external evidence, such as recent and expected general economic trends and current market rents for similar properties in similar location and condition. Common costs and obligations related to investment property such as vacancies, rent-free periods, maintenance and repair as well as any obligations that restrict the possibility to generate the income and proceeds on disposal of the property are taken into account in the DCF-method. Rental growth rates are based on general economic trends, taking into account specific characteristics of the property being valued. Projections for the cash flows in the DCF-method are made for at least 20 years.

Transactions of properties sold cannot easily be compared due to the lack of publicly available information and use of expert judgement by external parties. Due to the unavailability of readily available market date, the valuation of investment property has a higher degree of uncertainty when compared to a more stable and active market situation, since 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 as fair 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).

All direct property instruments are located in The Netherlands. Indirect property relates to exposure in investment funds and can be located anywhere in the world.

The table below present the actual exposure to property based on a look through basis.

PROPERTY (OTHER THAN FOR OWN USE) € MLN.

	2018	2017
Total direct Property	1,103	1,136
Total indirect Property	167	154
Total Investment Property	1,270	1,290

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 mainly recognised within Achmea Pensioen- en Levensverzekeringen N.V. (€1,199 million), Achmea Schadeverzekeringen N.V. (€31 million) and Achmea Interne Diensten N.V. (€32 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 are classified as level 3 in the valuation hierarchy.
The valuation of participations classified as type 1 is based on principles as laid down in the local sectoral prudential regimes. Participations classified as type 2 or 3 are measured at their economic value using the economic value hierarchy. If there is no quoted price in an active market, 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.

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.

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 valuations of these entities are based on their sectoral valuation principles.

CRD IV / IORP / SIMILAR LEGISLATION

€ MLN.

	ASSET	LIABILITY	2018	2017
Syntrus Achmea Real Estate & Finance B.V.	72	22	50	42
Achmea Investment Management B.V.	51	15	36	40
Achmea Bank N.V.	12,313	11,488	825	840
Union Zdravotna Poist'ovna A.S.	143	113	30	31
Total CRD IV/ IORP/ SIMILAR LEGISLATION			941	954

PARTICIPATIONS (CATEGORY 2)

Achmea has significant influence over the following entities.

PARTICIPATIONS

€ MLN.

	SHARE %	STRATEGIC	2018	2017
Life Science Partner II B.V.	30	Y	5	6
Health Inn Fonds	35	Y	1	2
Zorgmatch B.V.	50	Y	0	0
DFZ Participaties	20-40	Y	2	2
Total Participations			9	10

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 subsidiaries in the following countries.

OTHER SUBSIDIARIES

	2018	2017
Other subsidiaries in The Netherlands	39	66
Other subsidiaries in Ireland	61	30
Other subsidiaries in Canada	6	0
Other subsidiaries in Greece	0	3

D.1.4.3. EQUITY INVESTMENTS

These instruments are valued at their economic value using the economic value hierarchy. When there is no quoted price for those investments in an active market, a valuation technique is used. The majority of listed equities are valued by their quoted prices (valuation hierarchy level 1), an amount of €1 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, classified under valuation hierarchy level 3.

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;
3. Participations, where equity is the main risk driver.

The values for equities listed and unlisted reconcile with the values in the Economic Balance Sheet. The other categories are reported in the paragraph Collective Investment Undertakings and Other Investments.

EQUITY INVESTMENTS

€ MLN.

	2018	2017
Equities	1,243	1,380
Equities, listed	1,104	1,157
Equities, unlisted	139	224
Equities in Investment Funds	908	1,324
Equity Participations	29	54
Equity Derivatives	0	0
Other	662	0
Total Equity Investments	2,841	2,759

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 its main developments will also be described.

Investment funds which do not meet the criteria of the UCITS framework were reclassified in 2018 to Other investments. These funds, where equity is the main risk driver, are reported in the line item Other.

Listed equities decreased in value in 2018, mainly due to negative revaluations resulting from declining stock markets. This had a negative effect of €-109 million. This was mitigated by positive foreign exchange results, mainly resulting from a stronger US Dollar (€39 million). Finally, net recognitions caused the listed equities portfolio to increase in value with €18 million.

Unlisted equities decreased in value for an amount of €-85 million, mainly due to reclassifications as a result of the sale of legal entity Friends First Life Assurance Company DAC. Furthermore, the unlisted equity Garanti Emiklilik decreased in value for an amount of €-82 million, as a result of an extraordinary dividend payout (€-36 million), negative revaluation effects (€-32 million) and negative foreign currency effects (€-14 million) as a result of a weaker Turkish Lira against the Euro.

Investments in equities are mainly recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€543 million), Achmea Schadeverzekeringen N.V. (€212 million), Achmea Zorgverzekeringen N.V. (€309 million), Achmea Reinsurance Company N.V. (€72 million), Achmea B.V. (€63 million) and N.V. Hagelunie (€21 million).

Equities in investment funds are mainly recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€461 million), Achmea Schadeverzekeringen N.V. (€252 million), Achmea Zorgverzekeringen N.V. (€124 million), Achmea Reinsurance Company N.V. (€61 million) and Interamerican Greece (€12 million).

D.1.4.4. BONDS

Bonds held by Achmea comprise three investment categories; government bonds and related exposures, corporate bonds (including convertibles) and collateralised securities.

The majority of the bonds are valued using a quoted market price on debt markets (valuation hierarchy level 1). When there is no quoted price for those investments in an active market, an alternative valuation technique is used. If there is no quoted price in an active market available, Achmea uses the following valuation techniques. 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 Bloomberg prices. 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 relevant asset manager (M&G in the case of collateralised securities such as ABS, CMBS and RMBS), who use different pricing sources (Bloomberg, IDC and Markit). The detailed information on how the price is derived, is judged by the Group Investment Office. Based on this information, Achmea decides whether the price and fair value used is appropriate. If the assessment shows that the information does not yield an appropriate price, adjustments to price and market values are made.

The specification of the bond portfolio is as follows:

BONDS

€ MLN.

	2018	2017
Government Bonds and related exposures	14,337	15,300
Corporate Bonds (including convertibles)	11,469	11,088
Collateralised Securities	1,356	1,426
Total Bonds	27,162	27,814

The total bond portfolio decreased in value for an amount of €-652 million. This is mainly visible in the Government bonds portfolio, resulting from the sale of Friends First, removing a value of €-1,059 million from the Economic Balance Sheet. This negative effect is dampened by a positive revaluation on bonds, due to lower sovereign interest rates, especially German and Dutch rates (effect: €75 million).

Corporate bonds increased in value mainly due to net recognitions worth €1,090 million, and positive foreign exchange results primarily caused by a stronger US Dollar (€56 million). This effect is lowered by the removal of corporate bonds owned by Friends First (€-525 million) and negative revaluation effects due to widening credit spreads (€-230 million).

Collateralised securities decreased in value for an amount of €-70 million, mainly due to net derecognitions worth €-55 million. Furthermore, widening credit spreads caused the instruments to decrease in value for an amount of €-14 million. Finally, a weaker GBP against the Euro caused negative foreign exchange results worth €-1 million.

Investments in bonds are recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€17,078 million), Achmea Schadeverzekeringen N.V. (€5,051 million), Achmea Zorgverzekeringen N.V. (€3,208 million), Achmea Reinsurance Company N.V. (€261 million), N.V. Hagelunie (€191 million), Achmea B.V. (€411 million), Interamerican (€721 million), Eureko Sigorta A.S. (€73 million) and Union Zdravotna Poist'ovna A.S. (€91 million). In 2018 the Green Bond Fund was established for an amount of €74 million. Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V. are participating in this Fund.

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 (CIU's). In certain instances the look-through information is not readily available. In these instances Achmea will allocate the CIU to the investment classes as guided by the mandates. If the mandate does not provide sufficient information Achmea will apply the most onerous equity shock when calculating the capital requirement for Market Risk.

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.

	2018	2017
Equity Funds	444	548
Debt Funds	414	413
Asset Allocation Funds	12	0
Real Estate Funds	167	154
Alternative Funds	0	346
Private Equity Funds	31	272
Infrastructure Funds	0	160
Other	8	20
Total Investment Funds	1,076	1,914

In 2018, investment funds which did not meet the criteria of the UCITS framework were reclassified to Other investments for an amount of €727 million. This is why the value decreased with €-838 million. Furthermore, an amount of €78 million was removed from the Economic Balance Sheet due to the sale of Friends First Life Assurance Comapnay DAC. Revaluation effects were negative mainly due to poor performance of the underlying equities, adding up to an amounted to €-64 million. Finally, net recognitions amount to €32 million. The effect of foreign exchange results was negligible, since the majority of the investment funds which comply to the definitions of the UCITS framework are quoted in euros.

Collective Investment Undertakings are recognised within the legal entities Achmea Pensioen- en Levensverzekeringen N.V. for €596 million, Achmea Schadeverzekeringen N.V. for €283 million, Achmea Zorgverzekeringen N.V. for €124 million, Achmea Reinsurance Company N.V. for €61 million and Interamerican for €12 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.

	2018		2017	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest Rate Derivatives	3,304	222	3,108	158
Currency Derivatives	14	21	40	19
Equity Derivatives	0	18	0	18
Credit Default Swaps	0	0	0	1
Other	0	0	9	1
Total Derivatives	3,318	261	3,157	196

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 €3,089 and Achmea Schadeverzekeringen N.V. for €-7 million. Net currency derivatives consists mainly of Achmea Pensioen- en Levensverzekeringen N.V. for €2 million, Achmea Schadeverzekeringen N.V. for €-2 million and Achmea B.V. for €-7 million. Net equity derivatives consist of Eureko Claims Centre B.V. for €-18 million. Currency derivatives and a large part of the interest derivatives are classified as valuation hierarchy level 2, since the valuation techniques are based on freely observable inputs. Achmea also owns interest rate and equity futures, which are presented under interest rate derivatives and equity derivatives respectively. These instruments were reclassified from Other derivatives in 2018, and are classified as fair value level 1, since these futures have a quoted price in an active market.

In 2018, total net amount of derivatives (excluding collateral) increased for an amount of €96 million. This is mainly visible in interest rate derivatives, where receiver interest rate swaps and receiver swaptions profited from decreasing swap interest rates, resulting in positive revaluations (€109 million). Another positive effect on the market value is the derecognition of interest rate derivatives with a negative market value; this caused the net market value to increase in value with €15 million. These effects are mitigated by currency derivatives, which experienced negative revaluations mainly due to a stronger US Dollar (€-193 million). Since the most of these contracts have a duration of three months, these negative revaluations are derecognised, causing an increase in net market value of €162 million.

Achmea both has pledged and received collateral amounting to €535 million and €18,138 million respectively (2017: €344 million and 2017: €18,901 million). A breakdown of the assets received is presented in the following table.

A breakdown of the assets pledged/received:

COLLATERAL € MLN.

	PLEDGED		RECEIVED	
	2018	2017	2018	2017
Cash	108	0	1,408	1,208
Government Bonds	427	344	4,833	3,859
Corporate Bonds	0	0	82	114
Equity Investments	0	0	1,239	1,823
Property	0	0	10,575	11,896
Total Collateral	535	344	18,138	18,901

Achmea and Achmea's counterparties 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 €427 million in government bond securities. For the cleared swaps amounting to €388 million this is covered by the initial margin in accordance with EMIR regulation. The pledged collateral consists of Achmea Pensioen- en Levensverzekeringen N.V. (€415 million), Achmea Schadeverzekeringen N.V. (€10 million) and Achmea B.V. (€7 million). Achmea pledged an on balance cash collateral of €108 million. The pledged cash collateral consists of Achmea Pensioen- en Levensverzekeringen N.V. (€91 million), Achmea Schadeverzekeringen N.V. (€7 million) and Achmea B.V. (€7 million).

In 2018 Achmea back-loaded[4] a section of its interest rate swaps portfolio to Central Clearing. This resulted in received cash collateral of €1,403 million within Achmea Pensioen- en Levensverzekeringen N.V. by the end of 2018 and Interamerican for €5 million due to market developments. The collateral received (granted claims on bonds in the portfolio of Achmea's counterparties) increased to €4,915 million (2017: €3,974 million). Long-term swap rates have decreased in 2018 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 €4,258 million. The received collateral for the over-the-counter derivatives are €1,807 million. Furthermore, Achmea received collateral for reinsurance arrangements of €89 million (2017: €132 million) and loans and mortgages of €10,575 million. The received collateral mainly consisted of Achmea Pensioen- en Levensverzekeringen N.V. (€15,093 million) and Achmea Schadeverzekeringen N.V. (€1,636 million).

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

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.

	2018	2017
Less than 1 month	25	93
Between 1 month and three months	22	127
Between three months and 1 year	42	70
More than 1 year	126	106
Other	458	587
Total Deposits	673	984

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 €-285 million was derecognised in 2018. Furthermore a decrease of €-28 million caused by foreign exchange results from Australian deposits in possession of Achmea Schadeverzekeringen N.V.

The line item Other refers to a deposit which is part of a contract with a British life insurer. Economic value changes in this deposit are reflected in the technical provisions Life with opposite figures, resulting in a negligible net result of the total insurance arrangement.

Deposits are recognised within the legal entities Achmea Reinsurance Company N.V. for €457 million, Achmea Zorgverzekeringen N.V. for €67 million, Eureko Sigorta A.S. for €90 million, Interamerican for €32 million and Achmea Schadeverzekeringen N.V. for €15 million, Union Zdravotna Poist’ovna A.S. for €5 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

€ MLN.

	2018	2017
Saving mortgage Achmea Bank N.V.	900	784
Saving mortgage Rabobank U.A.	9,021	2,353
Saving mortgage ABN AMRO N.V.	3	3
Non UCITS Funds	672	0
Total Other Investments	10,597	3,139

Achmea classifies all savings related to mortgage products under Balance Sheet item “Other investments”. In 2018, Achmea reclassified the Rabobank savings deposits from Unit Linked investments to Own risk investments. In 2018, investment funds which did not meet the criteria of the UCITS framework were reclassified to Other investments for an amount of €727 million.

The “saving” line items comprise the saving sections on the Balance Sheet related to “mortgage saving insurance products”. Due to legislation these products are not issued anymore. The amounts presented are linked with the technical provision part. The nominal cash flows of the assets and liabilities are off setting each other.

Rabobank savings

At the end of December 2018, Achmea Pensioen- en Levensverzekeringen N.V. entered into a transaction with the Rabobank which removed the possible systemic risk related to Counterparty Default Risk. For the mortgage saving insurance products, Achmea Pensioen- en Levensverzekeringen N.V. and the Rabobank agreed on so-called cession/retrocession and subparticipation contracts.

These transactions have an impact on the valuation of the savings deposits of these products and the related capital requirements. The valuation and the subsequent treatment of mortgage saving insurance products within the capital requirement is subject to an ongoing discussion at national level between insurers and the national supervisor. This should come to a conclusion in 2019. For the FYR 2018, Achmea Pensioen- en Levensverzekeringen N.V. is of the opinion that, after the completion of the transactions with the Rabobank, no capital gain/loss should be recognised for this product. As such, the valuation method and specifically the parameters are determined. The savings deposits have been discounted using the same discount rate as applied to discount the insurance liabilities.

Achmea Bank savings

For Achmea Bank savings cession/retrocession and sub-participation contract was already in place. The economic value of Achmea Bank N.V. savings has therefore been determined in a similar manner as used for the Rabobank savings.

Investments in “Mortgage Saving Accounts” are recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. for €9,924 million.

Non-UCITS funds are recognised within the legal entities Achmea Pensioen- en Levensverzekeringen N.V. (€581 million) and Achmea Schadeverzekeringen N.V. (€75 million) and Achmea Zorgverzekeringen N.V. (€16 million).

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
Closing Balance	0	0	6,598	946	0

ASSETS HELD FOR INDEX-LINKED AND UNIT LINKED FUNDS € MLN.

	DERIVATIVES	DEPOSITS	LOANS & MORTGAGES	OTHER	TOTAL 2018	TOTAL 2017
Closing Balance	47	257	0	490	8,337	19,582

The decrease of the asset held for index-linked and unit linked is the result of a reclassification of the mortgage savings (€-7,536 million) *to Investments – Other investments*, and sale of Friends First (€-3,068 million).

Achmea Pensioen- en Levensverzekeringen N.V. has €8,076 million of the €8,337 million investments. This mainly consists of investments in participations in the Achmea IM Funds management for €6,698 million (2017: €7,424) and GBD investments for €1,419 million (2017: €1,534). The mortgage savings of which, based upon contractual agreements, Achmea does not directly bear the Counterparty Default Risk and Market Risk are reclassified to “Investments - Other investments” for €7,536. Due to SII regulations the investment funds which do not meet the criteria of the UCITS framework for €584 million are reclassified from equities to Other investments.

Interamerican has in total investments in these categories for €206 million and Union Zdravotna Poist’ovna A.S. for €8 million, both invested in equities.

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, Loan-to-Value, 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 3.51% (2017: 3.75%) 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%;
- Arrears are distributed across 5 buckets and per bucket a probability of default is set (0-30 days: 10%, 30-60 days: 25%, 60-90 days: 40%, 90-120 days: 70%, >120 days: 100%). No indexation is applied for incomes and the NHG compliance ratio is set at 85%.

LOANS AND MORTGAGES

	2018	2017
Loans on policies	18	19
Loans and mortgages to individuals	7,481	7,250
Other Loans and Mortgages	861	856
Total Loans and Mortgages	8,360	8,125

Achmea Pensioen- en Levensverzekeringen N.V. has €7,607 million of the €8,360 million in investments. This mainly consists of investments in loans and mortgages to individuals for €6,817 million and other loans for €790 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 €4,422 million and Achmea Woninghypotheken II B.V. having invested €1,947 million. Within Achmea Pensioen- en Levensverzekeringen N.V., a mortgage portfolio of €449 million is invested.

The Loans and Mortgages of Achmea Schadeverzekeringen N.V. consist of €663 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 €7 million, Achmea Services N.V. of €3 million and Achmea B.V. of €2 million. Within other legal entities, the investments amount to €1 million in total.

The loans portfolio comprises mainly the following components: senior real estate debt (€220 million, 2017: €227 million), “Waarborgfonds Sociale Woningbouw” (WSW) Loans (€513 million, 2017: €513 million) and Other loans (€128 million, 2017: €116 million). WSW loans are investments in loans to housing associations guaranteed by WSW. 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.

	2018	2017
Closing Balance	8,360	8,125

In 2018, the loans and mortgages portfolio increased by €235 million. Major driver is the recognition of new Loans & Mortgages, net value €270 million.

