Solvency and Financial Condition Report

2019

achmea

Achmea 2019

Solvency and Financial Condition Report

TABLE OF CONTENTS

1. SUMMARY

1.1. INTRODUCTION

Achmea's approach to the Solvency and Financial Condition Report

Achmea Group (hereafter '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.

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 2019, are included in the appendix to this SFCR.

All amounts in this report and in the tables are presented in millions of Euros, unless stated otherwise. Due to this, rounding differences may occur.

Achmea Partial Internal Model (PIM)

Entities within Achmea and Achmea as group are using either the Standard Formula or a Partial Internal Model. The Dutch Health insurance entities, Union Poist'ovna A.S, (Slovakia)), Eureko Sigorta S.A. (Turkey) and Interamerican Hellenic Life Insurance Company S.A. (Greece) are using the Standard Formula. The other insurance entities and the group are using a Partial Internal Model.

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

- Non-Life Premium and Reserve Risk stemming from the Greek and Dutch Non-Life insurance activities. Achmea Reinsurance Company N.V. does not use an internal model for Non-Life Premium and Reserve Risk;
- NSLT Health Premium and Reserve Risk stemming from the 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, only business stemming from entities within Achmea B.V.);
- 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) (stemming from the entities using an internal model for Market Risk, Market Risk stemming from the legal entity Achmea B.V. and Market Risk stemming from the Dutch health insurance entities).

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

1.2. BUSINESS AND PERFORMANCE

The solvency ratio increased to 219% in 2019 based on the approved PIM. The increase in Eligible Own Funds (€610 million) and the decrease in the Solvency Capital Requirement (€145 million) are largely linked to the higher equity prices and reduced volatility on financial markets during 2019. The issue of two capital instruments (totalling €750 million) combined with the repayment of hybrid capital securities worth €600 million led to an increase in the Eligible Own Funds. The lower market interest rates combined with a decrease in the Volatility Adjustment (VA) lead to an increase in insurance liabilities and therefore an increase in the underwriting risk. Moreover, the annual result and dividends from the banking and asset management activities, which do not form part of group solvency, have a positive effect on the own funds.

The IFRS result increased in 2019 to €418 million (2018: €315 million). This improved result was driven by all activities of Achmea. Achmea's result therefore continues to evolve towards the stated ambitions. The gross written premiums remained stable in 2019 at €19,949 million (2018: €19,918 million).

Full details on Achmea's business and performance are described in chapter A Business and performance and the Annual report of 2019[2].

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

[2] part 1 Annual Report, chapter our objectives & results, paragraph capital management

COVID-19 and Solvency II
The environment in which Achmea operates, is rapidly changing. Despite the positive development of the financial and solvency results over 2019 and earlier period, challenges exist in the markets in which Achmea operates. The continuously low interest rate put pressure on the traditional business models and climate change result in higher weather related claims. Therefore the insurance related results remain inherent volatile. In this context, Achmea assesses the COVID-19 outbreak and the impact of this outbreak on the operation of Achmea, the insurance liabilities and other balance sheet items and on the Solvency position on group and subsidiary level.

The COVID-19 outbreak affects society and the health of our customers. This has a major impact on the economic developments and global financial markets. Stock markets and interest rates decreased significantly, while spreads have increased. Governments and Central Banks have implemented various measures in an attempt to counter these negative economic developments and safeguard the health of the own population. These measures do have additional consequences for the economic circumstances in which Achmea operates. The outbreak influences our customers and the underwriting risks (Non-life and income protection insurance, health insurance and Life insurance), market risk (especially equity risk, interest rate risk and spread risk) and liquidity risk.

The liquidity risk for an insurer is relative limited. Investments are backing the expected cash flows of the insurance liabilities in nature and maturity. A large part of the investments are invested in highly liquid assets and can be quickly converted in cash- or cash equivalents. In section C of the SFCR and the annex, Achmea presents sensitivities towards several economic variables such as interest rate and spreads.

Within Solvency II several measures are in place which mitigates the volatile situation on the financial markets. The increase of spreads, which decreases the value of fixed income securities, also increases the size of the Volatility Adjustment. This mitigates the negative development of spread increases.

At this moment, it is very much uncertain how the financial markets will develop in the near and distant future. The frequent monitoring of financial risk such as interest and spread developments are an integral part of the risk management system of Achmea. Achmea monitors the stock markets, interest rates, policyholder behaviour and insurance claims closely.

The measures implemented by Governments globally in the battle against the Coronavirus could have an influence on the revenue / premiums and technical provision. The future new business of the insurance products is uncertain. This could have a direct effect on the operational and financial result. The extent of which is currently uncertain. The lower interest rates, lower value of equity investments and spread developments could lead to lower investment income. Achmea expects lower future solvency due to the current volatility of financial markets.

Achmea has out into place various measures according to the Business Continuity Management. These measures are to ensure to continuation of the business operation in times of unexpected and severe events like the Coronavirus. Appropriate measures are taken ensuring the safety and well-being of the employees of Achmea and customers and to be able to service and protect the interest of our customers to the fullest.

1.3. SYSTEM OF GOVERNANCE

During 2019, Achmea adjusted the governance structure of the organisation. The change is designed to create closer links between the market-focused chains and to simplify the management of our organisation. Achmea Schadeverzekeringen N.V. and Achmea Pensioen- en Levensverzekeringen N.V. changed the statutory board as of 1 September 2019. The representative member of the Achmea Executive Board and the Chief Financial Officer in the Achmea Executive Board have been appointed as statutory director of the two group subsidiaries. At the end of 2019, Avéro Achmea Zorgverzekeringen N.V. and Zilveren Kruis Zorgverzekeringen N.V. have merged into Zilveren Kruis Zorgverzekeringen N.V. This merger had no impact on the Solvency position of Achmea.

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

The composition of the risk profile and the material risks identified in achieving the strategy remained largely unchanged in 2019. The risk appetite of Achmea Group and the underlying entities has not changed materially in 2019.

In the area of financial risks, a great deal of attention has been focused on developments in interest rates and spreads. The hedging strategy particularly for Achmea Pensioen- en Levensverzekeringen N.V. has been adjusted, aimed at ensuring the stability of the solvency ratio over time.

There have been no other material changes to the Risk Profile over 2019 compared to 2018. Full details on Achmea's Risk Profile are described in Chapter C. Risk Profile.

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 as endorsed by the European Union for valuing assets and liabilities.

The composition of own funds 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 own funds from banking activities and asset management are deducted. In addition there are valuation differences and restrictions. The table below presents the composition of Eligible Own Funds (EOF) under Solvency II and the from the IFRS equity.

RECONCILIATION BETWEEN EQUITY FINANCIAL STATEMENTS AND SOLVENCY II ELIGIBLE OWN FUNDS — € MILLION.

	2019	2018
Equity Financial statements	10,191	9,705
Solvency II valuation and classification differences	775	706
Available Own Funds Solvency II	**10,966**	**10,411**
Not qualifying equity and foreseeable dividends	-511	-575
Equity in banking- and investment institutions (CRD IV)	-920	–911
Eligible Own Funds Solvency II	**9,535**	**8,925**

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

1.6. CAPITAL MANAGEMENT

The following table presents the solvency ratio of Achmea at Year-end 2019 and Year-end 2018.

SOLVENCY RATIO — € MILLION.

	2019	2018	Δ
Eligible Own Funds	9,535	8,925	610
Required Capital	4,352	4,497	-146
Surplus	5,184	4,428	756
Ratio (%)	**219%**	**198%**	**21%-pt**

The Solvency II ratio increased by 21%-pt to 219% (31 December 2018: 198%). The improved capital position results from a combination of an increase of €610 million in the Solvency II eligible own funds to €9,535 million (2018: €8,925 million) and a decrease of €146 million in the Solvency Capital Requirement to €4,352 million (2018: €4,497 million).

1.6.1. ELIGIBLE OWN FUNDS

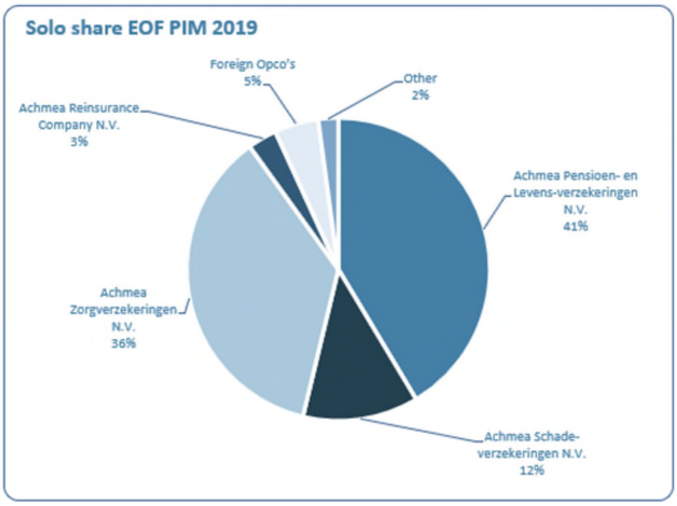
The following table presents the EOF of Achmea at Year-end 2019 and Year-end 2018.

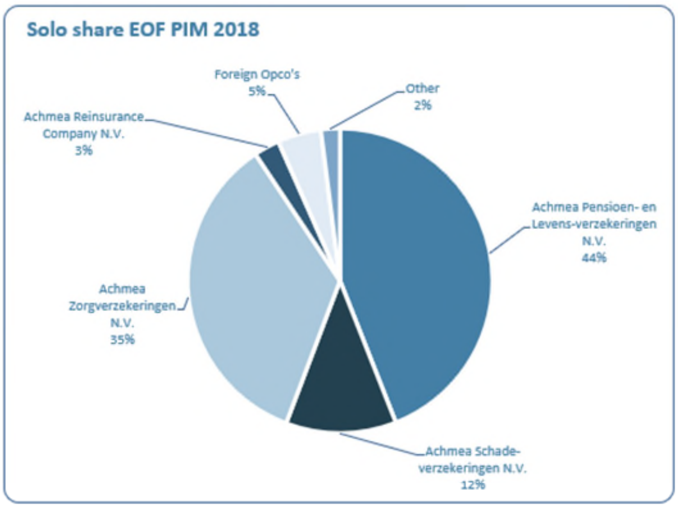
ELIGIBLE OWN FUNDS — € MILLION.

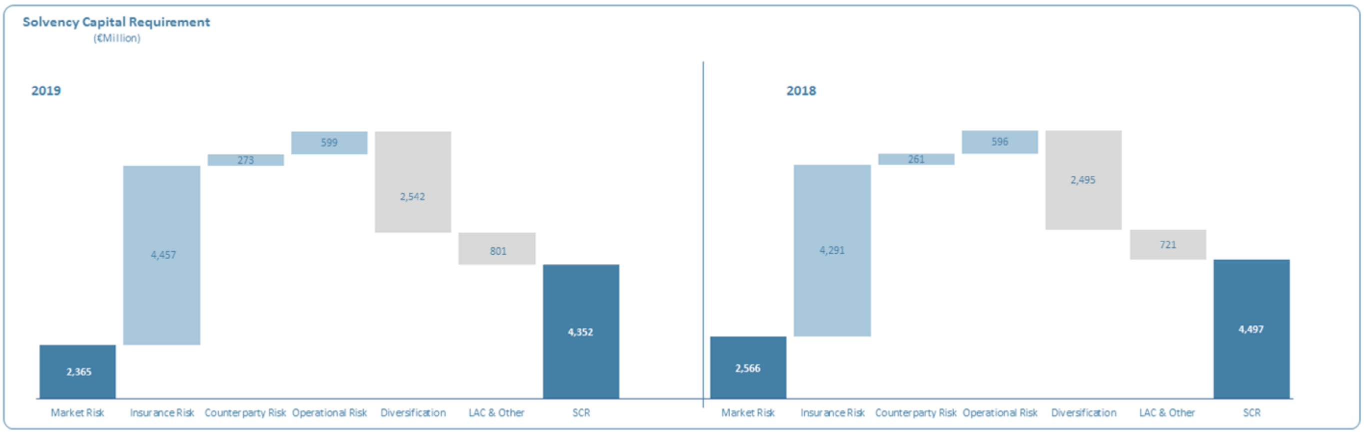
	2019	2018	Δ
Tier 1	7,567	7,070	497
Tier 2	1,580	1,347	233
Tier 3	388	508	-120
Total Eligible Own Funds	**9,535**	**8,925**	**610**

The increase in the Tier 1 capital is the result of changes in economic parameters on the Economic Balance Sheet such as the decrease of the relevant risk-free interest rates, decreases of spreads of government bonds and corporate bonds. In 2019, a Grandfathered Tier 1 capital instrument (€600 million) was replaced by a new Restricted Tier 1 capital instrument (€500 million) and Tier 2 capital instrument (€250 million). The Tier 3 capital decreased due to a lower net deferred tax.

The EOF can be divided to the various legal entities of Achmea:







1.6.2. SOLVENCY CAPITAL REQUIREMENT

The SCR has decreased by €146 million to €4,352 million.

The SCR for Market Risk decreased in 2019 by €200 million to €2,365 million. The implementation of minor changes in the PIM, the annual calibration of the Economic Scenario's and the reduced volatility resulted in a decrease of the capital requirements. Higher economic value of the exposures and the adjustment of the applied (economic) capital hedge increased the capital requirements.