The mortgage portfolio has a net recognition of €266 million, mainly as a result of new mortgages within Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V. Other loans have a net recognition of €4 million. In addition to that an overall negative revaluation of €-34 million. Revaluation developments related to mortgage portfolio amounted to €-35 million. The mortgage rates have decreased in 2018 and the discount rate increased slightly, negatively affecting the market value of the mortgage portfolios. The mortgage portfolio has a negative impairment for an amount of €0.1 million due to positive market effects.

Within the loans portfolio currency effects amounted to €1 million.

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

MORTGAGE PORTFOLIO CHARACTERISTICS

€ MLN.

	2018	2017
Discount rate AWH I	2.13%	2.13%
Modified Duration AWH I	8.95	9.03
Discount rate AWH II – Obvion Leven	1.40%	1.39%
Modified Duration AWH II – Obvion Leven	4.17	4.18
Discount rate AWH II – Achmea Bank	2.27%	2.27%
Modified Duration AWH II – Achmea Bank	9.31	9.25
Discount rate AWH III	1.53%	1.48%
Modified Duration AWH III	6.21	6.46
Discount rate direct mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V.	2.21%	2.22%
Modified Duration direct mortgage portfolio of Achmea Pensioen- en Levensverzekeringen N.V.	9.20	9.27

During 2018 the mortgage loan valuation model was updated which resulted in a change in the constant prepayment rate (CPR) to 3.51% (until 2018 Q3: 3.75%). The overall effect of adjusting the CPR on the valuation of mortgages, keeping all other variables constant, is €6 million.

LOANS TO VALUE

€ MLN.

	2018	2017
< 80%	4,380	2,218
80% - 100%	2,563	4,354
> 100%	537	678
Total	7,481	7,250

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.

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.

“Receivables from direct insurance (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” Achmea has included cash provided to counterparties as “cash collateral”. These assets are not directly on demand for Achmea.

RECEIVABLES

€ MLN.	2018	2017
Receivables from direct insurance	469	489
Receivables from salvage and subrogation	0	109
Contribution from Dutch health insurance fund	2,329	2,410
Receivables on reinsurance	2	29
Investment receivables	42	57
Prepayments to Dutch hospitals	834	1,239
Payments related to Dutch short-term mental care (GGZ)	340	531
Other	583	426
Total	4,599	5,290

Receivables are recognised within all legal entities. The main contribution to the receivables are recognised in Achmea Zorgverzekeringen N.V (€4,194 million), Achmea Schadeverzekeringen N.V. (€123 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€42 million).

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

Following the Solvency II principles receivables are in principle discounted. However for 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 “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.

Please note that the “Reinsurance recoverables” are described as part of the “Technical Provisions”.

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.

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.	2018	2017
Cash and bank balances	1,157	1,741
Call deposits	7	55
Total	1,165	1,796

The amount of cash and cash equivalents decreased by approximately €- 631 million. The decrease is mainly accounted for by the decrease in liquid assets of the Dutch health insurance entities (€-361 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€-195 million).

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

D.1.10. OWN SHARES

According to SII 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 (2018: €335 million; 2017: €235 million).

In 2018 Achmea repurchased shares for a total amount of €100 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.

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”).

“Other assets” 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 ASSETS

€ MLN.

	2018	2017
Prepayments and accrued income	270	203
Other assets	11	19
Total	281	222

“Prepayments and accrued income” includes accrued commission costs. The term is less than one year.

“Any other assets” are recognised within all legal entities. The main contribution to “Any other assets” are recognised in Achmea Interne Diensten N.V (€73 million), Achmea Schadeverzekeringen N.V. (€115 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€44 million).

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
EUR	Swap	10bps	20	60	4.05%
TRY	Swap	35bps	10	60	5.35%
USD	Swap	18bps	50	90	4.05%
GBP	Swap	10bps	50	90	4.05%

The methodology for deriving the basic risk-free interest rate 2018 and the underlying assumptions have not changed compared with 2017 year-end. The Credit Risk Adjustment above is the one as determined by EIOPA at 2018 year-end. One of the major underlying assumptions is the use of the UFR. Currently, an UFR of 4.05% is used (2017: 4.20%).

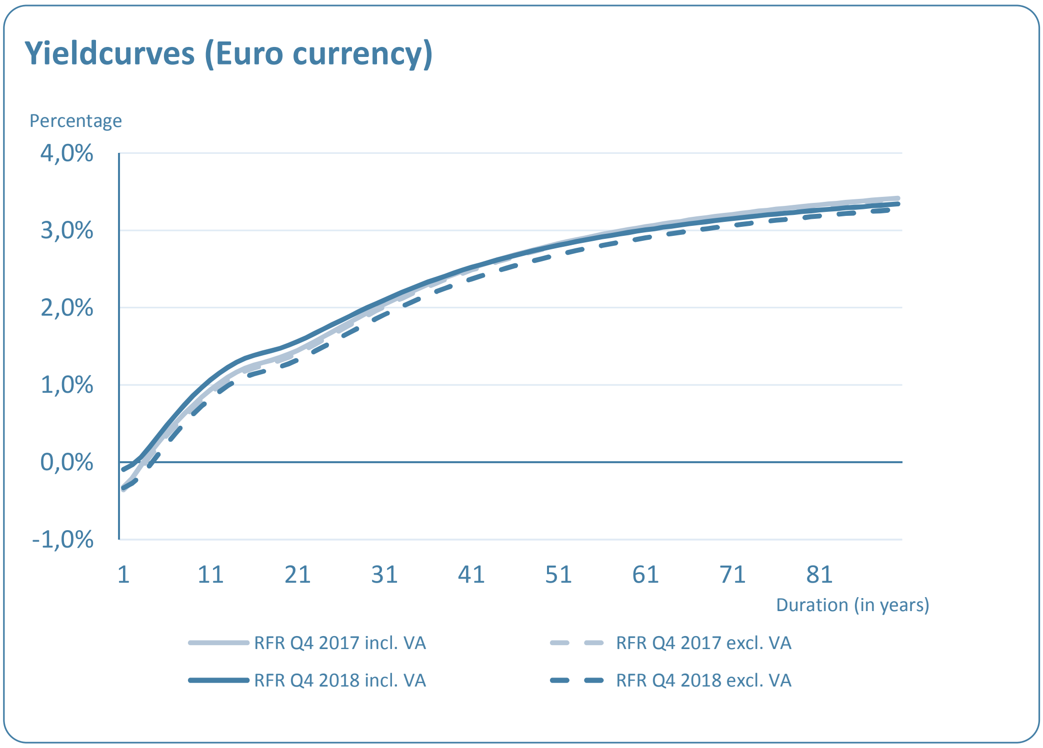
Volatility adjustment

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.

Insurance entities within Achmea apply the VA. However, based on proportionality principle or the duration of the insurance liabilities an insurance entity can opt no to use the VA.

The VA for the euro at year-end was determined by EIOPA as 24bps (2017: 4bps).

Graphically the following discount rates were used for in euro denominated Technical Provisions and directly related assets:



Risk Margin

The Risk Margin of Achmea's individual entities 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 their lifetime. 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% by EIOPA. 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 VA. 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.

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 per end date of the contract. The contract boundary for insurance contracts where the legal term exceeds one year is generally the legal term except when Achmea has an unlimited ability to change the premium and conditions during the contract term. In that case the contract boundary is limited to 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 (AG2018 as published by the Dutch Royal Actuarial Association in September 2018) with an assumption for experience rate mortality (derived from the experience rate mortality investigation as conducted in 2018) to allow for different mortality in the 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 ‘Centrum voor Verzekeringsstatistiek’ (CVS) in September 2016), adjusted for a better fit with the observations in the own portfolio. This leads to “ES-P8A” for pensions and “ES-L7A” for annuities, where the index 8/7 refers to the relevant CVS publication and A indicates the adjustment. The adjustment based on the 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 the 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.
- Greece
  In Greece the mortality Best Estimate assumptions are derived by an investigation carried out 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 mortality Best Estimate assumptions for Traditional and UL Individual business are derived by an investigation carried out for the period 2008-2017. For Group business, the investigation has been carried out for the period 2007-2017.
- 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 2018.

Expense assumptions

- The Netherlands
  The basis for the expense assumptions of Achmea Pensioen- en Levensverzekeringen N.V. is the business plan for the period 2019-2021. The business plan was approved by the Board. The expense level of 2021 is the basis for the expense projection after the year 2021 for both Life and Pension products. The investment expenses are calculated as the value of 7.1bps per year over the Best Estimate liabilities and the Risk Margin.
  The Best Estimate provision for claim handling expenses of Achmea Schadeverzekeringen N.V. and Achmea Zorgverzekeringen 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 multiplied by the reserve for periodic claim payments.
- 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. Following table shows expense assumptions as used for 2018 year-end calculation.

EXPENSE ASSUMPTION

EUR

	2018	2017
Traditional savings	49,63	49,40
Risk	55,24	53,08
Unit linked	53,97	54,29
All non-annuity business	51,57	51,24
Annuities (2^{nd} pension pillar scheme)	0,29	0,29

Following table shows expense inflation as used for 2018 year-end calculation.

EXPENSE INFLATION

	2018	2017
Expense inflation	1.96%	1.56%

Lapse assumptions

- 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. The lapse research is done on portfolio level in which a distinction has been made between surrender, lapse and paid up. No relevant assumptions have been made about policyholder behaviour within Achmea Zorgverzekeringen N.V. Every policyholder (and Achmea Zorgverzekeringen N.V.) is basically bound by its contract until year-end. The exceptions (for example due to death or movement to a foreign country) lead to a lapse that is negligible.
- Greece
  The lapse assumptions are determined by taking into account the previous years' experience and the management expectations according to the latest business plan. The most recent lapse study is used (30 November 2018). 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 the 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 the 1st to 3rd policy year; 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.

D.2.1. TECHNICAL PROVISIONS ACHMEA GROUP

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 (EXCLUDING INTERCOMPANY) € MLN.

	BEST ESTIMATE	RISK MARGIN	GROSS TECHNICAL PROVISIONS
Achmea Pensioen- en Levensverzekeringen N.V.	42,375	1,408	43,784
Achmea Schadeverzekeringen N.V.	5,299	148	5,447
N.V. Hagelunie	32	3	35
Achmea Reinsurance Company N.V.	575	24	599
Achmea Zorgverzekeringen N.V.	144	16	159
Zilveren Kruis Zorgverzekeringen N.V.	3,074	113	3,187
FBTO Zorgverzekeringen N.V.	230	8	237
Avéro Achmea Zorgverzekeringen N.V.	295	11	305
Interpolis Zorgverzekeringen N.V.	126	6	132
De Friesland Zorgverzekeraar N.V.	491	17	508
Union Poist'ovna A.S.	87	4	91
Eureko Sigorta A.S.	239	16	255
Interamerican Hellenic Life Insurance Company S.A.	592	22	614
Interamerican Assistance General Insurance Company S.A.	3	1	4
Interamerican Property & Casualty Insurance Company S.A.	286	20	306
Other Group	-836	0	-836
Total	53,013	1,816	54,828

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

D.2.2. TECHNICAL PROVISIONS NON-LIFE (EXCLUDING HEALTH)

A specification of the Technical Provisions into the several segments is as follows:

TECHNICAL PROVISIONS – NON-LIFE (EXCL. HEALTH) € MLN.

	2018	2017	Δ
Best Estimate	3,070	3,012	58
Risk Margin	145	142	4
Total Gross technical provisions	3,216	3,154	62

BEST ESTIMATE NON-LIFE (EXCL. HEALTH) € MLN.

	2018	2017	Δ
Gross Best Estimate premium provision	318	302	16
Gross Best Estimate claim provision	2,752	2,711	42
Total Best Estimate Non-Life	3,070	3,012	58

In 2018 the gross Best Estimate for the Non-Life business increased by €58 million; the Best Estimate for premium provision increased by €16 million and the claim provision increased by €42 million.

The increase of the premium provision was caused by a change in timing of premium payments within Achmea Reinsurance Company N.V. As of the second quarter of 2018 the final settlement of premium payments take place once a year (instead of twice).

The increase in the claim provision of €42 million is mainly due to developments within Achmea Schadeverzekeringen N.V. (€37 million) due to taking into account the impact of explicit inflation and a higher claim frequency for MTP increased the Best

Estimate. Claim settlements (including Friederike) led to a decrease of the Best Estimate. The remaining increase is caused by developments within N.V. Hagelunie and Interamerican Property & Casualty Insurance Company S.A.

The Risk Margin increased by €4 million and is mainly caused by Achmea Schadeverzekeringen N.V. (€7 million) due to an improved allocation of the total Risk Margin to the segment Non-Life, an increase within Interamerican Property & Casualty Insurance Company S.A. (€4 million) in line with the underlying risks, a decrease within Eureko Sigorta A.S. (€-5 million) due to the devaluation of the Turkish Lira and a decrease within N.V. Hagelunie (€-2 million).

D.2.3. TECHNICAL PROVISIONS HEALTH NSLT

TECHNICAL PROVISIONS – HEALTH (NSLT)

€ MLN.

	2018	2017	Δ
Best Estimate	4,719	5,346	-627
Risk Margin	185	184	1
Total Gross technical provisions	4,904	5,530	-626

The total Best Estimate decreased by €-627 million due to a decrease of the Best Estimate premium provision by €-148 million and a decrease of the Best Estimate claims provision by €-479 million. The developments were mainly caused by Achmea Zorgverzekeringen N.V. (€-637 million) and Achmea Schadeverzekeringen N.V. (€21 million). The decrease within Achmea Zorgverzekeringen N.V. is mainly due to the fact that the amount of temporary advanced payments to hospitals, because of temporary backlogs, has been reduced.

BEST ESTIMATE HEALTH (NLST)

€ MLN.

	2018	2017	Δ
Gross Best Estimate Premium provision	577	725	-148
Gross Claim provision	4,142	4,621	-479
Total Best Estimate Health NSLT	4,719	5,346	-627

The Risk Margin in 2018 (€185 million) is almost similar to the Risk Margin in 2017 (€184 million).

D.2.4. TECHNICAL PROVISIONS HEALTH SLT

TECHNICAL PROVISIONS – HEALTH (SLT)

€ MLN.

	2018	2017	Δ
Best Estimate	2,676	2,923	-247
Risk Margin	59	90	-31
Total Gross technical provisions	2,735	3,013	-278

The Best Estimate Health SLT of Achmea Group decreased by €-247 million. The decrease of the Best Estimate is mainly due to the sale of Friends First Life Assurance DAC (€-159 million) and developments within Achmea Schadeverzekeringen N.V. (€-86 million) due to a reassessment of the principles of the “WIA” portfolio resulting in a large release.

The Risk Margin decreased by €-31 million due to the sale of Friends First Life Assurance DAC (€-15 million) and due to a decrease within Achmea Schadeverzekeringen N.V. (€-16 million) primarily caused by a change in the allocation of the total Risk Margin to the segment Health SLT and a change in patterns.

D.2.5. TECHNICAL PROVISIONS LIFE

TECHNICAL PROVISIONS – LIFE (EXCL. HEALTH AND UNIT LINKED)

€ MLN.

	2018	2017	Δ
Best Estimate	34,686	30,289	4,397
Risk Margin	1,379	1,355	25
Total Gross technical provisions	36,065	31,644	4,421

The Best Estimate Life (excluding Health, index- and Unit Linked) increased by €4,397 million in 2018. The Risk Margin (excluding index- and Unit Linked) increased by €25 million in 2018.

The Best Estimate decreased by €-1,473 million due to the sale of Friends First Life Assurance DAC and increased due to the reclassification of the mortgage saving insurance products of Achmea Pensioen- en Levensverzekeringen N.V. as part of the Life insurance liabilities rather than as part of Unit Linked insurance liabilities (€7,346 million). The Best Estimates decreased further by €-1,790 million as a result of the (closed-book) portfolio developments. Adjustment of the UFR from 4.2% to 4.05%, the changes in volatilities which has an impact on the Time Value of Options and Guarantees (TVOG) and the unwinding of discount due to negative short term interest rates increased the Best Estimates by €209 million (combined effect). The Best Estimate decreased by €-20 million as a result of changes of mortality, lapse and expense assumptions. Model changes of Achmea Pensioen- en Levensverzekeringen N.V. accounted for an increase of €91 million due to expected impact of improvement for:

1. Interpolation of mortality rates for broken years (€35 million);
2. Improvement of TVOG model (€15 million);
3. Other model changes include among others the change in the valuation of the saving/mortgage insurance portfolio (€47 million).

Greece and Slovakia accounted for the remaining change of the Best Estimate.

The Risk Margin for the traditional Life portfolio has increased in 2018 by €25 million from €1,355 million to €1,379 million. The changes were mainly caused by developments within Achmea Pensioen- en Levensverzekeringen N.V. (€48 million), Interamerican Hellenic Life Insurance Company S.A. (€-2 million) and Friends First Life Assurance DAC (€-21 million) due to the sale.

D.2.6. TECHNICAL PROVISIONS - INDEX-LINKED AND UNIT LINKED

TECHNICAL PROVISIONS – UNIT- AND INDEX-LINKED

€ MLN.

	2018	2017	Δ
Best Estimate	7,861	18,873	-11,012
Risk Margin	47	122	-75
Total Gross technical provisions	7,909	18,995	-11,087

The Best Estimate decreased by €-11,012 million in 2018.

The decrease of the Best Estimate is mainly due to the sale of Friends First Life Assurance DAC (€-2,832 million) and the reclassification of the mortgage saving insurance products of Achmea Pensioen- en Levensverzekeringen N.V. as part of the Life insurance liabilities rather than as part of Unit Linked insurance liabilities (€-7,346 million). The Best Estimate of Achmea Pensioen- en Levensverzekeringen N.V. decreased further due to the closed-book portfolio, the change of mortality, lapse, expense and investment expense assumptions and due to the decrease of the value of the Unit Linked funds. 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 Risk Margin for the Unit Linked portfolio decreased in 2018 by €-75 million to €47 million due to the sale of Friends First Life Assurance DAC (€-13 million) and developments within Achmea Pensioen- en Levensverzekeringen N.V. (€-62 million) due to the restatement and the closed-book portfolio.

D.2.7. 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.	158
Achmea Schadeverzekeringen N.V.	116
Achmea Reinsurance Company N.V.	99
Interamerican Hellenic Life Insurance Company S.A.	0
Interamerican Property & Casualty Insurance Company S.A.	31
Union Poist´ovna A.S.	1
Eureko Sigorta A.S.	177
Total	**584**

D.2.7.1. REINSURANCE RECOVERABLES NON-LIFE (EXCLUDING HEALTH)

REINSURANCE RECOVERABLES – NON-LIFE (EXCL. HEALTH)

€ MLN.

	2018	2017	Δ
Recoverables reinsurance premium provision	89	-3	92
Recoverables reinsurance claim provision	234	204	30
Total reinsurance recoverables Non-Life	323	201	122

The increase of €122 million is mainly caused by Achmea Schadeverzekeringen N.V. due to improved valuation of the provisions.

D.2.7.2. REINSURANCE RECOVERABLES HEALTH (NSLT)

REINSURANCE RECOVERABLES HEALTH (NLST)

€ MLN.

	2018	2017	Δ
Recoverables reinsurance Premium provision	1	0	1
Recoverables reinsurance Claim provision	2	3	-1
Total reinsurance recoverables Health NSLT	2	3	-1

D.2.7.3. REINSURANCE RECOVERABLES - HEALTH (SLT)

REINSURANCE RECOVERABLES HEALTH SLT

€ MLN.

	2018	2017
Closing Balance	99	87

The increase of €12 million is mainly caused by Achmea Schadeverzekeringen N.V. due to growth in the WIA portfolio and an increase in expected incurred claims previous years. For Health SLT the reinsurance relates to the captives and international pooling which are fully (100%) reinsured.

D.2.7.4. REINSURANCE RECOVERABLES - LIFE (EXCLUDING INDEX- AND UNIT- LINKED)

REINSURANCE RECOVERABLES LIFE

€ MLN.

	2018	2017
Closing Balance	159	588

The decrease of €-429 million is mainly due to the sale of Friends First Life Assurance DAC.

D.2.8. TECHNICAL PROVISIONS EXCLUDING THE VA

Achmea Group uses the VA when determining the Best Estimate of the insurance contracts. For the technical provisions of the following legal entities the VA is not used:
- The Dutch Health insurance entities;
- Achmea Reinsurance Company N.V.;
- Interamerican Assistance General Insurance Company S.A.;
- Eureko Sigorta A.S.

The Solvency II Regulation does not allow the VA to be used in Turkey. Ultimo 2018, a VA of 24bps (2017: 4bps) has been used.

Not using the VA results in a 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 VA is not used when determining the Risk Margin.

IMPACT OF VA ON TECHNICAL PROVISIONS (GROSS)

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	IMPACT VA
Technical Provisions (gross)	54,828	55,783	-955
Technical Provisions – Non-Life (excluding Health)	3,216	3,233	-18
Technical Provisions – Health (similar to Non-Life)	4,904	4,906	-2
Technical Provisions – Health (similar to Life)	2,735	2,779	-43
Technical Provisions – Life (excluding Health and Index-Linked and Unit Linked)	36,065	36,943	-877
Technical Provisions – Index-Linked and Unit Linked	7,909	7,923	-14

IMPACT OF VA ON TECHNICAL PROVISIONS MINUS RECOVERABLES FROM REINSURANCE

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	IMPACT VA
Technical Provisions minus Recoverables from Reinsurance	54,244	55,197	-953
Technical Provisions – Non-life (excluding Health)	2,893	2,910	-17
Technical Provisions – Health (similar to Non-Life)	4,901	4,904	-2
Technical Provisions – Health (similar to Life)	2,636	2,678	-42
Technical Provisions – Life (excluding Health and Index-Linked and Unit Linked)	35,906	36,783	-877
Technical Provisions – Index-Linked and Unit Linked	7,909	7,923	-14

IMPACT OF VA ON RECOVERABLES FROM REINSURANCE

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	IMPACT VA
Recoverables from Reinsurance	584	586	-2
Technical Provisions – Non-Life (excluding Health)	323	324	-1
Technical Provisions – Health (similar to Non-Life)	2	2	0
Technical Provisions – Health (similar to Life)	99	101	-1
Technical Provisions – Life (excluding Health and Index-Linked and Unit Linked)	159	159	0
Technical Provisions – Index-Linked and Unit Linked	0	0	0

D.3. OTHER LIABILITIES

D.3.1. PROVISIONS OTHER THAN TECHNICAL PROVISIONS

The recognised “Other provisions” does resemble the ”Other provisions” as described in the 2018 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. See for more details the 2018 Financial Statements.

OTHER PROVISIONS

€ MLN.

	RESTRUCTURING	LEGAL CLAIMS	ONEROUS CONTRACTS	EMPLOYEE BENEFITS (EXCLUDING POST-EMPOYMENT BENEFITS)	OTHER	2018	2017
Opening balance	54	26	49	39	25	193	344
Closing balance	65	28	43	37	28	200	193

The restructuring provision is recognised in The Netherlands within the Ancillary Services Entities. The provision for legal claims is mainly located in The Netherlands (85%) and Greece (15%). In The Netherlands Achmea B.V. (€19 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. The provision for onerous contracts is recognised in The Netherlands within the Ancillary Services Entities. The employee benefits (excluding post-employment benefits) provision is recognised in The Netherlands (92%), Turkey (5%) and Greece (3%). In The Netherlands the employee benefits (excluding post-employment benefits) provision has been recognised mainly in Ancillary Service Entities (€34 million). Within our Operating companies employee benefits (excluding post-employment benefits) provisions are recognised in the insurance entities. The other provision is recognised in The Netherlands (94%) and Greece (6%). In The Netherlands the other provision has been recognised in Ancillary Service Entities (€9 million) and Achmea Schadeverzekeringen N.V. (€17 million). Within our Operating companies other provisions are recognised in the insurance entities.

D.3.2. CONTINGENT LIABILITIES

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 material, negative impact on the financial position of Achmea B.V.;
- Achmea B.V. has issued guarantees on behalf of subsidiaries that relate to the activities of these subsidiaries, carried out in their capacity as insurer, credit provider, service provider, employer, investor and tax payer. Achmea B.V. also issued guarantees and indemnities for third parties under sales transactions;
- The Netherlands-based insurance companies of Achmea provided the 'Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V.' with guarantees to a maximum of €42 million (2017: €44 million). Nederlandse Herverzekeringsmaatschappij voor Terrorismeschaden N.V. is a company in which the participating insurance companies pool the claims and risks related to terrorism. In 2018 no terrorism claims incurred, therefore no liabilities are present to be recognised;
- Achmea provides mortgage loans for its own account and for the account and risk of its clients (pension funds). In this capacity Achmea has commitments arising from offers for mortgage loans. If the clients accept the offers Achmea is obliged to provide mortgage loans in the amount of €817 million (2017: €421 million). This commitment is offset by a received guarantee of €134 million (2017: €109 million);
- 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. The possible maximum exposure of this indemnity has been estimated at €13 million. However the probability of occurrence of the triggering event is nil;
- 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., Achmea Pensioenservices N.V., Syntrus Achmea Real Estate & Finance B.V.);
- Achmea B.V. has issued guarantees that two subsidiaries will fulfil their contractual payment obligations (Achmea Investment Management N.V., Achmea Pensioenservices N.V.);
- Autoriteit Financiële Markten (AFM) has set an indemnity for Stichting PFV Particuliere hypothekenfonds as a condition of being both a provider of mortgage loans and a custodian of an Alternative Investment Fund (AIF). Normally, an AIF custodian may not have other roles / activities than being the legal owner of the assets, in this case, mortgage receivables. This is in order not to expose the custodian's task to additional risks. Because these tasks cannot be separated in the case of this fund, AFM has set this condition. The consequence is that the indemnity given by Syntrus Achmea Real Estate & Finance B.V. must be maintained until the moment the fund is liquidated or Stichting PFV Particuliere hypothekenfonds is no longer a custodian or the law is amended on that point;

- 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.);
- Achmea B.V. has taken out directors' liability insurance for Executive Board and Supervisory Board members of Achmea B.V. and its subsidiaries. Some board members are also indemnified against financial loss based on third-party claims, under certain conditions, insofar as this loss exceeds the insured cover.

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.

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.

	2018	2017
Present value of defined benefit obligation	907	989
Fair value of total investments backing defined benefit obligation	-47	-82
Fair value of non-qualifying investments backing defined benefit obligation	0	0
Unfunded status	860	907
Net defined benefit liability	**860**	**907**

Achmea has a pension scheme for the major part of its employees. The pension scheme executed by Stichting Pensioenfonds Achmea, applicable to the major part of the 11,700 employees in the Netherlands, is a so-called Collective Defined Contribution (CDC) scheme. The obligation of Achmea related to the pension scheme is limited to payment of the agreed premium for the current year of service. In 2018 contributions paid to the CDC scheme amounted to €231 million (2017: €261 million). The contribution is determined as the actuarially required contribution for the acquired pension rights in that year, taking into account current interest rates.

Achmea's defined benefit obligation is mainly related to the accrued rights of a number of (former) employees under former defined benefit plans. These defined benefit plans were maintained in The Netherlands, and for a limited amount in Greece. Benefits related to medical costs are not included in these plans. The accrued rights of a number of (former) employees under former defined benefit schemes in the Netherlands have been insured with Achmea Pensioen- en Levensverzekeringen N.V. and so Achmea continues to hold the financial and actuarial risks. The investments related to the insurance contracts are accounted for as Investments (and do not qualify as Investments backing defined benefit obligation).

D.3.4. DEPOSITS FROM REINSURERS

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	2018	2017
Closing balance	0	955	67	1,022	1,077

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 €775 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 €180 million.

Debts owed to credit institutions are held in The Netherlands, within Achmea B.V. (€1,021 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 LIABILTIES OTHER THAN DEBTS OWED TO CREDIT INSTITUTIONS

€ MLN.

	2018	2017
Closing balance	63	4

The amount of €63 million consists of loans of FFF Limited and AFFH DAC (€61 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€2 million).

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.

	2018	2017
Payables from direct insurance	1,043	1,159
Payables on reinsurance	28	29
Creditors	112	95
Taxes	141	194
Other	26	27
Total	**1,349**	**1,504**

Payables are recognised within all legal entities. The main contribution to the payables are recognised in Achmea Zorgverzekeringen N.V (€343 million), Achmea Schadeverzekeringen N.V. (€185 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€576 million).

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 2018 Achmea had no such subordinated liabilities (2017: 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”) and “Other” 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.

	2018	2017
Accruals and deferred income	149	137
Other	1,598	1,496
Total	**1,747**	**1,633**

The total amount of “Other” consists mainly of repayment obligations of collateral received in the form of cash. Achmea receives an amount of cash collateral depending on the current market value of the derivative. The economic value of the repayment obligation of collateral is €1,403 million (2017: €1,186 million).

“Any other liabilities” are recognised within all legal entities. The main contribution to “Any other liabilities” are recognised in Achmea B.V. (€17 million), Achmea Interne Diensten N.V (€61 million), Achmea Zorgverzekeringen N.V. (€17 million), Achmea Schadeverzekeringen N.V. (€35 million), Achmea Pensioen- en Levensverzekeringen N.V. (€1,487 million) and AP&L Beleggingen B.V. (€56 million).

D.3.10. DEFERRED TAXES

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. 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 LAC_{DT} (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.

DEFERRED TAXES (ASSET = + ; LIABILITY = -)

€ MLN.

	OPENING BALANCE	CLOSING BALANCE
Intangible assets	-24	11
Property for own use and equipment	0	0
Investments	-1,273	-3,123
Other assets	45	32
Insurance liabilities	1,411	3,650
Other provisions	10	14
Pension benefit obligations	-2	-10
Other liabilities	576	21
Loss carry-forwards	-6	-78
Total	**737**	**516**
Of which Deferred Tax Assets	758	542
Of which Deferred Tax Liabilities	-21	-25

DEFERRED TAXES (ASSET = + ; LIABILITY = -) PER COUNTRY

€ MLN.

	DEFERRED TAX ASSETS	DEFERRED TAX LIABILTIES	TOTAL
Netherlands (25%)	524	11	513
Slovakia (21%)	0	0	0
Turkey (20%)	0	1	-1
Greece (29%)	16	12	5
Total	**541**	**24**	**516**

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 in case 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 RSR. For some exposures own techniques or expert judgment is used as a basis for the valuation. This section of the RSR 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. If this is the case the external party and Achmea will have to make appropriate adjustments in 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, a professional standard. Each quarter 25% of the whole portfolio has to be appraised by the external party. The remainder of the portfolio is updated to reflect the circumstances at the reference date. Every three years the contracted external parties are changed for another external party. 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 for goodwill and intangibles.

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 is derecognised.

Bonds, loans and receiveables

Achmea invests in certain exposures where no 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 Executive Board is responsible for capital allocation between the legal entities;
- 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 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. Around the target level a bandwidth is defined and the lower boundary of the bandwidth is the real internal limit, below which measures to improve the solvency position are 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 at least a target Solvency II ratio of 165%.

Achmea monitors the solvency position and takes measures 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. For the insurance legal entities in principle the entities need to identify recovery stand-alone recovery measures, one of these measures can be a possible capital injection by Achmea B.V. to restore the capital above the internal limit levels. In the case specific trigger points are passed, crisis governance comes into force.

E.1.2. ELIGIBLE OWN FUNDS

The Eligible Own Funds increased by €539 million to €8,925 million. The increase is the result of positive technical results in the Non-Life, Health and Pensions & Life insurance business, an increase in value caused by the financial markets. The widening of the spreads due to developments in Italy contributed to the increase in the solvency ratio. The sale of Independer also had a positive impact on the Eligible Own Funds, whereas the sale of Friends First had a negative impact. The step-by-step reduction of the corporate tax rate in the Netherlands from 25% to 20.5% in 2021, the reduction of the UFR from 4.2% to 4.05% as of 1 January 2018, the devaluation of the Turkish lira and the foreseeable dividends in connection with the positive annual result lead to a decrease in Own Funds.

ELIGIBLE OWN FUNDS - GROUP

€ MLN.

	2018	2017	Δ
Tier 1	7,070	6,363	707
Tier 2	1,347	1,340	7
Tier 3	508	683	-175
Total Eligible Own Funds	8,925	8,386	539

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, a coupon reset date every 10 years, with no option to call. Buy-in of preference shares is possible on a yearly basis;
- €729 million capital instruments subject to grandfathering (nominal value: €600 million); these are capital securities (hybrid capital) 6%, issued in 2006, no maturity date (perpetual), issuer call option annually, first call option was 1 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 option annually, first call option in April 2023;
- €794 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 option annually, first call option in February 2025.

Tier 3

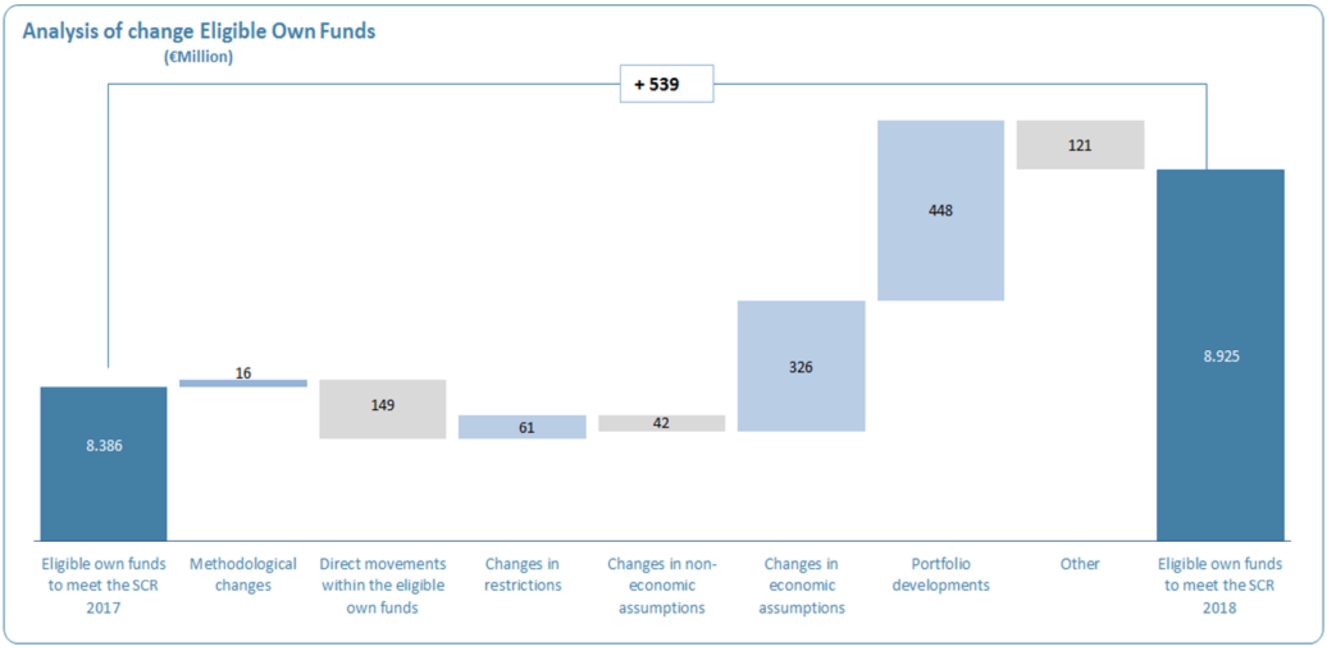
Within Tier 3 Achmea includes the net Deferred Tax Assets as recognised on the Economic Balance Sheet maximised at 15% of the SCR. Any amounts exceeding this threshold are considered not eligible for covering the SCR. Achmea defines this as “Relegation of Tier 3”. For the FYR 2018 no relegation of Tier 3 is applicable (2017: €53 million).

MCR and Eligible Own Funds

Achmea also has to assess whether the capital components are able to cover the Group MCRs. 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 total eligible capital. For covering the MCR the relegation of Tier 2 was €876 million (2017: €865 million).

ANALYSIS OF CHANGE IN THE ELIGIBLE OWN FUNDS

The Eligible Own Funds increased by €539 million.



Methodological changes (€16 million)

The implementation of the internal model for the Market Risk has led to an increase in the Eligible Own Funds (€16 million).

Direct movements within the Eligible Own Funds (€-149 million)

The foreseeable dividends on ordinary shares (€-118 million), coupon payments on preference shares (€-17 million) and hybrid capital (€-74 million) resulted in a decrease in the Eligible Own Funds. In addition, dividends were received from Achmea Bank N.V. (€50 million) and Achmea Investment Management B.V. in 2018 (€10 million).