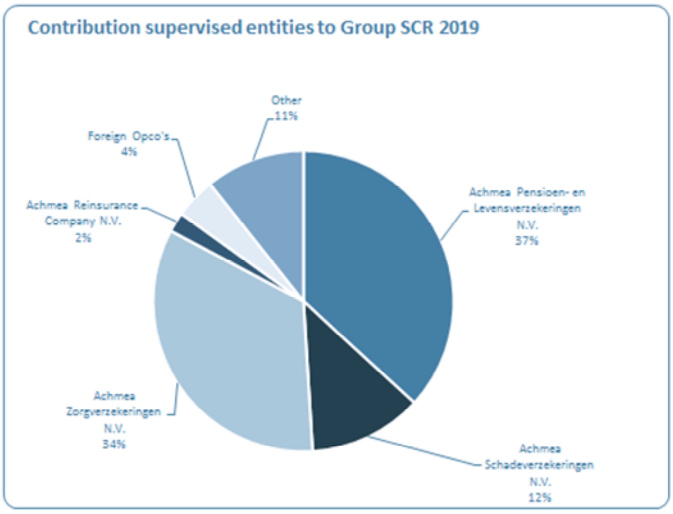
A change in the Solvency II legislation led to an increase in SCR for Counterparty Default Risk (€12 million). The changes in legislation causes derivatives to be categorised differently especially when centrally cleared which led to an increase in required capital.

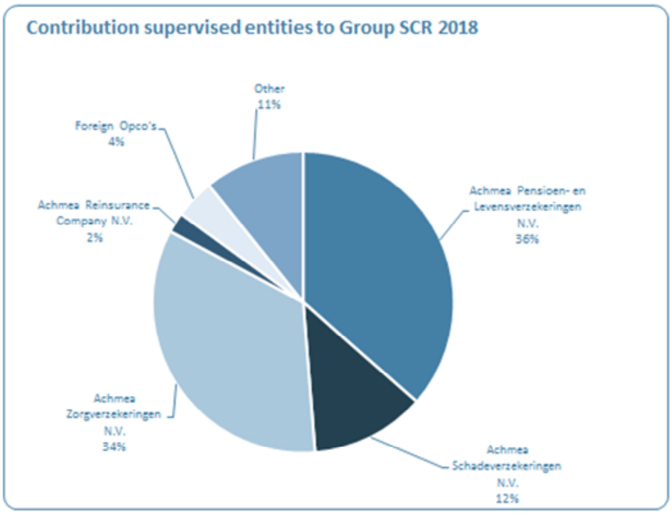
The SCR for Insurance Risk increased by €166 million from €4,291 million to €4,457 million due to changes in Life Underwriting Risk (€155 million), Health Underwriting Risk (€-59 million) and Non-Life Underwriting Risk (€69 million). The lower yield curve resulted in an increase of Life Underwriting Risk. The SCR for Health Underwriting Risk decreased due to a decrease in the number of insured in 2020. Non-Life Underwriting Risk increased mainly due to an increase in Catastrophe Risk. The increase is due to rating downgrades of reinsurers of Eureko Sigorta A.S. and due to applied changes in the methodology to calculate the natural catastrophes as a result of climate change.

Operational Risk increased by €4 million to €599 million as a consequence of the increased premium volumes in 2019 in the Health insurance portfolio, partly compensated by the decrease in the expenses of the Unit Linked business.

The LACEP, LACDT and other increased by €80 million due to increased value of investments, increased profitability of the insurance portfolio and increased maximum LACDT amounts. This was compensated by a decrease in the underlying adjusted net asset value of the Non Ancillary service entities and the liquidation of Achmea Friends First Holding DAC and Achmea Health Centers B.V.

Solvency Capital Requirement per major legal entity





Solvency Position excluding the use of the Volatility Adjustment

Achmea uses the volatility adjustment (VA). The VA is not used by the Dutch Health insurance legal entities, Achmea Reinsurance Company N.V. and Interamerican Property and Casualty Insurance Company S.A. (based on proportionality reasons). Using the VA in Turkey is not allowed in accordance with the applicable Solvency II Regulation.

For those entities were the VA is used and were a Partial Internal Model for Market Risk is used, a Dynamic Volatility Adjustment is included with the calculation of the capital requirement for Spread Risk.

IMPACT OF VOLATILITY ADJUSTMENT ON SOLVENCY RATIO

€ MILLION.

	INCLUDING VA	EXCLUDING VA	IMPACT VA
Eligible Own Funds	9,535	9,295	241
Required Capital	4,352	5,645	-1,293
Surplus	5,184	3,650	1,534
Ratio (%)	**219%**	**165%**	**54%-pt**

The VA is published by EIOPA and endorsed by the European Commission. Ultimo 2019, a VA of 7 bps (2018: 24 bps) has been used. The impact of the VA is 54%-pt on the Solvency II ratio of Achmea (2018: 61%-pt).

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. The increase of the insurance liabilities also increases the DTA. Both effects partly offset each other. The overall effect on the EOF is negative. Not using the VA has impact on the capital requirements for Market Risk. Achmea has modelled a Dynamic Volatility Adjustment (DVA) as part of the PIM for Market Risk. Not using the VA, also causes the DVA to disappear. Excluding the VA and DVA would result in changes of the characteristics of the assets and liabilities due to the adjusted discounting curve. As a result, the asset mix is not aligned with the insurance liabilities leading to a disproportionate increase of the capital requirement for Market Risk.

1.6.3. MINIMUM CAPITAL REQUIREMENT

The following table presents the Minimum Capital Requirement (MCR) of Achmea.

MINIMUM CAPITAL REQUIREMENT PIM

€ MILLION.

	2019	2018	Δ
SCR	4,352	4,497	-145
MCR	2,374	2,354	20
MCR/SCR (%)	**55%**	**52%**	**2%**

The group MCR is the sum of the solo MCR without taking into account any diversification benefits of Intra-Group transactions. The increase in MCR by €20 million is caused by an increase in the underlying MCR of Achmea Pensioen- en Levensverzekeringen N.V. (€16 million), Interamerican Hellenic Life Insurance Company S.A. (€2 million) and Union Poist'ovna A.S. (€2 million).

IMPACT OF VOLATILITY ADJUSTMENT ON THE MCR

€ MILLION.

	INCLUDING VA	EXCLUDING VA	IMPACT VA
SCR	4,352	5,645	1,293
MCR	2,374	2,519	145
MCR/SCR (%)	55%	45%	11%

The use of the VA has an impact on the MCR because the value of the Best Estimate is higher when the VA is not used (lower discount rate).

1.6.4. SOLVENCY POSITIONS SUPERVISED LEGAL ENTITIES

SOLVENCY POSITIONS SUPERVISED LEGAL ENTITIES

€ MILLION.

	2019			2018		
	REQUIRED CAPITAL	ELIGIBLE OWN FUNDS	SOLVENCY II RATIO	REQUIRED CAPITAL	ELIGIBLE OWN FUNDS	SOLVENCY II RATIO
Achmea Pensioen- en Levensverzekeringen N.V.*	2,291	3,779	165%	2,256	4,021	178%
Achmea Schadeverzekeringen N.V. *	763	1,126	148%	761	1,071	141%
N.V. Hagelunie *	44	194	444%	44	184	419%
Achmea Reinsurance Company N.V. *	133	284	214%	135	250	185%
Achmea Zorgverzekeringen N.V. consolidated	2,102	3,311	158%	2,110	3,185	151%
Achmea Zorgverzekeringen N.V.	774	3,311	428%	770	3,185	414%
Zilveren Kruis Zorgverzekeringen N.V.	1,481	2,129	144%	1,361	1,880	138%
FBTO Zorgverzekeringen N.V.	91	132	146%	92	122	132%
Interpolis Zorgverzekeringen N.V.	70	122	175%	68	137	202%
De Friesland Zorgverzekeraar N.V.	209	317	152%	214	314	147%
Union Poist'ovna A.S.	17	25	143%	16	26	166%
Eureko Sigorta A.S.**	66	117	178%	70	112	162%
Interamerican Hellenic Life Insurance Company S.A.	101	125	124%	91	131	144%
Interamerican Assistance General Insurance Company S.A.	12	16	131%	11	16	143%
Interamerican Property & Casualty Insurance Company S.A.*	78	145	187%	74	137	185%

* Legal entities using a PIM

** Based on local capital requirement

At Year-end 2019 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

Achmea has published its Solvency II position of 214% on 12 March 2020. Since the publication of the Solvency position Achmea has decided to suspend dividend distributions to shareholders until there is greater clarity regarding the impact of the coronavirus. As a result the Solvency II position increases from 214% to 219% as reported.

Achmea follows call from EIOPA and DNB and suspends dividend distributions
Achmea has decided to suspend dividend distributions to shareholders until there is greater clarity regarding the impact of the coronavirus. By taking this action, the company follows the call from the European regulator EIOPA and the Dutch Central Bank (DNB). On 2 April 2020, EIOPA and DNB urged insurers to maintain their financial buffers and to refrain from dividend distributions at the moment. This is because the impact of coronavirus on the economy is significant and the scale and duration of the crisis are still uncertain.

The developments around the Coronavirus in 2020 have a potential impact on our business operations, our insurance results and the financial markets. The outcomes of this are still uncertain, but are being closely monitored.

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 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.

The Dutch Central Bank (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 SGW-SFCR is unaudited.

SHAREHOLDERS OF ACHMEA B.V. AT 31 DECEMBER 2019

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.
N.V. Hagelunie	Achmea Services N.V.	Achmea Pensioenservices N.V.	Union Poist'ovna A.S.
Achmea Zorgverzekeringen N.V.	Zilveren Kruis Health Services N.V.	Syntrus Achmea Real Estate & Finance B.V.	Union Zdravotna Poist'ovna A.S.
Achmea Reinsurance Company N.V.		Achmea Innovation Fund B.V.	Onlia Holding INC

OUR MISSION

Building on our cooperative tradition that dates back over two hundred years, we aim to create value for our customers and for society in a modern and relevant way. Our corporate history stretches all the way back to 1811. In the Frisian village of Achlum, the biggest risk that farmers faced was their farms being destroyed by fire caused by spontaneous heat generation in haystacks. The foundation of a mutual insurance society meant that they shared the risk of overheated hay, but they also tried to prevent it. In doing so, the farmers helped each other and their communities to build a sustainable future. This is the social responsibility and solidarity on which Achmea is founded. To this day, two hundred years on, these principles remain anchored in our mission: together we are working to create a healthy, safe and future-proof society.

Relevant to customers and trendsetting

Our products and services have an important social function. The world around us is changing fast and our customers are facing new uncertainties. We respond to this by providing modern products and services with a social impact. Innovation and the smart use of data play a major role here. We aim to be relevant and trendsetting to our customers and to society.

Our cooperative identity

Over 60% of our shares are in the hands of Vereniging Achmea. Over 25% are owned by the cooperative Rabobank. The remainder is held by similarly-minded, cooperative financial institutions throughout 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 building further on 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. This is why we are investing in the personal development of our employees and in improving our services.

Healthy, Safe and Future-proof society

Our products and services provide solutions to risks for individuals and for the society as a whole. Our mission is to contribute to a healthy, safe and future-proof society. To this end we have defined five strategic 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 and sustainable home and living environments;
- Carefree enterprise and good employment practices;
- 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

Achmea wants to contribute to the United Nation's Sustainable Development Goals (SDGs). These 17 SDGs form the 2030 Agenda for Sustainable Development. We believe it is important to participate in this agenda. In 2018, we selected three SDGs in which we wish to excel: SDG 3 (Good health and well-being), SDG 11 (Sustainable cities and communities) and SDG 13 (Climate action) are the most closely aligned to the trends and risks facing our customers and society. These are therefore a logical match for our five strategic focus areas. These SDGs are close to the core of our company and our cooperative identity. They can encourage innovation and growth.

Climate change

We see climate change as a key sustainability theme containing major social, economic and financial challenges. It also touches on all three focus SDGs. The effects of climate change - especially extreme weather - are visible all around the world, from extreme wildfires in Australia to enormous hailstones in the Netherlands. It is essential to restrict the increase in global temperatures to 1.5°C -2 °C in order to avoid us facing risks before the end of this century that are difficult to control. Contributing to a healthy, safe and future-proof society also means that we want to assume responsibility in all our roles for achieving global climate goals. As an insurer and service provider, we wish to contribute to resilience to the risks posed by climate change as well as to support the energy transition. As an investor, we choose to reduce our carbon footprint and in our own business operations we are seeking to achieve climate neutrality in 2030.

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 contracts 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

Completing 'Delivering Together'

We completed the 'Delivering Together' programme in 2019. This was the lead theme in our ambition and strategy for the period 2017-2019. It formed the final stage of a period in which we restructured the company in the wake of the financial crisis in 2008. First, we had the 'House of Initiatives' programme (2011-2013), then 'Acceleration & Innovation' (2014-2016) and finally 'Delivering Together' (2017-2019). These three strategic periods were shaped by the framework of consolidating our position in order to be able to respond to changes in the market and the economy.