Impact of changes in restrictions (€61 million) including relegation of Tier 3

Compared to 2017, the Tier 3 threshold is no longer binding. The phased adjustment of the corporate tax rate from 2020 onwards has resulted in lower net Deferred Tax Assets. In 2017, €53 million was subject to the relegation of Tier 3and not included as part of the Eligible Own Funds.

Friends First Life Assurance Company DAC was sold in the second quarter of 2018. As a result the restriction related to the ring fenced funds for this entity was released. The positive impact on the Eligible Own funds is €6 million.

The other Non – available Own Funds increased by €2 million. This is mainly caused by:
- An amount equal to the value of net Deferred Tax Assets not available at the Group level related mostly to the entities not part of the fiscal unity (€-8 million);
- Release of the restriction related to the 10% dividend tax of the Non-EEA subsidiary Eureko Sigorta A.S. (€6 million), and
- The release in the restrictions of the pension provisions of Friends First (€3 million).

Impact of changes in non-economic assumptions (€-42 million)

The development in the non-economic assumptions is mainly related to changes in the cost assumptions and model changes by Achmea Pensioen- en Levensverzekeringen N.V. (€-57 million), updated mortality tables and correction factors for mortality experience related to pension benefit obligations (Defined Benefit Obligation) by Achmea Interne Diensten N.V. (€9 million), decrease of lapse rates and updated morbidity assumptions by Interamerican Greece and other effects (€6 million).

Impact of changes in economic assumptions (€326 million)

The change in the economic assumptions during 2018 had a positive impact on the Eligible Own Funds. Several of the changes in the economic assumptions had opposing effects. The main drivers were the decrease in the risk free rate, widening corporate spreads and incoming spreads for the government bonds held in the portfolio of Achmea and as a result an increased VA compared to 2017.

The equity markets decreased in the last quarter of 2018 resulting in 10% loss for the year on the MSCI and AEX index. The decrease in the last quarter was mainly due to concerns about the world economy growth and an anticipated contraction of the monetary policy by the ECB and the American Federal Reserve. The property markets increased in 2018, which lead to increased value of property and therefore a positive return on investments. The spread on the Dutch mortgage loans remained unchanged.

As a result of the Achmea asset and liability management the effects of changes in economic assumptions varies across the different insurance entities.

Achmea Pensioen- en Levensverzekeringen N.V. contributes positively to the development of the Eligible Own Funds (€572 million), due to the interest rate, spread and VA developments (€674 million) and the return on investments (return-portfolio) (€59 million), partly offset by the increase in the Best Estimates due to the adjustment of the UFR to 4.05% (€-71 million) and the increase in the risk margin due to lower interest rates (€-90 million).

Due to decreased equity markets, widening credit spreads and decreased interest rates the Eligible Own Funds of Achmea Zorgverzekeringen N.V. (€-86 million), Achmea Schadeverzekeringen N.V. (€-22 million) and Achmea Reinsurance Company N.V. (€-20 million) decreased.

The devaluation of the Turkish Lira led to a decrease in the Eligible Own Funds (€-107 million), as a result of the lower economic valuation of Eureko Sigorta A.S. and Garanti Emeklilik denominated in Euros.

Impact of portfolio developments (€448 million)

The portfolio developments have a positive contribution on the Eligible Own Funds. The main drivers are the positive expected results 2019 (recognition), positive technical results, decrease of Risk Margin and results of prior years. The portfolio developments mainly relate to Achmea Zorgverzekeringen N.V. (€239 million), Achmea Pensioen- en Levensverzekeringen N.V. (€113 million) and Achmea Schadeverzekeringen N.V. (€124 million).

The increase of the Eligible Own Funds by Achmea Zorgverzekeringen N.V. is mostly the effect of the expected result of 2019 (€98 million) and the result of prior years (€127 million).

Positive portfolio developments of Achmea Pensioen- en Levensverzekeringen N.V. are mainly the result of the portfolio run-off (€33 million) and the decrease of the Risk Margin, due to the developments in the interest rate, portfolio developments and reclassification all mortgage saving insurance products (€104 million). The effects are partly offset due to the difference between actual expenses and release of the expenses in the Best Estimate (€-24 million).

Achmea Schadeverzekeringen N.V. has a positive technical result (€78 million) and expected result of 2019 (€25 million).

Impact of other changes (€-121 million)

The other movements related to the sale of Friends First Life Assurance Company DAC and the sale of Independer.nl N.V. (total impact €95 million). Given the corresponding effect on the SCR, the effect of the sales on the Solvency II ratio is 7%-pt.

The other movements were also impacted by the increase of the provision for PZU (€-35 million). This provision relates to the tax settlement in the Netherlands of the compensation received for the divestment of Achmea's interest in the Polish insurer PZU in the years 2009 and 2010.

Other effects were the impact of the endorsed corporate tax rate (€-69 million) and other changes including the regular tax effects as a result of the individual changes in the Eligible Own Funds (€-113 million).

E.1.3. BRIDGE OWN FUNDS FINANCIAL STATEMENTS – ECONOMIC BALANCE SHEET

RECONCILIATION EQUITY FINANCIAL STATEMENTS - BASIC OWN FUNDS SII

€ MLN.

	2018	2017	Δ
Equity Financial statements	9,705	9,949	-243
Subordinated liabilities in Basic Own Funds	1,350	1,350	0
Own shares (held directly)	335	235	100
Total Financial statements excess of assets over liabilities (IFRS adjusted)	8,691	8,834	-143
Intangible assets	-724	-792	68
Investments	416	549	-134
Deferred Tax Assets	-2	-1	-1
Deferred Acquisition Costs	-44	-102	58
Banking Credit Portfolio	0	0	0
Reinsurance recoverables	-147	-270	123
Receivables	9	-786	796
Other assets	3	-32	36
Technical provisions	374	792	-418
Other provisions	0	1	-1
Deferred Tax Liabilities	-24	34	-59
Financial liabilities	-279	-171	-108
Payables	0	0	0
Other liabilities	71	-38	108
Total delta valuation Financial statements - SII	-349	-816	468
Other	-7	-7	0
Total excess of assets over liabilities	8,335	8,011	325

1. *The subordinated liabilities in basic own funds of 1,350 million are the subordinated liabilities eligible for IFRS and are therefore deducted to calculate Total excess over liabilities.*
2. *Change in presentation: The items related to "ex post" calculations in the current account Zorginstituut and Insurance receivables and other (related to insurance) assets which are "not due" are recognised as part of the Best Estimate were presented as an remeasurement in 2017. In 2018 these items are presented as an reclassification.*

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, Union Poist'ovna 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.

The remeasurement regards mainly:
1. the Rabobank savings which value is determined based on the Discounting Cash Flow method;
2. the unlisted equity investment in Garanti Emeklilik valued with valuation techniques at estimate purchase price; and
3. the adjustment of the mortgage bonds of Achmea Bank N.V. from amortised cost to economic value.

Deferred acquisition costs

The deferred acquisition costs are valued nil.

Receivables and Other assets

The receivables and other assets ‘due’ are discounted based on their expected cash-flows.

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 remeasurement refers 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

Because of 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 LAC_{DT} (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 and Reinsurance Recoverables

The main difference between IFRS and SII technical provisions and reinsurance recoverables is that the SII technical provisions and reinsurance recoverables are based on Best Estimates and for the technical provisions also with a Risk Margin. IFRS takes into account a value including a prudency margin based on IFRS accounting principles (in general a fixed interest rate for life insurance portfolios, mortality/morbidity assumptions based on accounting principles etc.) including a reserve for capital gains on fixed interest assets.
IFRS does not take into account
- Future lapses and expenses;
- Future profit sharing and premium contributions to the expiration date;
- Economic valuation of savings mortgages;
- Risk Margin.

- The items related to “ex post” calculations in this current account with the Zorginstituut Nederland 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.
- Insurance payables and other (related to insurance) liabilities which are “not due” are recognised as part of the Best Estimate.

Solvency II principles, parameters and assumptions are based on Best Estimate assumptions.

BRIDGE TECHNICAL PROVISIONS IFRS-SII

€ MLN.

	2018	2017
IFRS Technical Provisions	55,282	57,537
Prudency margin	-2,749	-2,192
Discounting	520	604
Risk Margin	1,816	1,892
Assumptions	5	4
Other	-46	4,491
SII Technical Provisions	54,828	62,336

E.1.4. SOLVENCY RATIO

SOLVENCY RATIO OF GROUP

€ MLN.

	2018	2017	Δ
Eligible Own Funds	8,925	8,386	539
Required Capital	4,497	4,555	-58
Surplus	4,428	3,831	596
Ratio (%)	198%	184%	14%-pt

The Solvency II ratio of 198% increased by 14%-pt compared to the 2017 ratio of 184%.

E.1.4.1. ALTERNATIVE SCENARIOS

SOLVENCY POSITION EXCLUDING THE USE OF THE VOLATILITY ADJUSTMENT

With respect to the Long Term Guarantee (LTG) measures, Achmea uses the VA as published by EIOPA and included in the Implementing Regulation by the European Commission to ensure 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.

The VA is not used for proportionality reasons by the Dutch Health insurance legal entities, Achmea Reinsurance Company N.V. and Interamerican Property and Casualty Insurance Company S.A. Using the VA in Turkey is not allowed according to the applicable Solvency II Regulation. The impact of the VA is mainly visible in the life insurance portfolio (long tail business in Life Underwriting Risk).

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. Also deferred taxes are impacted and as a result the Eligible Own Funds.

A higher value of the Best Estimate results in higher capital requirements where the Best Estimate is used as volume factor. Excluding the VA and DVA would result in changes of the characteristics of the liabilities due to the adjusted discounting curve. As a result, the asset mix is not aligned with the liabilities leading to a disproportionate increase of the capital requirement for Market Risk.

At the end of 2018 a VA of 24bps (2017: 4bps) has been used. Excluding VA and not using the DVA will increase the capital requirements for Market Risk resulting in an increase of the SCR by €1,447 million and corresponding decrease of the EOF of €-754 million.

SOLVENCY POSITION EXCLUDING THE USE OF THE ULTIMATE FORWARD RATE

The UFR is part of the relevant risk-free interest rate used to discount the Best Estimate. In the calculations per 31 December 2018 an UFR of 4.05% is used. The UFR will be lowered to 3.90% per 1 January 2019. 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 3.90%; UFR 3.60%, no UFR, Last Liquid Point 30 years).

The impact on the Solvency ratio of not using the UFR, using 3.65% or 4.05% is presented below. 3.90% is the UFR that will be applicable from 1 January 2019.

IMPACT UFR SOLVENCY RATIO

€ MLN.

	UFR 4.05%	UFR 3.90%	UFR 3.60%	NO UFR
Eligible Own Funds	8,925	8,861	8,729	8,006
Required Capital	4,497	4,507	4,508	6,009
Surplus	4,428	4,354	4,221	1,997
Ratio (%)	198%	197%	194%	133%

The impact of not using the UFR (‘no UFR’) is 65%-pt on the Solvency II ratio of Achmea (2017: 41%-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.

E.1.5. SOLVENCY POSITIONS SUPERVISED LEGAL ENTITIES

Achmea determines a Solvency position for each individual supervised legal entity. The following Solvency positions are calculated for the supervised entities of Achmea.

LIFE INSURANCE ENTITY

Achmea Pensioen- en Levensverzekeringen N.V.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	4,021	3,194	827
Required Capital	2,256	2,255	1
Surplus	1,765	939	826
Ratio (%)	**178%**	**142%**	**36%-pt**

The Solvency II ratio increased by 36%-pt to 178% compared to 2017.

The Eligible Own Funds increased by €827 million compared to 2017. The increase of the Eligible Own Funds is mainly caused by the economic developments and the change in the corporate tax rate. The reduction of the UFR, from 4.2% to 4.05% led to an increase of the Best Estimate. The increase of the VA (from 4 to 24bps) and movements in interest rates, during 2018 led to a combined positive impact on the Own Funds. Due to the change in the corporate tax rate (from 2020) and the increase in the VA in the Best Estimate, the restriction related to the net Deferred Tax Asset (set to maximum 15% of the SCR) has decreased. This increased the Eligible Own Funds.

Capital requirements did not change significantly in 2018 compared to 2017. However, between the risk type significant movements occurred. Market Risk increased as a result of calculating the capital requirements based on a PIM instead of SF, whereby the direct Mortgages are included in the Spread Risk module. Due to the transition from direct Mortgages from Counterparty Default Risk to Market Risk the capital requirements for Counterparty Default Risk decreased. Due to the implementation of the PIM, a Loss Absorbing Capacity of Expected Profits (LAC_{EP}) applies which reduces the total capital requirement.

NON-LIFE INSURANCE ENTITIES

Achmea Schadeverzekeringen N.V.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	1,071	1,054	17
Required Capital	761	754	7
Surplus	309	299	10
Ratio (%)	**141%**	**140%**	**1%-pt**

The Solvency II ratio increased by 1%-pt to 141% compared to FYR 2017.

At the end of 2018, the Eligible Own Funds increased by €17 million compared to the end of 2017. The positive underwriting result (which includes the effect of the January storms) is offset by the negative return on investments and a paid-out dividend in 2018.

The Required Capital increased by €7 million. This is caused by increased Market Risk, Health Risk, Non-Life Risk and the Operational Risk. The decline in Counterparty Default Risk and a higher LAC_{EP}, is primarily due to the introduction of the Internal Model Market Risk. The adverse development of the Health and Non-Life Risk is largely caused by the calibration of the new implemented changes of already endorsed internal models (premium, reserve, disability) in combination with volume effects.

N.V. Hagelunie

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	184	183	0
Required Capital	44	64	-20
Surplus	140	119	21
Ratio (%)	**419%**	**285%**	**134%-pt**

The Solvency II ratio increased by 134%-pt to 419% due to a decrease in the required capital.

The Eligible Own Funds remained almost similar compared with 2017. The positive technical result is offset by the result of the January storms, the hail storm in April and whirlwind damage in December.

The required capital decreased by €-20 million to €44 million. This is caused by the reduction in Catastrophe Risk by the purchase of additional reinsurance cover to protect multiple calamities in one year. In addition, the PIM for Market Risk has an increasing effect of €2 million on Market Risk.

Eureko Sigorta A.S.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	112	140	-28
Required Capital	70	79	-9
Surplus	43	62	-19
Ratio (%)	**162%**	**178%**	**-16%-pt**

The Local Solvency ratio based on Turkish prudential legislation denominated in euros decreased by -16%-pt to 162%.

Due to the devaluation of the Turkish Lira, the available capital in euros, as shown in the table above, decreases despite higher expected profitability and portfolio growth. The decrease of the required capital due to the devaluation of the Turkish Lira is partly compensated by the increase in Non-Life Catastrophe Risk man-made scenario due to higher volumes. There were no changes in prudential legislation.

Interamerican Property & Casualty Insurance Company S.A.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	137	133	3
Required Capital	74	77	-3
Surplus	63	56	6
Ratio (%)	**185%**	**173%**	**12%-pt**

The Solvency II ratio increased by 12%-pt to 185%.

The Eligible Own Funds increased by €3 million to €137 million due to improved modelling and profitability of the motor portfolio. Interamerican Property & Casualty Insurance Company S.A. expects a dividend payment of €10 million to Interamerican Hellenic Life Insurance Company S.A. in 2019. This reduces the Eligible Own Funds per end of 2018.

The Required capital decreased by €-3 million. The increase in Non-Life Underwriting Risk due to the increase of Premium and Reserve Risk is compensated by the increase in LAC_{EP} based on an updated calculation of economic results.

Interamerican Assistance General Insurance Company S.A.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	16	14	2
Required Capital	11	11	0
Surplus	5	3	2
Ratio (%)	**143%**	**124%**	**19%-pt**

The Solvency II ratio of Interamerican Assistance General Insurance Company S.A. increased by 19%-pt to 143%.

The Eligible Own Funds increased due to an improved technical result. The Required Capital of Interamerican Assistance General Insurance Company S.A. remained unchanged in 2018.

HEALTH INSURANCE ENTITIES

Achmea Zorgverzekeringen N.V. (Consolidated)

Achmea Zorgverzekeringen N.V. is the parent legal entity of the following subsidiaries providing 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. also sells supplementary health insurance and is not deemed to be an Insurance Holding Company.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	3,185	3,032	154
Required Capital	2,110	2,132	-22
Surplus	1,076	900	176
Ratio (%)	**151%**	**142%**	**9%-pt**

The Solvency II ratio increased by 9%-pt to 151%.

The increase of the Eligible Own Funds is mostly generated by the recognition of the expected economic result of 2019 and the result of prior years. The development of the stock market and the widening of spreads had a combined negative effect on the Own Funds.

The SCR decreased by €-22 million. Counterparty Default Risk decreased because of both a decrease of Type 1 exposure, mainly caused by lower bank balances and a decrease of Type 2 exposure, mainly caused by lower exposures. Health Underwriting Risk decreased due to a decrease in Reserve Risk which is only partly offset by an increase in Premium Risk due to a higher premium volume. Operational Risk increases due to the Premium increase for 2018.

Find below the Solvency II ratios of the individual insurance legal entities of Achmea Zorgverzekeringen N.V.:

SOLVENCY RATIO

€ MLN.

	2018	2017
Achmea Zorgverzekeringen N.V. (look-through)	414%	365%
Zilveren Kruis Zorgverzekeringen N.V.	138%	126%
Avéro Zorgverzekeringen N.V.	175%	196%
Interpolis Zorgverzekeringen N.V.	202%	191%
FBTO Zorgverzekeringen N.V.	132%	152%
De Friesland Zorgverzekeraar N.V.	147%	144%

Achmea Zorgverzekeringen N.V. (non-look-through)

The Solvency II ratio increased by 49%-pt to 414%.

The Eligible Own Funds increased by €451 in 2018. This increase is caused by the recognition of expected positive economic results of 2019 and the realised result of prior years. At the same time the release of the restrictions also increased the Eligible Own Funds.

The SCR of Achmea Zorgverzekeringen N.V. increased by €21 million compared to 2017, mainly due to the increase in Market Risk (€23 million). The main reasons are the increase of Equity Risk (higher volume), the increase of Market Concentration Risk and the increase of Currency Risk. Both Counterparty Default Risk (€-2 million) and Health Underwriting Risk (€-1 million) decreased.

Zilveren Kruis Zorgverzekeringen N.V.

The Solvency II ratio increased by 12%-pt to 138%.

The increase of the Eligible Own Funds was mostly due to the development in the expected positive result of 2019 (recognition) and the realized result of prior years and also due to a capital injections. This positive effect was partly offset by the investments due to market developments (€-39 million), such as: decreasing equity markets and widening credit spreads which are mitigated by decreased interest rates, and the decrease in value over time in the bonds portfolio.