We have accomplished a great deal in the past three years with 'Delivering Together'. We have invested in innovations based on the use of technology and data, and in the digitisation of our operating processes and customer interaction. Partly as a result of this, we now see ourselves as a frontrunner in digitisation and innovation in the sector. Our operational result has improved thanks to measures relating to expenses, claims, premiums and investments, while volatility has been reduced and we have unlocked capital via balance sheet management. We have acquired new customers for Retirement Services, completed the acquisition of banking activities from a.s.r. and conducted a market launch in Canada. In addition, we have sold our Irish company and Independer and phased out our activities for sectoral pension funds. At the same time, we have introduced a greater focus on our customers for example by measuring customer centricity for a wider range of topics and by adjusting our modus operandi accordingly and even more than the supervisory authority stipulates. On top of this, we have incorporated changes arising from new laws and legislation, such as MiFID II, improved IT security and reorganised part of our company. Operating expenses have decreased by €250 million in the period 2017-2019. The number of FTEs has fallen by 1,800 in the same period thanks to greater efficiency, the phasing out of the service book and portfolio measures. The reduction in FTEs was smaller in 2019, partly due to strategic investment in growth and projects that are essential to keeping our operations in line with the changing laws and legislation and market conditions. In the period 2017-2019, written premiums at both Non-Life and Health increased due to growth in the portfolio and premium measures. We have retained our market leadership in Health. Via the retirement services chain we are reaching new retail customers and institutional clients. Assets under management at Achmea Investment Management have grown sharply and the interest result at Achmea Bank has also increased considerably. The sale of Friends First has caused written premiums in the International business to decline, but the trend is positive in those markets in which we still operate. The service book at Pension & Life has contracted slightly in line with our expectations, while simultaneously expenses have been reduced.

New strategic period: 'The Sum of Us'

The world in which we operate is changing fast. This is why it is so important that we prepare ourselves for the future. With our Strategy 2025 we are placing a marker on the horizon. The expectations of our stakeholders, naturally including our customers, both with respect to the value we offer them and our contribution to society, are central to this. And we are focusing on accelerating digitisation and on fundamentally different business models that could materialise in the future. We are doing this via our own efforts and together with others. This change is the lead philosophy for the coming strategic period 2020-2022, which we have called 'The Sum of Us'. Here, we are emphasising what lies at the heart of our operations: sharing risk so that it is manageable for individuals. Yet this also involves taking advantage of our group's unique composition and the impact this permits us to have on the market and in society. Not to mention how we can set ourselves apart from our competitors. Moreover, it stresses that we will work more closely with partners than we have in the past in order to achieve our goals.

As part of the process of formulating our renewed strategy, we also take into account our identity, who we are and why we do what we do. We highlight our cooperative identity in order to demonstrate that we are a special kind of company. We work for others and not just for ourselves. For individual customers and for customers as a group, for society.

Our role in this has changed over time. Traditionally, our role was to facilitate dealing with risk in the form of insurance and prevention. Over the years we have added to that, combining insurance contracts with e.g. services in order to offer customers greater added value. More recently we have concentrated on five social domains (strategic focus areas) and three sustainable development goals. Within these, we aim to contribute to solutions for social or societal issues, such as leading a healthy and safe life and implementing good employment practices. These roles have been used as a basis for formulating what we wish to achieve.

What we aim to achieve and where we wish to distinguish ourselves

- We contribute to a healthy, safe and future-proof society
- We do this by conducting the business of insurer, asset manager and (financial) service provider
- We opt to focus on five social domains (strategic focus areas)
  - Good health closer to everyone
  - Clean, safe and smart mobility
  - Safe and sustainable home, living and working environments
  - Carefree enterprise and good employment practices
  - Financial solutions for now, tomorrow and later
- And we want to distinguish ourselves in three sustainable development goals
  - Good health and well-being
  - Sustainable cities and communities
  - Climate action
- We are customer-relevant and leading in this regard
- With this we want to be seen and recognised as an organisation that creates value for customers and society

From a long-term focus, we give our own modern twist to solidarity and inclusion. By encouraging prevention and organising risk-sharing we create value for all our stakeholders, including our customers, as well as for society as a whole.

Focus area's on the road to 2025

We are building on our unique characteristics with a view to implementing our strategy successfully. Our cooperative background is a major strength that we want to use to distinguish ourselves in the market. Our brands are rated above average and many reflect their own individual histories at the heart of communities. We have long played a significant role on the public-private market for healthcare, social security and pensions. This background sets Achmea apart from other insurers.

Together with Vereniging Achmea we aim to give a modern twist to our cooperative identity and to those of our brands. This is a major principle for achieving the social impact we aim for. The five strategic focus areas outline where we want to make a difference for our customers and for society.

We will increasingly unite forces within our company. No other company in the Netherlands has such a unique combination of products and activities as Achmea. By working together more closely, we can better serve our customers and connect (traditionally) separate domains. We believe that using the full breadth of our products, services and distribution strength will place us in an excellent position for developing new products and services at the interface where e.g. income and health, healthcare and living, and financial solutions meet.

Earning responsible returns is a prerequisite for being able to invest in our restructuring and social ambitions. In doing so, we seek to strike a balance between short-term results and long-term continuity for our customers. Sustainable, responsible financial results are important to being able to invest in our social ambitions. We invest in innovation and growth, in keeping with our cooperative identity and the social impact we aim to achieve. Our value creation model (in the next section) summarises this in brief.

We view innovation as essential to being able to implement our strategy. This innovation relates to technology, digitisation and the use of data and to new forms of partnerships, distribution and services. We plan to make even smarter use of new technology and data in order to become a more efficient and more digital insurer. Our goal here is convenience for our customers and to further optimise our services. We take great care when dealing with the personal details and data entrusted to us. We want to work as safely and transparently as possible against the background of our cooperative identity and in the interest of our customers.

We seek to make cooperation with partners an even larger part of our modus operandi. This is necessary in order to be able to assist customers better and to achieve our common social ambitions. In addition to a broad range of products and services, this will also have a significant impact on our future distribution and partnerships. An increasing number of platforms is being created to which customers can turn for a wide variety of things. We want to play a larger and more active role in these. Rabobank is and will remain an important partner for us. Via Interpolis we aim to become even more relevant to Rabobank customers. We wish to consolidate our joint position in the market and use our partnership even more widely.

The goal here is to achieve targeted growth in selected markets. Via Achmea Pensioen Services, Syntrus Achmea Real Estate & Finance and Achmea Investment Management we will focus on acquiring new clients in the institutional market. Outside the Netherlands we will grow in those countries in which we already operate.

The commitment and enthusiasm of all our colleagues is crucial to the successful implementation of our strategy. We provide opportunities for learning and aim to improve employee skills in data and technology. By doing so we encourage creativity and innovation from the inside.

CHOICES AND AMBITIONS FOR 2020-2022

Revised strategy map 2020–2022

CUSTOMER	We put the customer first and strive for a relationship based on mutual trust	We exceed our customers' expectations with our cross-domain propositions	Customers feel strongly connected to our brands
SOCIETY	We are recognized as a cooperative insurer that is committed to serving customers and society	We make an impact in five strategic focus areas	We make our propositions, investments and operations sustainable
EMPLOYEE	We develop (new) talent and skills and stimulate well-being, diversity and inclusion	Our leaders coach their teams and give direction and empowerment	We increase the agility of our organization and collaborate across business lines and brands
PARTNER	We make the strategic partnership of Rabobank, Achmea and Interpolis successful for all parties	We work together with (distribution) partners to accelerate growth and innovation	We reinforce our distribution by launching our own platforms (CB and ZK) and connecting to external platforms
PROCESS	We excel at effective and efficient processes	We turn data into knowledge which differentiates us from our customers, employees and partners	We work digitally
FINANCIAL	We realise our financial ambitions by innovating our portfolio at home and abroad	We ensure a robust balance sheet and capital and liquidity position	We gain cost and purchasing benefits through our scale

Our focus

Our focus for the strategic period 'The Sum of Us' has been laid down in our revised Strategy Map (see figure above). Here, we have assigned a more prominent position to the role in society that we aim to have. We will not achieve either the recognition as an insurer with a cooperative identity or the impact that we aim to have on strategic focus areas overnight. However, these areas do provide us with clear direction and ambitions. Implementation will require a process of constant improvement. The map acts as a guide and will enable us to steer more comprehensively across all six dimensions of the map, as well as to take prudent decisions on prioritisation and pace based on a long-term focus.

Focus in segments

In addition to bearing joint responsibility, the segments that together make up Achmea each have their own individual roles and focus in implementing our strategy. They depend partly on the specific conditions in the markets in which they operate, how mature they are as segments and their future earning potential.

Non-Life

We seek to strike a balance between growth and return. Our aim is to grow further in the retail customer, self-employed and SME target groups. We are investing in claims management and sophisticated pricing and we are improving the efficiency of standard processes. As we expect the market to undergo radical change in the long term, we are exploring new propositions relating to living, climate and mobility.

Health

We aim to bring health closer to our customers and to play a role in making the healthcare service landscape future-proof. Expanding the reach of existing propositions also forms part of our aims. And we are exploring whether we can use our competencies and data for services relating to vitality and healthy enterprise.

Pension & Life

Over the next few years, the service book will remain a major pillar of our earning capacity and free capital generation, in spite of the expected gradual decline in its size. Cost reductions, balance sheet management and stabilisation of the result are important areas for attention here. We in fact aim to increase our market share in the open book business, consisting of term insurance and direct annuities.

Retirement Services

The retirement services chain is currently under construction. Over the past few years we have repositioned the segments, partly in light of the shift towards collective variable pensions and Defined Contribution solutions. The next few years will be devoted to achieving growth and scale, cutting expenses and communicating clearly with pension scheme members. In addition, we will anticipate revisions to the Dutch pension system, invest in a pension platform and continue to move towards more responsible investment.

International

We aim to occupy stable and relevant market positions in the countries in which we operate. Our strategy of acceleration and shaking up established markets will be continued.

Portfolio choices

We are monitoring the consolidation on the Dutch market in order to analyse the options for complementing our existing activities.

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.
- 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.

In 2019 Achmea again took major steps towards achieving its long-term financial and strategic objectives. The operational result increased sharply in 2019 to €547 million (2018: €391 million). This improved result was mainly driven by an increase in the result from Non-Life and our Other activities. The results from Pension & Life and Retirement Services also increased. Achmea's result therefore continues to evolve towards the result ambitions.

The combined ratio (COR) at our Dutch property & casualty and income protection business improved in 2019 and stood at 95.0% (2018: 95.5%). The operational result increased sharply to €178 million (2018: €97 million), due to premium growth, claims management and higher investment income. In addition, the result over 2018 was adversely affected by the January storms.

Our Dutch pension and life insurance business earned a strong operational result of €363 million in 2019 (2018: €334 million). The result improved due to higher technical results and higher investment results. In line with our service book strategy the premiums have declined. Furthermore, we continued to invest in our IT systems to further increase the flexibility of our operating expenses and to be able to reduce them in line with expected future expirations in the portfolio.

The operational result for Retirement Services increased to €30 million in 2019 (2018: €15 million). This increase is largely the result of a higher interest margin and a one-off fair-value result relating to Achmea Bank's acquisition of a part of a.s.r. bank's operations. Assets under Management at Achmea Investment Management grew further in 2019.

The operational result of our International activities amounted to €22 million (2018: €29 million). The lower result was caused by higher claims as a result of the wildfires in Australia and lower health results in Greece and Slovakia due to non-recurring income in 2018. At the same time, we invested in our Canadian online property & casualty business and the result in Turkey increased slightly.

The result from the Other activities segment is strongly improved. In addition to the results of Achmea Reinsurance and Syntrus Achmea Real Estate & Finance, this segment also contains the financing expenses and shareholder expenses. The improved result can partly be attributed to higher results for Achmea Reinsurance, which profited from positive cost of claims relating to prior years, while 2018 had seen a high cost of claims arising from the January storms. Furthermore, reorganisation expenses were lower in 2019 than they had been in the previous year.

Our health activities contributed €62 million (2018: €128 million) to the result in 2019. A negative result of €26 million (2018: €45 million) was earned on basic health insurance due to the high cost of claims from prior years. The result on the current underwriting year amounted to €66 million (2018: €39 million negative). A positive result of €86 million was achieved on supplementary health insurance. Of this amount, €79 million derives from the current underwriting year (2018: €62 million). In addition, the operating expenses decreased further, partly as of the integration of Zilveren Kruis and De Friesland.

Despite the positive growth of our results over 2019 and prior years, we continue to face significant challenges in the markets in which we operate. Low interest rates put pressure on traditional revenue models, climate change leads to increased weather-related claims damage and the result of our insurance operations remains inherently volatile. In this context we also closely monitor the developments around the Coronavirus and their potential impact on our business operations, our insurance results and the financial markets. The outcomes of this are still uncertain, but are being closely monitored. In light of these challenges, among other things, we will continue to invest in our strategy, which is aimed at diversified domestic and international growth and development of new propositions and services, while at the same time staying focused on the need for active claims management and further balance sheet optimisation.