The SCR of Zilveren Kruis Zorgverzekeringen N.V. decreased by €21 million. The Market Risk decreased by €-7 million, due to decreasing Equity Risk and increasing Spread Risk. The Counterparty Default Risk decreased by €-11 million, due to lower bank balances and due to regular day-to-day business. The Health Underwriting Risk decreased by €-31 million. The claim provision decreased, mainly because the amount of prepayments to hospitals has been reduced, since the temporarily backlog in hospital invoices that existed at 2017 has been cleared. At the same time the Premium volume increases due to higher Premium income expected for 2019 than for 2018. The Operational Risk increased by €15 million due to the increase in premium volume.

Avéro Achmea Zorgverzekeringen N.V.

The Solvency II ratio decreased by -21%-pt to 175%.

The Eligible Own Funds decreased by €-17 million in 2018. This was mainly caused by a decrease due to a capital injection via Achmea Zorgverzekeringen N.V. to FBTO Zorgverzekeringen N.V.

The SCR of Avéro Achmea Zorgverzekeringen N.V. increased by €6 million. Market Risk decreased by €-4 million due to a lower Equity Risk, Spread Risk and Concentration Risk. Health Underwriting Risk increased by €5 million, mainly due to the inclusion of a large new collectively per 1 January 2018. Operational Risk increased by €4 million due to the increase in premium volume.

Interpolis Zorgverzekeringen N.V.

The Solvency II ratio increased by 11%-pt to 202%.

The Eligible Own Funds at 31 December 2018 increased by €6 million to €137 million. The increase of the Eligible Own Funds was mostly due to the development in the expected positive result of 2019 (recognition) and result of prior years. This positive effect is partly offset by the investments due to market developments.

The SCR of Interpolis Zorgverzekeringen N.V. decreased by €-1 million. The Market Risk decreased by €-2 million. The Counterparty Default Risk decreased by €-1 million, due to lower Type 2 exposure. The Underwriting Risk decreased by €-1 million. The Operational Risk increased by €1 million due to the increase in premium volume.

FBTO Zorgverzekeringen N.V.

The Solvency II ratio decreased by -20%-pt to 132%.

The Eligible Own Funds at 31 December 2018 of €122 million decreased by €-22 million. The increase of the Eligible Own Funds is mostly due to the development in the expected negative result of 2019 (recognition) and the result of prior years. The decrease is partially offset by capital contributions from Achmea Zorgverzekeringen N.V.

The SCR of FBTO Zorgverzekeringen N.V. decreased by €-2 million. The Market Risk increased by €5 million. The Counterparty Default Risk decreased by €-2 million, due to decrease of cash and cash equivalents) and due to regular day-to-day business. The Health Underwriting Risk decreased by €-3 million. The claim provision decreases, mainly because the amount of prepayments to hospitals has been reduced, since the temporarily backlog in hospital invoices that existed in 2017 has been cleared. At the same time premium volume increased.

De Friesland Zorgverzekeraar N.V.

The Solvency II ratio increased by 3%-pt compared to 2017 to 147%.

The Eligible Own Funds at 31 December 2018 of €314 million increased by €18 million. The increase of the Eligible Own Funds was mostly due to the development in the expected negative economic result of 2019 (recognition) and the positive realised result of prior years. This positive effect is partly offset by the investments due to market developments.

The SCR of De Friesland Zorgverzekeraar N.V. increased by €8 million. The Market Risk increased by €7 million, due to increasing Equity Risk and Spread Risk. The Counterparty Default Risk decreased by €-8 million, due to a decrease of the Type 2 (lower exposure). The Health Underwriting Risk increased by €6 million. The claim provision decreased, mainly because the amount of advanced payments to hospitals has been reduced, since the temporarily backlog in hospital invoices that existed in 2017 has been cleared. Also the number of insured decreased. At the same time the premium volume increased due to a higher premiums and a higher number of insured. The Operational Risk increased by €3 million due to the increase in premium volume.

COMPOSITE INSURANCE ENTITY

Interamerican Hellenic Life Insurance Company S.A.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	131	175	-44
Required Capital	91	95	-4
Surplus	40	81	-40
Ratio (%)	**144%**	**185%**	**-41%-pt**

The Solvency II ratio decreased by -41%-pt to 144%.

The Eligible Own Funds decreased by €-44 million, mainly due to a dividend payment in September 2018 to Achmea B.V. of €30 million, of which €10 million was foreseen year-end 2017. This resulted in a decrease in the Eligible Own Funds of €-20 million in 2018. In addition, the lapse rates and assumptions for absenteeism have been revised, resulting in a decrease in the Eligible Own Funds by €-13 million. Due to a change in the tax provision and deferred tax, the Eligible Own Funds decreased by €-11 million.

The Required Capital decreased by €-4 million. Market Risk decreased by €-4 million due to lower valuation of assets. Life Underwriting Risk decreased by €-3 million due to lower Lapse Risk and Health Underwriting Risk increased by €1 million mainly due to Health Catastrophe Risk.

Union Poist'ovňa A.S.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	26	28	-2
Required Capital	16	16	-1
Surplus	10	12	-2
Ratio (%)	**166%**	**173%**	**-7%-pt**

The Solvency II ratio decreased by -7%-pt to 166%.

Eligible Own Funds decreased by €2 million, mainly as a result of changes in valuation differences coming from Technical Provisions (€-1 million) and from Intangible Assets (€2 million) offset by related change in the deferred taxes.

The Required Capital decreased by €-1 million. Movement is seen in Intangible Asset Risk, which decreased by €-1 million. Also Life Underwriting Risk (€-1 million) and the adjustment factor (€-1 million) decreased. Decreases were offset by growth of Market Risk (€1 million) and Non-Life Underwriting Risk (€1 million).

REINSURANCE ENTITY

Achmea Reinsurance Company N.V.

SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	250	264	-15
Required Capital	135	138	-4
Surplus	115	126	-11
Ratio (%)	**185%**	**191%**	**-6%-pt**

The Solvency II ratio decreased by -6%-pt to 185%.

The Eligible Own Funds decreased by €-15 million to €250 million. The impact of the January storm had a negative impact. In addition, negative market developments, particularly in the fourth quarter of 2018, resulted in a reduction in the Eligible Own Funds. The expected cash flows from the new reinsurance program, which started on 1 July 2018, and the accepted reinsurance ensures an increase in the Eligible Own Funds. The improved risk modelling for the life portfolio also has a positive effect on the Eligible Own Funds.

The SCR decreased by €-4 million. This decrease is caused by de-risking elements in the new reinsurance program (renewal per 1 July 2018), which led to a significant drop in Non-Life underwriting risk. The SCR for Market Risk increased significantly due to the implementation of the PIM for Market Risk. The PIM for Market Risk is implemented per 2018 Q3 and increased Market Risk by €30 million. Due to the implementation of the Internal Model for Market Risk a LAC_{EP} is introduced within the SCR. Finally, the SCR for Health Risk decreased due to the signing down on a Health Catastrophe contract compared to last year.

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.).

CRD RATIO'S 2018

€ MLN.

ENTITY	RWA	TCR	CET 1-RATIO	CAPITAL REQUIREMENTS	OWN FUNDS
Syntrus Achmea Real Estate & Finance B.V.	136	30.5%	30.5%	11	42
Achmea Investment Management B.V.	222	13.5%	13.5%	18	30
Achmea Bank N.V.	3,726	20.9%	20.8%	578	778

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

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 the Health entity (and similar entities within Slovakia) is not subject to Solvency II legislation but to local capital requirements as determined by Slovakian law.

Union Zdravotna Poist’ovna A.S.

At year-end 2018, the Own Funds maintained with UZ were €30 million (2017: €31 million). The local capital requirements for 2018 were €17 million (2017: €17 million).

NOTIONAL SOLVENCY POSITION

For any Mixed Financial Holding Company, Insurance Holding Company or Financial Holding Company a notional capital requirement (as if the Solvency II legislation would be used) has to be calculated. These holding companies are individually not subject to supervision. However, they are subject to group supervision.

Achmea B.V.

NOTIONAL SOLVENCY RATIO

€ MLN.

	2018	2017	Δ
Eligible Own Funds	10,109	9,730	379
Required Capital	2,337	2,291	46
Surplus	7,773	7,440	333
Ratio (%)	**433%**	**425%**	**8%-pt**

E.2. SCR AND MCR

More detail regarding the SCRs 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 Parameters

Achmea applies the HRES parameters (Health Risk Equalisation System). The HRES parameters are 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 parameters are only applied to Dutch basic health insurances. For Premium Risk 2.7% is applied, for Reserve Risk it is 5%. The use of the HRES parameters is accompanied by the requirement to use the “broad premium” definition, for example all premiums and payments received by Achmea for the basic health insurance obligations, including payments made by Zorginstituut Nederland, are deemed to be premiums.

Commitments to invest in future exposures

In certain instances, Achmea provides 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, for example 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.

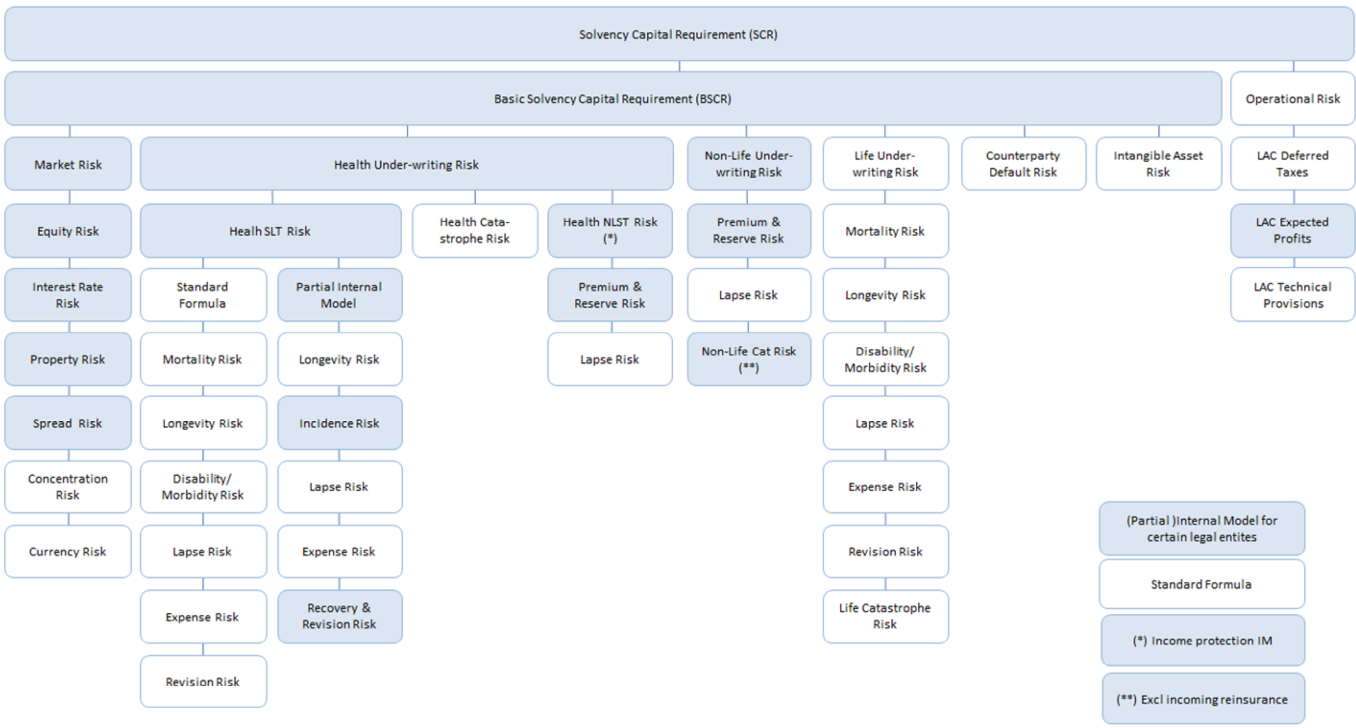
Proxies Foreign Insurance Entities

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 Greek 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 2018 data. When presenting individual data of the Greek 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 Risk the premium and Reserve Risk of Achmea Schadeverzekeringen N.V. (excluding Achmea Australia), N.V. Hagelunie, Interamerican Property and Casualty Insurance Company S.A. and Achmea B.V.;
- Non-Life Risk the natural Catastrophe Risk of Achmea Schadeverzekeringen N.V. (excluding Achmea Australia), N.V. Hagelunie, Interamerican Property and Casualty Insurance Company S.A., Achmea Reinsurance Company N.V. (excluding incoming reinsurance contracts) and Achmea B.V.;
- Health Risk (health Not Similar to Life Techniques, NSLT) the premium and Reserve Risk for sickness and accident insurance of Achmea Schadeverzekeringen N.V., Interamerican Property and Casualty Insurance Company S.A. and Achmea B.V.;
- Health Risk (health Similar to Life Techniques, SLT) the risks relating to disability, rehabilitation and revision percentages of Achmea Schadeverzekeringen N.V. and Achmea B.V.;
- Market Risk the risks related to interest rate, equity, property and spread risk of Achmea Schadeverzekeringen N.V., N.V. Hagelunie, Achmea Reinsurance Company N.V., Achmea Pensioen- en Levensverzekeringen N.V. and Achmea B.V.



Within Achmea Schadeverzekeringen N.V. several insurance portfolios are classified in the Lines of Business Income Protection. This is also included in the Health NSLT section. For this Line of Business the Internal Model is used. The difference with the SF is caused entirely by the size of the portfolio. A larger portfolio is more stable.

Achmea uses a PIM to calculate the SCR[5]. The SF components and Internal Model components are aggregated into a single SCR. The aggregation is done by means of 1) the "Default approach (use of the correlations as provided by the SF) at the level of the main risk

[5] Within Non-Life Cat Risk Man-made Risk is not included.

types and most sub risk types; 2) the “Implicit correlation” approach for SLT Underwriting Risk and Non-Life Premium and Reserve Risk; and 3) “Simulation approach” to aggregate the Equity Risk/Property Risk/Interest Rate Risk and Spread Risk of those entities not using the PIM for Market Risk. For some sub risk types Achmea aggregates data at a lower level than applied in the SF. Here the correlations are based on Achmea’s data and expert judgment.

The SCR Counterparty Default Risk is impacted due to the Internal Model for Non-Life Catastrophe Risk and Market Risk.

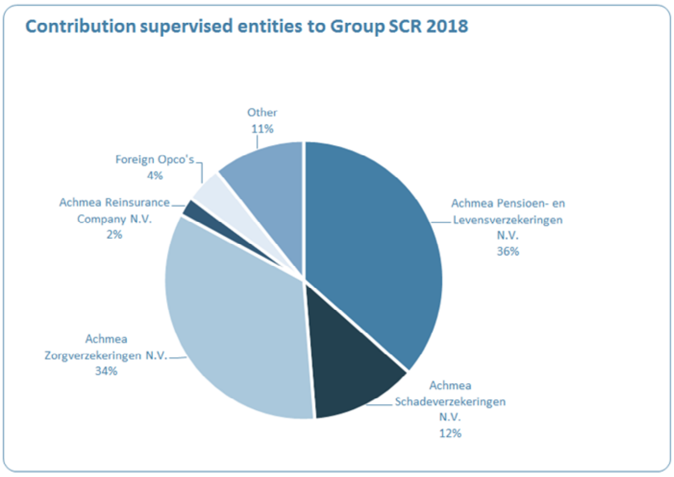
Following the differences between the SF and the PIM used, the outcome of the LAC_{DT} under the PIM differs from the outcome of the SF.

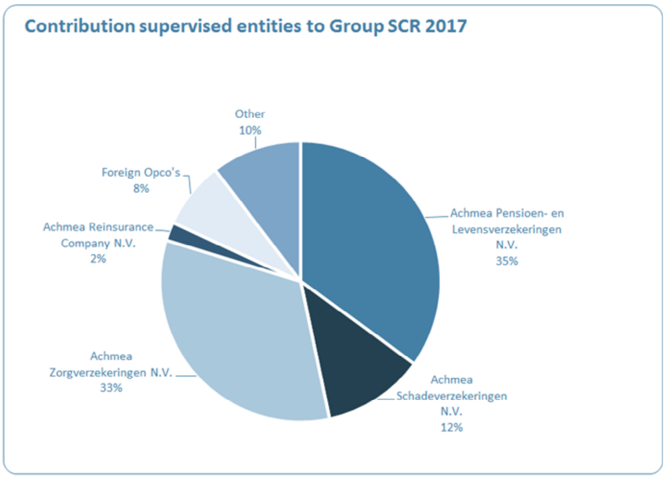
Within the SF the LAC_{EP} is not applicable, because it is assumed that the impact is already included in the various SF parameters as laid down in the Solvency II legislation. In Achmea’s PIM an adjustment factor for LAC_{EP} is applied to take future profitability into account within the PIM[6].

E.2.3. SOLVENCY CAPITAL REQUIREMENT

E.2.3.1. SOLVENCY CAPITAL REQUIREMENT

SCR according to major legal entities[7]:





The contribution from the main legal entities is fairly stable compared to 2017. The share of Foreign OpCo’s has decreased due to the sale of Friends First Life Assurance Company DAC in 2018.

[6] For Achmea’s Non-Life Premium- and Reserve and Market Risk calculated using the PIM, 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.

[7] Foreign OpCo’s = supervised insurance entities outside The Netherlands.

The main SCR results based on the PIM are:

SOLVENCY CAPITAL REQUIREMENT

€ MLN.

	2018	2017	Δ
Market Risk	2,566	2,075	491
Counterparty Default Risk	261	643	-382
Life Underwriting Risk	1,636	1,760	-125
Health Underwriting Risk	1,832	1,889	-57
Non-Life Underwriting Risk	823	816	7
Diversification	-2,495	-2,632	137
Intangible Asset Risk	0	1	-1
Basic SCR	4,622	4,552	70
Operational Risk	596	586	10
Loss-Absorbing capacity of expected profits Underwriting Risk	-67	-57	-11
Loss-Absorbing capacity of expected profits Market Risk	-138	0	-138
Loss-Absorbing Capacity of Technical Provisions	0	0	0
Loss-Absorbing Capacity of Deferred Taxes	-582	-560	-22
SCR Other Financial Sectors & Other Entities	66	33	33
Solvency Capital Requirement	4,497	4,555	-58

The SCR has decreased with €-58 million to €4,497 million. The Capital Requirements decreased mainly due to a decreased Life Underwriting Risks due to the sale of Friends First Life Assurance Company DAC and an increase in Market Risk due to the implementation of the PIM.