OPERATIONAL RESULT PER SEGMENT

€ MILLION

	2019	2018	Δ
Non-Life Netherlands	178	97	84%
Pension & Life Netherlands	363	334	9%
Retirement Services	30	15	100%
International activities	22	29	−24%
Other activities	−108	−212	49%
Operational result (excl. Health Netherlands)	**485**	**263**	**84%**
Health Netherlands	62	128	−52%
Operational result	**547**	**391**	**40%**

The net result increased to €481 million in 2019 (2018: €315 million). The effective tax rate is 12% (2018: 44%).

The effective tax rate was lower mainly due to the fact that we adjusted the deferred tax position in 2018 after a reduction in the corporate tax rate was announced. Last year, this planned tariff reduction was postponed by a year and scaled back, leading to a partial reversal of the reduction in the provision for deferred taxes in 2019. Moreover, an adjustment to the IAS12 reporting standard means that the interest paid on perpetuals is processed via the income statement as of 2019. Combined with the tax-exempt income from Health, the effective tax rate is therefore €66 million.

Income

The gross written premiums remained virtually stable in 2019 at €19,949 million (2018: €19,918 million).

Total retail and commercial premiums at Non-Life Netherlands and International grew further (5%) due to portfolio growth and premium adjustments. Internationally, gross written premiums increased for our property & casualty activities in local currency, but were stable in Euros due to exchange-rate effects.

Gross written premiums within Health are up slightly (1%) due to a higher premium for basic health insurance and a larger contribution from the Health Insurance Equalisation Fund as a result of higher healthcare expenses in the Netherlands. This increase compensated for the decrease in the number of policyholders. Premiums from supplementary health insurance decreased slightly due to a lower number of policyholders. On balance, the international health activities saw growth in gross written premiums in Slovakia and Greece.

Gross written premiums from Pension & Life insurance activities in the Netherlands decreased by 18% as a result of our earlier strategic decision to stop actively selling pension insurance products in the Netherlands. Total gross written premiums were also lower than last year due to the sale of Irish life insurance company Friends First as of 1 June 2018.

GROSS WRITTEN PREMIUMS IN THE NETHERLANDS AND ABROAD

€ MILLION

	2019	2018	Δ
Non-Life	4,104	3,897	5%
Health	14,582	14,435	1%
Life	1,263	1,586	−20%
Gross written premiums	**19,949**	**19,918**	**0%**

We are increasingly evolving from being a traditional insurer into a general financial service provider. As a result, we receive a growing portion of our income from sources other than insurance premiums. This income has grown by €40 million to €272 million (2018: €232 million) within the Retirement Services segment. Revenue also increased at SAREF: this amounted to €90 million over 2019 (2018: €82 million). Our service propositions continue to evolve. With these services we not only contribute to a healthy, safe and future-proof society through means such as damage prevention, but we also expand our business model.

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Operating expenses

Gross operating expenses decreased by €119 million to €2,092 million in 2019 (2018: €2,211 million). This decrease follows mainly from more efficient business operations as a result of measures such as IT rationalisation and digitisation. Expenses are also lower in 2019 due to the sale of Friends First and Independer in 2018.

The total number of employees has decreased slightly to 16,391 (2018: 16,636). In the Netherlands, the number of employees decreased further to 13,414 FTEs in 2019 (2018: 13,772 FTEs). The decrease in the number of employees of more than 350 FTEs is due to the continued optimisation of processes and systems. The largest decreases occurred at Pension & Life and Health, as a result of more efficient business operations, and the integration of Zilveren Kruis and De Friesland.

The total number of employees outside the Netherlands increased slightly to 2,977 FTEs (2018: 2,864 FTEs). This increase is due to the focus on controlled and selective expansion of our market share in the various markets.

Combined with the cost savings realised in previous years, we more than accomplished our objective of cutting expenses by €200 million during the 'Delivering Together' strategic planning period (2017-2019). Based on the normalized gross operating expenses, we have achieved a cost reduction of €273 million in the period 2017-2019. This is the result of more efficient business operations achieved through means such as IT rationalisation and the digitisation of business operations, which in part enabled a reduction in the number of employees. Additionally the number of business locations has been reduced in previous years, leading to further cost savings. In the period 2017-2019, the number of FTEs in the Netherlands declined by about 1,850. Partly due to our decision to insource some tasks from a cost perspective, this decrease is slightly lower than our previously stated ambition to reduce the number of employees by 2,000 FTEs in the period 2017-2019.

Developments in Non-Life insurance in the Netherlands (IFRS accounting)

RESULTS € MILLION

	2019	2018	Δ
Gross written premiums	3,564	3,364	6%
Operating expenses	890	845	5%
Operational result	178	97	84%

NON-LIFE NETHERLANDS	2019	2018	Δ
Claims ratio	69.0%	70.1%	−1.1%-pt
Expense ratio	26.0%	25.4%	0.6%-pt
Combined ratio	**95.0%**	**95.5%**	**−0.5%-pt**

Achmea is the market leader in property & casualty insurance and ranks in the top three in income protection insurance. We provide our retail and business customers with products such as car insurance, fire insurance, liability insurance and travel insurance. In addition, we offer sickness and disability insurances. We assist our customers via innovative services that, for example, give them insight into the risks to which they are exposed. In doing so, we help our customers to prevent or restrict damage or loss as much possible and as a company we respond to changing market conditions and new customer needs. We distribute our products and services through our brands Centraal Beheer, Interpolis, FBTO, Avéro Achmea, Hagelunie and InShared, whereby our focus is on a high level of customer satisfaction, innovative services and digitising processes. With our omnichannel service, customers can communicate with us more often, at any time, and in the way they want.

Gross Written Premiums

Gross written premiums increased by 6% to €3,564 million in 2019 (2018: €3,364 million).
Gross written premiums from our property & casualty insurance business increased to €2,948 million (2018: €2,784 million) as a result of growth in the number of customers and premium measures in both the retail and commercial lines. The portfolio growth was partly achieved via the introduction of new propositions. Gross written premiums from our property & casualty insurance business increased to €2,948 million (2018: €2,784 million) as a result of growth in the number of customers and premium measures in both the retail and commercial lines. The portfolio growth was partly achieved via the introduction of new propositions.

Gross written premiums from the income protection insurance business increased to €616 million (2018: €580 million). This is mainly due to premium measures in response to a market-wide increase in the complexity and length of absenteeism.

Operating Expenses

Operating expenses increased by 5% to €890 million in 2019 as a result of a growing portfolio and higher marketing expenses. Moreover there is ongoing investment in digitization of our customer services and prevention aimed at reducing damage for our customers and in doing so achieving a lower claims ratio.

Operational result

The operational result of Non-Life Netherlands increased substantially to €178 million over 2019 (2018: €97 million), due to an improved technical result partly supported by an absence of large weather-related claims. Investment results also increased due to the positive developments on the stock markets and realised gains generated by optimisation of the investment portfolio.