The SCR of Achmea over its business planning time period is expected to be above the target Solvency II ratio of 165%.

E.2.3.2. MARKET RISK

In 2018, Achmea has introduced a PIM for the calculation of the Market Risk. The structure of the model is such that a 1-to-1 comparison is not appropriate. The PIM is calibrated based on a so called “Profit-at-Risk” basis. The adjustment to arrive at the “Value-at-Risk” is presented as part of the LAC_{EP}.

MARKET RISK

€ MLN.

	2018	2017*
Interest rate	1,047	418
Equity	1,346	990
Property	373	399
Spread	1,429	827
Currency	95	111
Concentration	0	0
Diversification	–1,724	-670
SCR Market Risk	2,566	2,075

*SF

The SCR for Market Risk increases in 2018 from €2,075 million to €2,566 million. This SCR has been calculated using a PIM which has been in use since 1 July 2018. The increase is mainly due to the fact that, under the PIM for Market Risk, mortgages are included under spread risk and capital is also held for government bonds. The Equity Risk increased due to increased volatility in the equity markets, which is factored into the PIM for Market Risk. The Market Risk at year-end 2017 was determined using the Solvency II SF.

The differences in the other subrisks are also related to the transition to the PIM. In the case of interest risk, different scenarios apply, and in the case of equities, higher volatility is taken into account than under the Solvency II SF.

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.

The capital requirement for Interest Rate Risk.

INTEREST RATE RISK

€ MLN.

	ECONOMIC VALUES BEFORE SHOCK				SCR		
	2018		2017		2018	2017	
	ASSETS	LIAB.	ASSETS	LIAB.			Δ
Interest Rate Risk	48,043	54,711	53,928	60,663	1,047	418	629

Achmea has included the Risk Margin in the calculation of the Interest Rate Risk (contrary to the SF) by modelling the Risk Margin as a separate cash flow.

Interest Rate Risk increases by €629 million to €1,047 million. The increase is mainly due to the methodology change from SF to PIM as of the second quarter of 2018. Under PIM Interest Rate Risk is based on multiple scenario’s, under SF only two scenarios are taken into consideration. Also, Interest Rate Risk increased because in the last quarter a methodology change was implemented which moved the swap spread risk factor from Interest Rate Risk to Spread Risk.

As said in the introduction, Interest Rate Risk is mainly Achmea Pensioen- en Levensverzekeringen N.V., where Interest Rate Risk increases by €703 million in 2018. However, at Achmea Schadeverzekeringen N.V., Interest Rate Risk decreased by €87 million as a consequence of updating the capital correction for Inflation Risk using the new PIM Market Risk.

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 SCR. The Capital requirement is added to the SCR, no diversification effects are recognized

Achmea has used “Equity World” as instrument to include the SF amounts in the “Simulation” integration technique. In the internal model this instrument is included in category Equity World. The amounts presented in the table above are derived from the solo information of those legal entities which do not use a PIM for Market Risk and exposures where the PIM cannot be used at the lowest granual level needed. Any Intra-Group transactions are eliminated where appropriate.

EQUITY RISK

€ MLN.

	ECONOMIC VALUES BEFORE SHOCK				SCR		
	2018		2017		2018	2017	
	ASSETS	LIAB.	ASSETS	LIAB.			Δ
Equity Risk	2,888	3,886	4,608	9,153	1,346	990	356

The capital requirements for Equity Risk are sensitive to changes in the equity market indices and the volatility (VIX).

Equity Risk increases by €356 million to €1,346 million. The increase was entirely linked to the methodology change from SF to Internal Model: under PIM we follow a more granular approach for Equity Risk; under SF the Equity Transitional rule applies which temporarily reduces Equity Risk. A higher implied volatility (VIX) in 2018 Q4 due to worries in the financial markets increases Equity Risk but these worries also lowered market values due to lower equity prices (lower exposure).

Disinvestments in 2018 for Alternatives (Achmea Pensioen- en Levensverzekeringen N.V.) were counterbalanced by new Equity Investments at Achmea Zorgverzekeringen N.V.

Property Risk

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.

PROPERTY RISK

€ MLN.

	ECONOMIC VALUES BEFORE SHOCK				SCR		
	2018		2017		2018	2017	
	ASSETS	LIAB.	ASSETS	LIAB.			Δ
Property Risk	1,620	172	6,414	4,833	373	399	-26

The capital requirements for Property Risk are sensitive in the volatility (VIX).

Property Risk fell by €-26 million to €373 million. In contrast with Equity Risk, the methodology change from SF to PIM lowered Property Risk by €-71 million. Property Risk for direct property under the SF is calibrated on the United Kingdom market which has a higher risk profile compared to Dutch property. Direct property is mainly invested in the Netherlands. The higher implied volatility (VIX) not only applies to equity but also to property in PIM and increases Property Risk.

Spread risk

Achmea applies the PIM for Spread Risk for all Bonds and loans, Government bonds and related exposures and for Mortgage loans.

Within the PIM for Spread Risk Achmea determines the following components of the model: Credit Spread Risk, Migration and Default Risk, and Dynamic Volatility Adjustment (DVA).

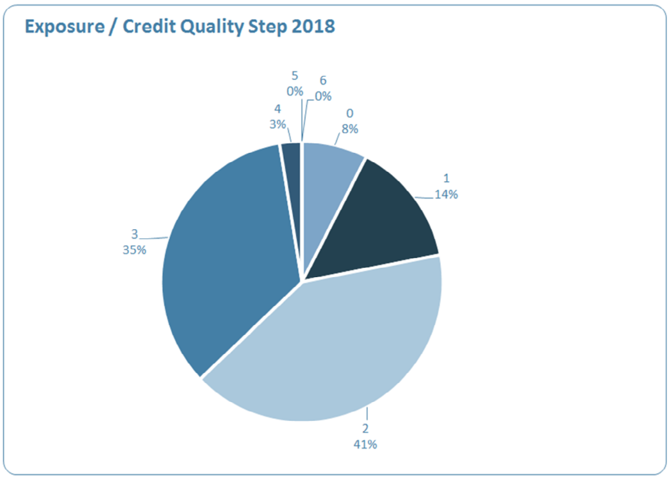
Credit Spread Risk is the risk that spreads increase, while the ratings remain unchanged. Migration and Default Risk address the risk of downgrades and defaults. The dynamic VA is a (dynamic) adjustment to the basic risk free curve to avoid pro-cyclical investment behaviour.

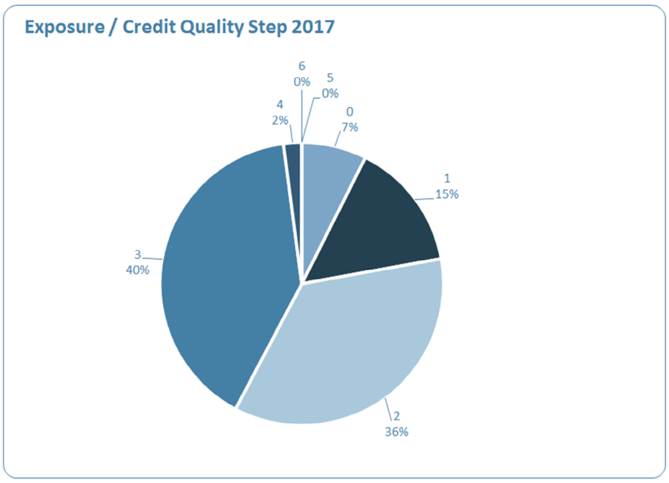
SPREAD RISK

€ MLN.

	ECONOMIC VALUES BEFORE SHOCK				SCR		
	2018		2017		2018	2017	Δ
SPREAD RISK	34,282	1,411	30,953	5,917	1,429	827	602

The following graphs present the quality of the bond and loan portfolio (hence excluding Government bonds).





The average duration of the bond and loan portfolio increased from 2.8 to 3.1.

Spread Risk rises by €602 million to €1,429 million. This increase was entirely due to the methodology change from SF to PIM (€876 million). Spread Risk is higher in PIM because of the sensitivity towards higher swap spreads and additional spreads in PIM, which is affected by a higher spread for our investments in Italy. EEA government (guaranteed) bonds also have spread risk in PIM, while this is not the case in SF. Furthermore mortgages are included in Spread Risk while these are included in Counterparty Default Risk in SF. Finally, in the last quarter a methodology change was implemented which moved the swap spread risk factor from Interest Rate Risk to Spread Risk.

The implementation of the swap spread hedge was carried out only for Achmea Pensioen- en Levensverzekeringen N.V. As a result of implementing the Internal Model for Market Risk, the asset mix changed. For entities which apply the volatility adjustment the portfolio changed for credits (longer durations).

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 2018, 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. and Achmea Zorgverzekeringen N.V. have Concentration Risk 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 2017 based on the redemption of this exposure. The Dutch Health entities have some Concentration Risk embedded in their investment portfolio.

Currency Risk

The capital requirement for Currency Risk decreases by €-16 million to €95 million at the end of 2018. The sale of Friends First lowered Currency Risk by €9 million.

For Achmea Pensioen- en Levensverzekeringen N.V. and for Achmea Schadeverzekeringen N.V. Currency Risk increases due to more unhedged FX exposure in the Emerging Markets Debts account.

The main exposures to foreign currencies are related to the subsidiary Eureko Sigorta A.S. 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 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.

E.2.3.3. COUNTERPARTY DEFAULT RISK

The exposures to Counterparty Default Risk are the result of normal operations within Achmea and the result of risk mitigation of risk assumed by Achmea and its subsidiaries.

The SCR CDR decreased by €-382 million to €261 million in 2018, mainly as a result of the introduction of the PIM Market Risk in 2018.

COUNTERPARTY DEFAULT RISK

€ MLN.

	2018	2017	Δ
Reinsurance arrangements	29	30	-2
Derivatives	19	69	-50
Other non-risk mitigating exposures	59	90	-30
Commitments depending on the credit standing of the counterparty	55	72	-17
Diversification	-19	-36	18
SCR CDR on Type 1 exposures	143	225	-82
Insurance and Intermediaries Receivables	24	36	-12
Other Credit exposures (excl. Mortgage Loans)	111	104	7
Mortgage loans	0	316	-316
SCR CDR on Type 2 exposures	136	457	-321
Diversification	-18	-39	21
SCR Counterparty Default Risk	261	643	-382

The SCR CDR type 1 has decreased with €-82 million to €143 million.

For most individual insurance entities the capital requirement for Counterparty Default Risk changed because of normal portfolio developments. This is the case for the foreign supervised insurance entities, N.V. Hagelunie and Achmea Reinsurance Company N.V.

The capital requirement related to derivatives decreased by €-50 million due to a lower risk mitigating effect during the first half year of 2018 when Achmea used the SF to calculate the Risk mitigating effect of the derivatives. The major part of that reduction is realised with Achmea Pensioen- en Levensverzekeringen N.V. and a smaller part is realised with Achmea Schadeverzekeringen N.V.

The capital requirement for Other non-risk mitigating exposures decreased by €-30 million due to a lower position in Cash at bank (mainly within our health entities and to a smaller extent within Achmea Pensioen- en Levensverzekeringen N.V.) and a lower net exposure from our Securities lending programme (within Achmea Schadeverzekeringen N.V.).

At the end of December 2018, Achmea Pensioen- en Levensverzekeringen N.V. entered into a transaction with the Rabobank which removed the possible systemic risk related to Counterparty Default Risk. For the mortgage saving insurance products, Achmea Pensioen- en Levensverzekeringen N.V. and the Rabobank agreed on so-called cession/retrocession and subparticipation contracts. As a result the CDR on Commitments depending on the credit standing of the counterparty decreased by €-17 million.

The SCR CDR type 2 has decreased with €-321 million to €136 million.

As a result of the introduction of the PIM for Market Risk in 2018, “mortgage loans” are included as part of the PIM - Spread Risk and are no longer part of Type 2 Counterparty Default Risk. This leads to a reduction of CDR type 2 of €-316 million. This decrease consisted of €-291 million with Achmea Pensioen- en Levensverzekeringen N.V. and €-25 million with Achmea Schadeverzekeringen N.V.

E.2.3.4. LIFE UNDERWRITING RISK

The following table sets out the composition of Achmea’s Life Underwriting Risk. This relates both traditional and Unit Linked policies. For the calculation of 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, which regards mass lapse. Within Achmea Life Underwriting Risk is based on the SF.

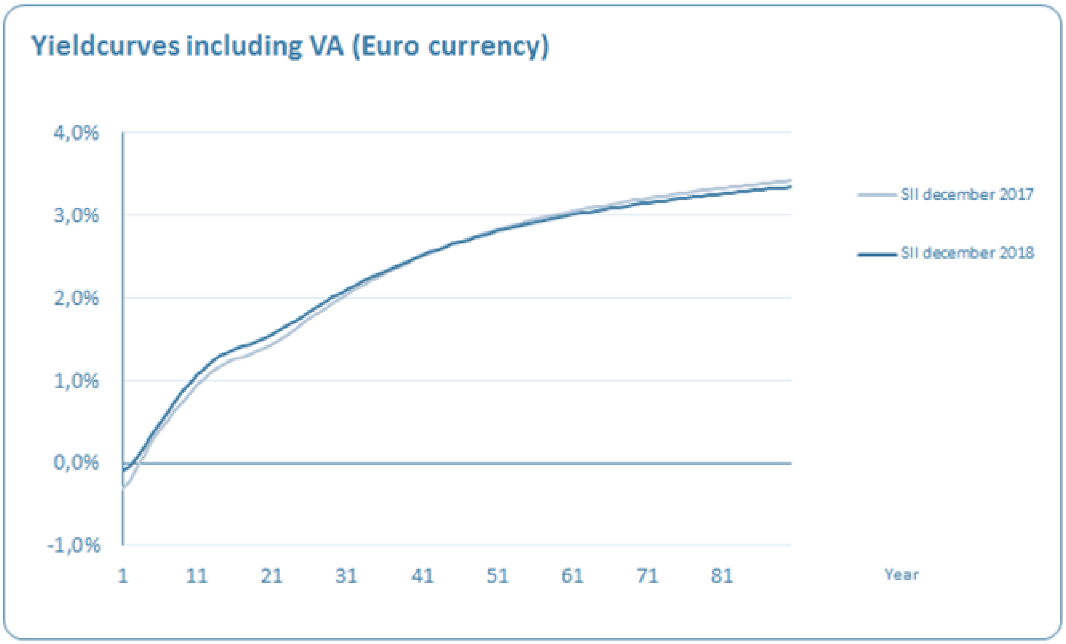
LIFE UNDERWRITING RISK

€ MLN.

	2018	2017	Δ
Mortality Risk	209	211	-2
Longevity Risk	1,134	1,155	-21
Disability/ Morbidity Risk	26	35	-10
Lapse Risk	381	495	-114
Expense Risk	599	641	-42
Revision	0	0	0
Catastrophe Risk	128	142	-14
Diversification Risk	-842	-920	77
SCR Life	1,636	1,760	-125

Approximately 96% of Life Underwriting Risk is recognised within Achmea Pensioen- en Levensverzekeringen N.V., 2% within Achmea Reinsurance Company N.V. and 2% within Interamerican Hellenic Life Insurance Company S.A. In 2018, Achmea completed the sale of Friends First Life assurance Company DAC. This reduced the Life Underwriting Risk overall by €-49 million.

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 2018, the relevant risk-free interest rate increased during the first 44 years and decreased after 44 years. Ceteris Paribus other developments, this results in a lower value of the Best Estimate and related capital requirements, because the average duration of Achmea's Life portfolio is 11.6 years.



In the fourth quarter of 2018 a renewed mortality table was introduced in The Netherlands. This has an impact on the Best Estimate and subsequent capital requirements. Due to the renewed mortality table, both Longevity Risk and Mortality Risk increase, because of the increase in mortality rates. The Longevity and Mortality Risk decreased in total due to portfolio developments (closed book). In the fourth quarter of 2018 there was a change in methodology of the calculation of the fair value of the saving parts of the mortgages. Therefore the Lapse Risk decreases.

Mortality Risk

The SCR for Mortality Risk has decreased by €-2 million to €209 million. Due to the sale of Friends First Life assurance Company DAC the Mortality Risk decreased by €-9 million. The other change is mainly driven in The Netherlands. Within Achmea Pensioen- en Levensverzekeringen N.V. the SCR for Mortality Risk has increased by €6 million. For the FYR 2018 Achmea Pensioen- en Levensverzekeringen N.V. used the most recent population mortality table. The experience mortality rates are determined in the yearly mortality study. The increase in mortality shock is mainly caused by changes in non-economic assumptions (€3 million), mainly impact of Mortality assumptions and model changes (€4 million). Mortality rates were updated, leading to higher rates and therefore a higher absolute Mortality Risk shock. Reinsurance of Mortality Risk within Achmea Reinsurance Company N.V. has only a small effect on Mortality Risk.

Longevity Risk

The SCR for Longevity Risk decreased by €-21 million from €1,155 million to €1,134 million. Due to the sale of Friends First Life Assurance Company DAC the Longevity Risk decreased by €-4 million. The decrease within Achmea Pensioen- en Levensverzekeringen N.V. by €-17 million is caused by changes in economic assumptions (€18 million), non-economic assumptions (€5 million) and experience variance/portfolio developments (€-39 million). The change in non-economic assumptions is caused by the update of the Mortality rates in The Netherlands. The change in rates caused a higher absolute Longevity Risk shock.

Disability/Morbidity Risk

The SCR for Disability/Morbidity Risk decreased by €-10 million to €26 million. Due to the sale of Friends First Life assurance Company DAC the Disability/Morbidity Risk decreased by €-6 million. 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 within Achmea Pensioen- en Levensverzekeringen N.V. is lower than the one used in FYR 2017. It has decreased by €-4 million mainly because the closed-book character of the portfolio the premium income for disability is decreasing. The applied shock rate increased from 10.6% to 11.6%.

Lapse Risk

LAPSE RISK - LIFE

€ MLN.

	2018	2017	Δ
Lapse Increase	134	177	-43
Lapse Decrease	56	72	-16
Mass Lapse	381	495	-114
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 2017). Dominant scenario within Achmea Pensioen- en Levensverzekeringen N.V. remains the mass lapse scenario.

The outcome of the Mass lapse scenario decreased by €-114 million. This is mainly due to an update of the lapse assumptions within Achmea Pensioen- en Levensverzekeringen N.V. The decrease in Lapse Risk is mainly caused by changes due to an update of the lapse assumptions and an extra outside adjustment for the indexation option for the whole life product (€-54 million). In the fourth quarter of 2018 there was a change in methodology of the calculation of the economic value of the saving parts of the mortgages, an update of lapse assumptions and an extra outside adjustment for the indexation option for the whole life product. Therefore Lapse Risk decreased by €-83 million.

Due to the sale of Friends First Life assurance Company DAC the Lapse Risk decreased by €-31 million.

Expense Risk

The SCR for Expense Risk decreased by €-42 million from €641 million to €599 million and is mainly driven by the sale of Friends First Life assurance Company DAC (€-25 million) and the developments within Achmea Pensioen- en Levensverzekeringen N.V. The decrease in Expense Risk in The Netherlands is mainly caused by the regular update of the expense assumptions.

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 Revision Risk is nil.

Catastrophe Risk

The SCR for Catastrophe Risk has decreased by €-14 million. Due to the sale of Friends First Life Assurance Company DAC the Catastrophe Risk decreased by €-22 million. Within The Netherlands the Catastrophe Risk *after* reinsurance increases by €2 million due to portfolio developments (€3 million). The remaining impact is caused by a lower mitigated risk due to lower reinsurance.

Diversification Effects

The impact of diversification effects between sub-risks decreased (became less negative) in 2018. If most sub-risks decrease, the positive impact of diversification declines. Therefore the diversification effect in the Underwriting Risk decreased by €-77 million to €842 million.

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 Health SLT. The Lines of Business Medical Expenses, Income Protection and Worker’s Compensation are related to Health NSLT.

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 PIM deviates from the risk taxonomy of the SF 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.

For the Dutch Basic Health Insurance Obligations, Achmea used the HRES-parameters as put forward in the Implementing Technical Standard. For NSLT Premium Risk the parameter/standard deviation is 2.7% and for Reserve Risk it is 5.0%.

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.

	2018	2017	Δ
Mortality	0	0	0
Longevity	25	26	0
Disability/Morbidity/Revision	266	294	-28
SLT Lapse	13	38	-25
Expense	29	31	-2
Diversification	-82	-104	22
SCR UR Health SLT	251	284	-33
NSLT Lapse	14	16	-2
Premium and Reserve	1,677	1,712	-35
Diversification	-14	-16	2
SCR UR Health NSLT	1,677	1,712	-35
Health catastrophe	59	65	-5
Diversification	-155	-172	17
SCR UR Health	1,832	1,889	-57

Longevity Risk SLT

Longevity Risk decreased by almost €-1 million to €25 million. Due to the sale of Friends First Life Assurance Company DAC the Longevity Risk decreased by €-6 million. Within Achmea Schadeverzekeringen N.V. the Longevity Risk increased by €4 million due to an increase in the “WIA-excedent” portfolio as a result of an update of the mortality rates of this portfolio.

Disability/Morbidity/Recovery Risk SLT

Health SLT Disability/Morbidity Risk (incidence + recovery) decreased by €-28 million to €266 million. Due to the sale of Friends First Life Assurance Company DAC the Disability Risk decreased by €-49 million.

Within Achmea Schadeverzekeringen N.V., Incidence Risk SLT increased by €10 million and Recovery Risk SLT increased by €14 million, mainly due to the calibration of the shocks. Due to the increased volatility Disability Risk increased. Within Interamerican Hellenic Life Insurance company S.A. the Risk decreased due to portfolio maturity (€-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 decreased by €-25 million, mainly due to the sale of Friends First Life Assurance Company DAC which decreased the Lapse Risk by €-24 million. Within Achmea Schadeverzekeringen N.V. Lapse Health SLT decreased almost €-1 million due to the fact that actual contract boundaries are taken into account.

Expense Risk SLT

Expense Risk SLT decreased by €-2 million to €29 million. Due to the sale of Friends First Life Assurance Company DAC the Expense Risk decreased by €-3 million. Within Achmea Schadeverzekeringen N.V. Expense Risk increased by €1 million due to a higher provision for claims handling expenses and the shock is adjusted (multiplication of direct and permanent shock).

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

Lapse Risk Health NSLT decreased by €-2 million to €14 million and this is mainly caused by 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. Within Achmea Schadeverzekeringen N.V. Lapse Health SLT decreased €-2 million because only the bound contracts are taken into account.

Due to DNB guidelines for Line of Business 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 Medical Expenses business in The Netherlands (Achmea Zorgverzekeringen N.V. consolidated). The capital requirement decreased by €-35 million to €1,677 million.

Most of the changes in the Premium and Reserve Risk arose from development of the portfolio within Achmea Zorgverzekeringen N.V. The increase in premium volume, due to a higher premium per insured, increased the SCR Premium and Reserve Risk by €18 million. The decrease in claim provision decreased the SCR Premium and Reserve Risk by €-57 million. The temporary backlog in hospital invoices in 2017 is now largely solved. This resulted in a decrease of the SCR Premium and Reserve Risk by €-38 million within Achmea Zorgverzekeringen N.V. (consolidated).

The remaining impact of €5 million is caused by Achmea Schadeverzekeringen N.V. due to a lower Premium Risk caused by decreasing volumes of expected claims and decreased risk factors and a higher Reserve Risk due to a higher volume and a higher risk factor.

HEALTH CATASTROPHE RISK

HEALTH CATASTROPHE RISK

€ MLN.

	2018	2017	Δ
Mass Accident Risk	20	20	0
Accident Concentration Risk	34	42	-8
Pandemic risk	44	44	-1
Diversification	-39	-42	3
SCR CAT Risk Health	59	65	-5

Health Catastrophe Risk decreased by €-5 million to €59 million, mainly due to changes in Accident Concentration Risk. Within Achmea Schadeverzekeringen N.V., the Accident Concentration Risk decreased by €-2 million due to less volume of the underlying risk. The volume of disability portfolio decreased and the volume of the accident portfolio increased. The accident portfolio has no effect on the concentration and pandemic scenario so the impact of the decreased volume of the disability portfolio is larger.

Within Achmea Reinsurance Company N.V., Health Catastrophe Risk decreased by €-6 million mainly due to a reduced share compared to last year share on a Health catastrophe contract.

E.2.3.6. NON-LIFE UNDERWRITING RISK

The legal entities with a PIM 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 PIM 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 SF. In terms of PIM SCR 81% (2017: 80%) of Non-Life Underwriting Risk is based on the PIMs (before diversification).

For reinsurance contracts issued in Turkey with Turkish counterparties where a Credit Quality Step lower than 3 is applicable, 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 contracts 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.

	2018	2017	Δ
Lapse	119	143	-24
Premium and Reserve	592	550	41
Catastrophe	431	464	-33
Diversification	-319	-341	22
SCR UR Non-Life	823	816	7

Underwriting Risk Non-Life increased by €7 million from €816 million to €823 million. Approximately 65% of Non-Life Underwriting Risk is driven by Achmea Schadeverzekeringen N.V., 11% by Achmea Reinsurance Company N.V., 9% by Eureko Sigorta A.S., 6% by N.V. Hagelunie, 8% by Interamerican Property & Casualty Insurance Company S.A and 1% by Union Poisťovňa A.S.

Lapse Risk

The SCR of Non-Life Lapse Risk decreased by €-24 million from €143 million to €119 million.

In The Netherlands Lapse Risk decreased by €-31 million within Achmea Schadeverzekeringen N.V. due to the fact that the actual contract boundaries[8] are taken into account (€-51 million). Furthermore it is assumed that, after a one-year contract, the cancellation period is 1 month (in 2017 it was assumed that business contracts were subject to a 1 year cancellation period). This leads to an increase in Lapse Risk of €20 million.

Lapse Risk in Turkey decreased slightly (€-2 million) due to the devaluation of the Turkish Lira. Within Interamerican Property & Casualty Insurance Company A.S. there is an increase in Lapse Risk by €6 million, which is caused by the higher Premium Reserve.

Premium & Reserve Risk

Premium and Reserve Risk is modelled according to Achmea’s PIM and increased by €41 million to €592 million.

The most important reason for the increase of Premium and Reserve Risk in The Netherlands is the regular periodic calibration of the capital models and changes in volume measures at Achmea Schadeverzekeringen N.V.

The increase of Premium risk in Greece is mainly caused by the altered reinsurance treaty (higher retention) applied to Ocean Hull Marine business combined with some higher respective exposures than originally planned, whereas the increase of Reserve Risk is

[8] Remaining time to maturity.

caused by large unexpected claims in both Property and MAT lines of business during 2018. In Turkey, the volumes of premium and Reserve Risk increased, but due to the devaluation in Turkish Lira the Premium and Reserve Risk has diminished in euro terms.

Catastrophe Risk

Achmea has developed an internal model for Natural Catastrophe Risk in which the Greek and Dutch Non-Life Natural Catastrophe Risk are included. Turkey and Slovakia are included for Earthquake Risk according to the SF[9].

CATASTROPHE RISK NON-LIFE (NET OF MITIGATION) € MLN.

	2018	2017	Δ
Natural Catastrophe Risk	298	377	-79
Man-Made Catastrophe Risk	276	209	67
Catastrophe Risk of Non-Proportional property reinsurance	38	42	-4
Diversification	-181	-164	-17
SCR Catastrophe Risk Non-Life	431	464	-33

Non-Life Catastrophe Risk decreased by €-33 million in 2018 to €431 million. Catastrophe Risk decreased due to a decline in retention on the group programme by €-10 million and the purchase of two 'aggregate' reinsurance covers for Achmea Reinsurance Company N.V. to reduce the volatility in this entity. In addition, the Catastrophe Risk at Eureko Sigorta A.S. decreased through optimisation of the reinsurance program through Group reinsurance company Achmea Reinsurance Company N.V. This decrease is partly offset by the increase of the manmade fire risk at Eureko Sigorta A.S., mainly due to an increase of the underlying portfolio and the decrease of the proportion of rated reinsurers.

E.2.3.7. INTANGIBLE ASSET RISK

INTANGIBLE ASSET RISK € MLN.

	2018	2017	Δ
Intangible Asset Risk	0	1	-1
SCR Intangible Assets	0	1	-1

Intangible Risk is equal to 80% of the value of the intangible assets and the intangible assets decreased to almost €0 million.

E.2.3.8. OPERATIONAL RISK

OPERATIONAL RISK € MLN.

	2018	2017	Δ
SCR OR based on Technical Provisions	405	404	1
SCR OR based on Earned Premiums	583	567	16
Charge before Capping	583	567	16
CAP BSCR	1,387	1,366	21
Charge after capping	583	567	16
Expenses Unit Linked Business	53	75	-22
Charge related to Expenses Unit Linked Business (25%)	13	19	-6
SCR Operational Risk	596	586	10

In line with recent years the calculation for Achmea is based on the dominant Premium Risk component, where the BSCR (Basis SCR) constraint is not hit.

Operational Risk increased by €10 million to €596 million as a consequence of the increased premium volumes in the Health insurance portfolio (€25 million). In 2018, the Operational Risk of Friends First is no longer included. This decreased Operational Risk by €9 million.

[9] Man-made and Other is modelled according to the SF.

In 2018, the reclassification of "mortgage saving products" from the Line of Business "Unit Linked" towards "Life insurance" increased the premium volume factor, while decreasing the "expense" component (€-6 million).

OPERATIONAL RISK – SENSITIVE SCENARIO

	2018	2017
Achmea Pensioen- en Levensverzekeringen N.V.	Provision	Provision
Achmea Schadeverzekeringen N.V.	Premium	Premium
N.V. Hagelunie	Premium	Premium
Achmea Reinsurance Company N.V.	Provision	Provision
Achmea Zorgverzekeringen N.V. (consolidated)	Premium	Premium
Achmea Zorgverzekeringen N.V. (non-look through)	Premium	Premium
Zilveren Kruis 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
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

There are no changes in sensitive scenario's during 2018.

E.2.3.9. LOSS-ABSORBING CAPACITY OF EXPECTED PROFITS

LOSS-ABSORBING CAPACITY OF EXPECTED PROFITS

€ MLN.

	2018	2017	Δ
LACEP Non-Life / SLT Health	-67	-57	-11
LACEP Market Risk	-138	0	-138
Total LACEP	-206	-57	-149

For Achmea's Market Risk and Non-Life Premium and Reserve Risk calculated using the Internal Model, the capital requirements were 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 SF the LAC_{EP} is not applicable due to the fact that it is assumed that the impact is already included in the various SF parameters as laid down in the Solvency II legislation.

The LAC_{EP} Non-Life Underwriting Risk (€67 million) related to the Internal Model parts is €64 million (2017: €52 million) for Achmea Schadeverzekeringen N.V., €2 million (2017: €2 million) for N.V. Hagelunie and €1 million (2017: €3 million) for Interamerican Property and Casualty Insurance Company S.A.

The LAC_{EP} Market Risk (€138 million) is specifically applicable for the PIM Market Risk within Achmea Pensioen- en Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V., N.V. Hagelunie and Achmea Reinsurance Company N.V. and is based on economic returns on investments calculated on "Profit at Risk" instead of "Value at Risk" under the SF. The expected profit on investments is included in the LAC_{EP} Market Risk (€138 million) and has a dampening effect on the SCR.

E.2.3.10. LOSS ABSORBING CAPACITY OF TECHNICAL PROVISIONS

The Loss-Absorbing Capacity of Technical Provisions (LAC_{TP}) is negligible as was the case in 2017.

E.2.3.11. LOSS-ABSORBING CAPACITY DEFERRED TAXES

The amount recognised as LAC_{DT} has been based on the Solvency II legislation and local additional guidance submitted by National Supervisory Authorities. Where relevant, Achmea already decided to incorporate the expected changes due to the revision of the Delegated Acts 2015/35. The changes were related to governance arrangements and the restriction in the recognition of new business after 5 years.

The LAC_{DT} is determined on the level of the individual legal insurance entities subject to the local fiscal legislation. On Group level the solo determined LAC_{DT} is aggregated taking the diversification effects into account.

LOSS-ABSORBING CAPACITY OF DEFERRED TAXES

€ MLN.

	2018	2017	Δ
SCR Loss-Absorbing Capacity of Deferred taxes	-582	-560	-22

The following LAC_{DT}-outcomes were recognised on solo level:

RECOGNISED LOSS-ABSORBING CAPACITY DEFERRED TAXES INDIVIDUAL ENTITIES

€ MLN.

	2018	2017
Achmea Pensioen- en Levensverzekeringen N.V.	456	404
Achmea Schadeverzekeringen N.V.	249	251
N.V. Hagelunie	14	22
Achmea Reinsurance Company N.V.	29	46
Friends First Life Assurance Company Ltd.	0	0
Friends First Managed Pension Funds Ltd.	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.	16	14
Union Poist'ovna A.S.	2	1
Eureko Sigorta A.S.	0	0
Total without applying guideline 22	766	738
Diversification	184	178
Total recognized for ADJDT Achmea	582	560

The adjustment LAC_{DT} increased by €22 million from €560 million to €582 million.

The adjustment based on the diversification effect recognised at Achmea Group level is 75.9% (2017: 75.8%).

The increase of the impact of the LAC_{DT} Achmea Group is mainly caused by the increased impact of Achmea Pensioen en Levensverzekeringen N.V. due to the implementation of the PIM Market Risk. Expected future investment income is adjusted upwards by optimising the investment portfolio based on PIM. This increase of fiscal results leads to a decrease in non-recoverable DTA after stress and therefore an increase of the LAC_{DT}. This impact is partly compensated by new tax legislation in The Netherlands. The corporate tax rate is reduced, to a rate of 20.5% in 2021 and the term for loss settlement has been shortened from 9 to 6 years. Both element result in a reduction of the Deferred Tax Assets and LAC_{DT} and therefore have a negative impact on the LAC_{DT}.

E.2.3.12. OTHER COMPONENTS OF THE GROUP REQUIREMENTS

SCR OTHER FINANCIAL SECTORS & OTHER ENTITIES

€ MLN.

	2018	2017	Δ
Non Ancillary entities	50	17	33
Union Zdravotna Poistovna A.S.	17	17	0
Other	0	0	0
Total SCR Other financial sectors & Other Entities	66	33	33

The capital requirement of Union Zdravotna Poist'ovna A.S. has remained unchanged. The capital requirement of €17 million (2017: €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 capital requirement related to the Non Ancillary entities is €50 million (2017: €17 million). The increase is caused by an increase of the underlying participation value and a methodology change with regard to negative participation values as the absolute values are taken into account for the calculation of the SCR.

E.2.4. MINIMUM CAPITAL REQUIREMENT

The following table shows the MCR of Achmea at the end of 2018 and 2017.

MCR PIM (EXCL. D&A/OFS) € MLN.

	2018	2017	Δ
SCR	4,431	4,522	-91
MCR	2,354	2,373	-19
MCR/SCR (%)	53%	52%	1%

The MCR for Achmea Group is equal to the sum of the solo MCRs of all insurance entities (excluding Deduction & Aggregation entities and Other Financial sectors)[10]. No diversification effects between the insurance entities are taken into account. This is based on Solvency legislation imposed by EIOPA.

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 decrease in MCR by €-19 million is mainly caused by the sale of Friends First Life Assurance Company DAC (€-39 million), a decrease of the MCR of Achmea Reinsurance Company N.V. (€-9 million) and an increase of the MCR of Achmea Pensioen- en Levensverzekeringen N.V. (€29 million). The development of the MCR of Achmea Reinsurance Company N.V. and Achmea Pensioen-en Levensverzekeringen N.V. is in line with the underlying development of the SCR.

MCR (RE)INSURANCE ENTITIES € MLN.

	2018	2017	Δ
Achmea Pensioen- en Levensverzekeringen N.V.	1,015	986	29
Achmea Schadeverzekeringen N.V.	343	340	3
N.V. Hagelunie	11	16	-5
Achmea Reinsurance Company N.V.	34	43	-9
Achmea Zorgverzekeringen N.V. (Consolidated)	860	854	6
Union Poist´ovna A.S.	7	7	0
Eureko Sigorta A.S.	23	26	-3
Interamerican Assistance General Insurance Company S.A.	4	4	0
Interamerican Property & Casualty Insurance Company S.A.	34	33	1
Interamerican Hellenic Life Insurance Company S.A.	23	24	-1
Friends First Life Assurance Company DAC	-	62	-62

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.

[10] The contribution to the MCR Group of the foreign entities of Greece and Ireland is based on fast close figures. The solo MCR of the foreign entities of Greece and Ireland in the table below are based on the final figures.

E.4. DIFFERENCES BETWEEN THE SF AND ANY INTERNAL MODEL USED

For a description of the differences between the SF 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.5. NON-COMPLIANCE WITH THE MCR AND NON-COMPLIANCE WITH THE SCR

Per 31 December 2018, solvency levels of the Achmea Group and all legal entities under supervision met the prudential requirements. All solvency levels were above 100%.

E.6. ANY OTHER INFORMATION

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	https://www.achmea.nl/en/paginas/default.aspx	11 April 2019
Interamerican Helenic Life Insurance Company S.A.	https://www.interamerican.gr/interamerican/oikonomika-stoixeia	22 April 2019
Interamerican Property & Casualty Insurance Company S.A.	https://www.interamerican.gr/interamerican/oikonomika-stoixeia	22 April 2019
Interamerican Assistance General Insurance Company S.A.	https://www.interamerican.gr/interamerican/oikonomika-stoixeia	22 April 2019
Union Poisťovňa A.S.	https://www.union.sk/povinne-zverejnene-informacie	22 April 2019

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 VA
- Change in UFR (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 PIM and the use of the VA (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 PIM and the use of the VA (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 LAC_{DT}. 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 2018	SOLVENCY RATIO 2017
Baseline	43,783.6	4,021	2,256	178.2%	141.6%
No UFR	44,962.1	3,141	4,243	74.0%	65.2%
Last Liquid Point 30 years	44,770.0	3,172	3,169	100.1%	77.6%
Equity prices -20%	43,783.6	3,774	2,233	169.0%	132.6%
Property prices -20%	43,783.6	3,784	2,258	167.6%	167.6%

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS - AP&L

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	IMPACT VA
Technical provisions (gross)	43,784	44,696	-912
Technical provisions – life (excluding health and index-linked and Unit Linked)	36,089	36,987	-898
Technical provisions – index-linked and Unit Linked	7,695	7,709	-14
Recoverables from reinsurance	-162	-163	1
Technical provisions – life (excluding health and index-linked and Unit Linked)	-162	-163	1
Technical provisions – index-linked and Unit Linked	0	0	0
Technical provisions minus recoverables from reinsurance	43,622	44,533	-897
Technical provisions – life (excluding health and index-linked and Unit Linked)	35,927	36,824	-897
Technical provisions – index-linked and Unit Linked	7,695	7,709	-14

Excluding VA and not using the DVA will increase the capital requirements for Market Risk resulting in an increase of the SCR by €1,411 million and corresponding decrease of the EOF of €-699 million.

IMPACT ULTIMATE FORWARD RATE ON SOLVENCY CAPITAL REQUIRMENT

€ MLN.

	UFR 4.05%	UFR 3.90%	NO UFR
Market Risk	1,633	1,617	3,284
Counterparty Default Risk	98	98	98
Life Underwriting Risk	1,644	1,654	1,799
Diversification	-752	-750	-1,030
Basic SCR	2,623	2,619	4,152
Operational Risk	169	169	173
LACTP	0	0	0
LAC_{DT}	-456	-455	0
Solvency Capital Requirement	2,256	2,252	4,243

Achmea Schadeverzekeringen N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	5,455	1,071	761	140.6%	139.7%
Equity prices -20%	5,455	1,004	741	135.5%	135.2%
Property prices -20%	5,455	1,054	762	138.4%	138.3%

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	IMPACT VA
Technical provisions (gross)	5,490	5,500	-10
Technical provisions – non-life (excluding health)	2,458	2,462	-4
Technical provisions – health (similar to non-life)	304	304	0
Technical provisions – health (similar to life)	2,727	2,735	-8
Recoverables from reinsurance	151	164	-13
Reinsurance recoverables – non-life (excluding health)	66	63	3
Reinsurance recoverables – health (similar to non-life)	0	0	0
Reinsurance recoverables – health (similar to life)	85	101	-16
Technical provisions minus recoverables from reinsurance	5,339	5,368	-29
Technical provisions – non-life (excluding health)	2,392	2,434	-42
Technical provisions – health (similar to non-life)	304	315	-11
Technical provisions – health (similar to life)	2,642	2,619	23

Excluding VA and not using the DVA will increase the capital requirements for Market Risk resulting in an increase of the SCR by €129 million and corresponding decrease of the EOF of €-47 million.

N.V. Hagelunie

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	32	184	44	418.6%	284.9%
Equity prices -20%	32	180	43	416.8%	284.0%

Appendix 2: Sensitivities

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS

€ MLN.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	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

Excluding VA and not using the DVA will increase the capital requirements for Market Risk resulting in an increase of the SCR by €0 million and corresponding decrease of the EOF of €0 million.

Achmea Reinsurance Company N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	706	250	135	185.4%	191%
Equity prices -20%	706	233	132	176.4%	186%

Achmea Zorgverzekeringen N.V. (consolidated)

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	4,529	3,185	2,110	151.0%	142.2%
Equity prices -20%	4,529	3,095	2,096	147.6%	139.5%

Achmea Zorgverzekeringen N.V. (solo)

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	159	3,185	770	413.5%	365.2%
Equity prices -20%	159	3,154	759	415.5%	369.6%

Avéro Achmea Zorgverzekeringen N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	305	245	140	175.2%	195.9%
Equity prices -20%	305	238	139	171.3%	192.9%

Interpolis Zorgverzekeringen N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	132	137	68	201.7%	191.0%
Equity prices -20%	132	134	67	198.9%	188.6%

Zilveren Kruis Zorgverzekeringen N.V

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	3,187	1,880	1,361	138.1%	126.3%
Equity prices -20%	3,187	1,843	1,356	135.9%	124.1%

De Friesland Zorgverzekeraar N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	509	314	214	146.6%	144.0%
Equity prices -20%	509	304	212	143.2%	142.7%

FBTO Zorgverzekeringen N.V.

SENSITIVITIES

€ MLN.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2017
Baseline	237	122	92	131.9%	151.6%
Equity prices -20%	237	119	92	129.5%	151.6%

APPENDIX 3: PREMIUMS, CLAIMS AND EXPENSES BY MAJOR LINE OF BUSINESS

Non-Life

PREMIUMS, CLAIMS AND EXPENSES NON-LIFE BY LINE OF BUSINESS

€ MLN.

	2018					
	MEDICAL EXPENSE INSURANCE	FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE	MOTOR VEHICLE LIABILITY INSURANCE	OTHER MOTOR INSURANCE	OTHER	TOTAL
Gross written Premiums	14,073	1,143	789	577	1,019	17,599
Net earned Premiums	14,153	1,009	777	568	909	17,417
Claims Incurred (net)	13,436	645	572	343	552	15,548
Expenses Incurred	539	352	229	171	359	1,649

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	784	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	599	15,642
Expenses Incurred	556	363	219	184	330	1,652

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

MOTOR THIRD PARTY LIABILITIY	2018			2017		
	ASNV	HUI	ARNV	ASNV	HU	ARNV
Gross written Premiums	658	0	0	639	0	0
Net earned Premiums	647	0	0	619	0	0
Claims Incurred (net)	492	0	0	565	0	0
Expenses Incurred	195	0	0	185	0	0
MOTOR OTHER	ASNV	HUI	ARNV	ASNV	HU	ARNV
Gross written Premiums	505	0	0	478	0	0
Net earned Premiums	491	0	0	472	0	0
Claims Incurred (net)	283	0	0	276	0	0
Expenses Incurred	157	0	0	164	0	0
FIRE	ASNV	HU	ARNV	ASNV	HU	ARNV
Gross written Premiums	880	85	23	882	81	22
Net earned Premiums	808	49	22	795	47	22
Claims Incurred (net)	514	41	18	423	11	4
Expenses Incurred	304	13	6	316	11	7
Other Expenses						

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.

			2018			
	HEALTH INSURANCE	INSURANCE WITH PROFIT PARTICIPATION	INDEX-LINKED AND UNIT LINKED INSURANCE	OTHER LIFE INSURANCE	OTHER	TOTAL
Gross written Premiums	351	128	632	712	94	1,916
Net earned Premiums	353	128	632	712	73	1,877
Claims Incurred (net)	255	688	1,445	1,130	30	3,548
Expenses Incurred	104	60	64	113	34	375

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	-8	3,488
Expenses Incurred	111	58	80	46	34	329

APPENDIX 4: COMPANY ECONOMIC BALANCE SHEET DUTCH (RE)INSURANCE ENTITIES

ECONOMIC BALANCE SHEET

€MLN.

	2018									
ASSETS	ACHMEA PENSIOEN LEVENS-VERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADE-VERZEKERINGEN	HAGELUNIE	ACHMEA ZORG-VERZEKERINGEN (SOLO)	AVÉRO ZORG-VERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	ZILVEREN KRUIS ZORGVERZEKERINGEN
Intangible assets	0	0	0	0	0	0	0	0	0	0
Deferred Tax Assets	622	0	0	0	0	0	0	0	0	0
Property, plant & equipment held for own use	1	0	0	0	0	0	0	0	0	0
Investments (other than assets held for index-linked and Unit Linked contracts)	32,951	852	5,574	213	3,322	222	364	144	136	2,272
Property (other than for own use)	820	0	0	0	3	0	0	0	0	0
Holdings in related undertakings, including participations	1,008	0	140	0	2,823	0	7	0	0	1,188
Equities	522	72	203	21	181	204	269	81	82	0
Bonds	16,395	261	4,865	191	255	17	79	62	44	1,048
Collective Investments Undertakings	578	61	273	0	30	0	1	0	0	0
Derivatives	3,176	1	6	0	0	0	0	0	0	0
Deposits other than cash equivalents	1	457	15	0	20	0	2	0	10	35
Other investments	10,452	0	72	0	11	0	5	0	0	0
Assets held for index-linked and Unit Linked funds	8,123	0	0	0	0	0	0	0	0	0
Loans and mortgages	7,813	0	842	0	3	0	21	0	0	0
Reinsurance recoverables	162	99	162	2	0	0	0	0	0	0
Deposits to cedants	0	5	0	0	0	0	0	0	0	0
Insurance and intermediaries receivables	12	0	153	1	19	267	316	113	82	1,786
Reinsurance receivables	1	1	12	4	0	0	0	0	0	0
Receivables	297	5	105	0	41	93	176	87	53	1,207
Cash and cash equivalents	418	16	121	5	6	3	7	53	19	110
Any other assets, not elsewhere shown	43	5	115	8	1	0	7	0	0	9
Total assets	50,441	983	7,086	233	3,393	585	890	396	290	5,383

Appendix 4: Company Economic Balance Sheet Dutch (re)insurance entities

ECONOMIC BALANCE SHEET

€MLN.

	2018									
LIABILITIES	ACHMEA PENSIOEN LEVENS-VERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADE-VERZEKERINGEN	HAGELUNIE	ACHMEA ZORG-VERZEKERINGEN (SOLO)	AVÉRO ZORG-VERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	ZILVEREN KRUIS ZORGVERZEKERINGEN
Technical provisions – non-life (excluding health)	0	202	2,504	35	0	0	0	0	0	0
Technical provisions - health (similar to non-life)	0	1	326	0	159	305	508	237	132	3,187
Technical provisions - health (similar to life)	0	42	2,625	0	0	0	0	0	0	0
Technical provisions – life (excluding health and index-linked and Unit Linked)	36,089	461	0	0	0	0	0	0	0	0
Technical provisions – index-linked and Unit Linked	7,695	0	0	0	0	0	0	0	0	0
Provisions other than technical provisions	4	0	17	0	0	0	0	0	0	0
Deposits from reinsurers	0	1	0	0	0	0	0	0	0	0
Deferred Tax Liabilities	0	3	129	11	0	0	0	0	0	0
Derivatives	209	1	14	0	0	0	0	0	0	0
Financial liabilities other than debts owed to credit institutions	2	0	15	0	10	13	26	0	0	0
Insurance & intermediaries payables	528	14	134	0	0	14	15	22	16	275
Reinsurance payables	0	1	10	0	0	0	0	0	0	0
Payables (trade, not insurance)	24	0	205	2	15	7	3	14	6	31
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	1,585	7	23	0	17	1	4	2	0	11
Total liabilities	46,137	734	6,003	49	201	340	556	295	154	3,503
Excess of assets over liabilities	4,304	250	1,084	184	3,192	245	334	101	137	1,880

Appendix 4: Company Economic Balance Sheet Dutch (re)insurance entities

ECONOMIC BALANCE SHEET

€MLN.

	2017									
ASSETS	ACHMEA PENSIOEN LEVENS-VERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADE-VERZEKERINGEN	HAGELUNIE	ACHMEA ZORG-VERZEKERINGEN (SOLO)	AVÉRO ZORG-VERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	ZILVEREN KRUIS ZORG-VERZEKERINGEN
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.

LIABILITIES	2017 ACHMEA PENSIOEN LEVENS-VERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADE-VERZEKERINGEN	HAGELUNIE	ACHMEA ZORG-VERZEKERINGEN (SOLO)	AVÉRO ZORG-VERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	ZILVEREN KRUIS ZORG-VERZEKERINGEN
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	282	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	160	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 5: SOLVENCY CAPITAL REQUIREMENT DUTCH (RE)INSURANCE ENTITIES

SOLVENCY CAPITAL REQUIREMENT

€ 1000

	2018									
	ACHMEA PENSIOEN LEVENS-VERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADE-VERZEKERINGEN	HAGELUNIE	ACHMEA ZORG-VERZEKERINGEN (SOLO)	AVÉRO ZORG-VERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	ZILVEREN KRUIS ZORG-VERZEKERINGEN
Market Risk	1,632,980	83,333	499,779	14,318	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Counterparty Default Risk	98,079	10,990	72,820	5,402	8,784	10,529	2,209	2,998	2,162	33,424
Life Underwriting Risk	1,644,068	40,770	0	0	0	0	0	0	0	0
Health Underwriting Risk	0	11,134	316,934	0	204,699	103,227	162,269	69,843	50,744	1,041,952
Non-Life Underwriting Risk	0	94,403	580,386	50,229	0	0	0	0	0	0
Diversification	-751,718	-79,798	-475,632	-11,411	-132,186	-19,160	-20,745	-8,478	-6,679	-101,059
Intangible Asset Risk	0	0	12	0	0	0	0	0	0	0
Basic SCR	2,623,408	160,832	994,300	58,538	730,646	112,445	172,267	73,562	53,766	1,084,102
Operational Risk	168,940	7,795	102,815	2,523	39,624	27,603	41,673	18,661	14,038	276,671
Loss-Absorbing Capacity of Expected Profits	0	-4,552	-87,004	-2,833	0	0	0	0	0	0
Loss-Absorbing Capacity of Technical Provisions	-50	0	0	0	0	0	0	0	0	0
Loss-Absorbing Capacity of Deferred Taxes	-455,563	-29,481	-248,711	-14,341	0	0	0	0	0	0
Solvency Capital Requirement	2,255,550	134,594	761,400	43,887	770,269	140,048	213,940	92,223	67,804	1,360,773

Appendix 5: Solvency Capital Requirement Duch (re)insurance entities

SOLVENCY CAPITAL REQUIREMENT

€ 1000

	2017									
	ACHMEA PENSIOEN LEVENS-VERZEKERINGEN	ACHMEA REINSURANCE COMPANY	ACHMEA SCHADE-VERZEKERINGEN	HAGELUNIE	ACHMEA ZORG-VERZEKERINGEN (SOLO)	AVÉRO ZORG-VERZEKERINGEN	DE FRIESLAND ZORGVERZEKERAAR	FBTO ZORG-VERZEKERINGEN	INTERPOLIS ZORG-VERZEKERINGEN	ZILVEREN KRUIS ZORG-VERZEKERINGEN
Market Risk	1,167,336	61,953	471,237	12,328	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Counterparty Default Risk	498,782	11,045	96,403	6,014	10,650	12,082	10,650	5,376	2,637	44,541
Life Underwriting Risk	1,721,149	38,927	0	0	0	0	0	0	0	0
Health Underwriting Risk	0	16,929	293,741	0	205,436	98,353	156,751	73,141	51,390	1,072,889
Non-Life Underwriting Risk	0	131,175	553,544	78,147	0	0	0	0	0	0
Diversification	-877,536	-83,417	-458,931	-11,143	-132,923	-22,225	-22,100	-7,194	-7,914	-113,733
Intangible Asset Risk	0	0	11	0	0	0	0	0	0	0
Basic SCR	2,509,732	176,611	956,006	85,346	709,341	109,930	166,599	76,044	55,149	1,120,742
Operational Risk	144,141	8,033	101,127	2,463	39,460	23,967	38,892	18,628	13,303	261,343
Loss-Absorbing Capacity of Expected Profits	0	0	-51,516	-1,983	0	0	0	0	0	0
Loss-Absorbing Capacity of Technical Provisions	-29	0	0	0	0	0	0	0	0	0
Loss-Absorbing Capacity of Deferred Taxes	-398,582	-46,161	-251,157	-21,456	0	0	0	0	0	0
Solvency Capital Requirement	2,255,263	138,483	754,459	64,369	748,800	133,897	205,491	94,672	68,452	1,382,085

APPENDIX 6: PUBLIC DISCLOSURE QUANTITATIVE REPORTING TEMPLATES

QUANTITATIVE REPORTING TEMPLATES ACHMEA GROUP

QRT	DESCRIPTION
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

QUANTITATIVE REPORTING TEMPLATES SUPERVISED ENTITIES

QRT	DESCRIPTION
S.02.01	Balance Sheet
S.05.01	Premiums, claims and expenses by line of business
S.05.02	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.
- "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 VA.

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 insurance liabilities, 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.
- "College of Supervisors" is a multilateral groups of relevant supervisors, national competent authorities, that is formed for the collective purpose of enhancing efficient, effective and consistent supervision of financial institutions operating across borders.
- "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 insurance liabilities, 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 SCR.
- "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 SF. 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 2016. 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 SCRs (instead of using the SF). 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.

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 SCR
  - 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 (LAC_{DT})” 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 (LAC_{EP})” 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 (LACTP)” means the ability of an insurer to defer payments relating to discretionary participation features embedded within the insurance liabilities.

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 SCR) 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 SCR 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 SF.
- "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:
  - 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
  - in the case of a market situated in a third country, a financial market which fulfils the following conditions:
    - 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
    - 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 SCR.
- "Reinsurance" means either of the following:
  - 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
  - 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 insurance liabilities, 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 SF for the SCR.
- "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 SF as defined in the Solvency II regulations to determine the SCR 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 insurance liabilities, 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 VA is determined by EIOPA according to endorsed legislation. The VA 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.