Property & Casualty

The result on property & casualty increased to €164 million in 2019 (2018: €72 million). As a result of this, the combined ratio for the property & casualty insurance business improved to 94.8% (2018: 96.0%). We have again seen a rise in the number of small weather-related events in 2019. In the long term, we will therefore continue to invest in innovative services aimed at preventing or restricting the damage to customers as much as possible. We do so within the retail portfolio via initiatives such as Bluelabel and the Green Roofs ('Groene Daken') concept of Interpolis, while we devote a great deal of attention to preventing damage and loss in the commercial portfolio as well. Good examples in the agricultural portfolio include the continuous monitoring and warning systems at farms and the installation of hardened glass in greenhouses. All these solutions contribute to a future-proof result and a safer and more climate-proof society.

Income Protection

The operational result from our income protection insurance business was €14 million over 2019 (2018: €25 million). The decrease is mainly due to an increase in the complexity of absences due to sickness and the resulting length of claims. We are also investing in renewing our systems. We assist our customers by placing the emphasis on recovery and facilitating their return to work by, for example, reimbursing retraining programmes. Continuous improvements to our approach allow us to accelerate the return to work of our customers with long-term illnesses. At the same time, this also benefits the cost of claims of the disability insurance portfolios and supports our result for the long term. The combined ratio for income protection stood at 96.3% over 2019 (2018: 93.2%).

In 2019 we reinsured a portion of our group disability insurance portfolio. This was done with the aim of reducing volatility in future results. At the same time this improves our capital position under Solvency II.

BREAKDOWN OF NET PROFIT ASNV AND HU

	2019		2018	
	ASNV	HAGELUNIE	ASNV	HAGELUNIE
Gross written Premiums	3,526	91	3,324	85
Reinsurers' Share	183	42	103	35
Net written Premiums	**3,343**	**49**	**3,221**	**50**
Change in Provision unearned Premiums	79	1	23	1
Net earned Premiums	**3,264**	**48**	**3,197**	**49**
Gross Claims Incurred	2,433	27	2,398	56
Reinsurers' Share	63	10	88	13
Net Claims Incurred	**2,370**	**17**	**2,311**	**43**
Investment Income Technical Account	0	0	18	0
Other Technical Income/ Expenses	3	0	-3	-0
Profit Sharing and Rebates	-0	0	2	0
Operating Expenses	885	17	844	10
Result on Technical Account	**13**	**15**	**55**	**-5**
Investment Income Non-Technical Account	134	3	46	0
Other Income and Expenses	-11	0	-15	-0
Profit before Tax	**135**	**19**	**87**	**-5**
Taxes	37	4	10	-2
Net Profit	**98**	**14**	**77**	**-3**

**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)

RESULTS

€ MILLION

	2019	2018	Δ
Gross written premiums	14,082	13,942	1%
Operating expenses	515	526	−2%
Operational result	62	128	−52%
Result current year	147	21	600%
Result prior years[12]	−85	107	n.m.*

BASIC HEALTH

	2019	2018	Δ
Claims ratio	98.0%	97.1%	0.9%-pt
Expense ratio	2.2%	2.3%	−0.1%-pt
Combined ratio	**100.2%**	**99.4%**	**0.8%-pt**

SUPPLEMENTARY HEALTH

	2019	2018	Δ
Claims ratio	82.3%	82.1%	0.2%-pt
Expense ratio	10.5%	10.3%	0.2%-pt
Combined ratio	**92.8%**	**92.4%**	**0.4%-pt**

***** *n.m: not meaningful*

Zilveren Kruis, De Friesland, FBTO, Interpolis, ZieZo and Pro Life offer basic and supplementary health insurance. Emergency response centre Eurocross Assistance also provides healthcare services worldwide.

Under the Dutch healthcare system, basic health insurance is mandatory for all and insurers have a duty to accept all applicants. The uniform insurance package for basic health insurance, without discrimination in customer premiums as to age or condition, means there is solidarity between young and old, poor and wealthy, ill and healthy. This is unique in the world: less than 5% of the world's population lives in a country in which everyone has access to the same high standard of healthcare. Trends such as the ageing population, new treatments and medicines, shortfalls on the job market and Collective Labour Agreement increases for hospitals and mental healthcare institutions are putting the affordability and accessibility of healthcare in the Netherlands under pressure. This underlines the importance of organising healthcare properly and of continuing to devote attention to prevention and a healthy lifestyle. Organising solidarity between customers and uniting various interests in healthcare are objectives aligned with Achmea's cooperative identity. This is one way we give substance to our role in society.

Achmea aims to bring good health closer to everyone and does so via, for instance, Zilveren Kruis and its other health brands. Examples of ways in which we do this include helping people via an app to lead healthier lives and offering safe in-home services for a growing number of types of healthcare. For instance, together with our healthcare partners we are investing in offering chemotherapy and immunotherapy, kidney dialysis and a variety of types of telemonitoring at home. This will reduce the impact of treatments, improve the quality of life for our customers and help keep premiums affordable. Initiatives such as Gezond Ondernemen (Healthy Enterprise) and the Actify lifestyle platform enables us to help our customers to work and live more healthily.

About 4.9 million people in the Netherlands choose to be insured by one of our health insurance brands in 2020. This makes Achmea the market leader with a market share of 28%.

Gross written premiums

Gross written premiums from basic and supplementary health insurance increased by 1% to €14,082 million (2018: €13,942 million). Gross written premiums from basic health insurance amounted to €12,834 million (2018: €12,621 million). The increase in gross written premiums is in line with higher premiums for basic health insurance and a larger contribution from the Health Insurance Equalisation Fund as a result of rising healthcare costs in the Netherlands, combined with a slight decrease in the number of policyholders. Gross written premiums from supplementary health insurance decreased to €1,248 million (2018: €1,321 million). This is due to a slight reduction of the number of policyholders compared to 2018.

Operating expenses

The total operating expenses of our health activities decreased to €515 million (2018: €526 million). The decrease can largely be attributed to lower reorganisation expenses and the integration of Zilveren Kruis and De Friesland, which led to the harmonisation of systems and processes and a reduction in the number of employees.

Operational result

Our healthcare activities achieved an operational result of €62 million in 2019 (2018: €128 million). Positive results on the current claim year supported the result. The result on prior underwriting years of the basic health insurance was negative due to higher than expected healthcare costs. As a result, the total operating result was lower than in 2018.

BASIC HEALTH INSURANCE

The operational result from basic health insurance amounted to €26 million negative over 2019 (2018: €45 million). The lower result is caused by the results on prior underwriting years. In contrast, an improved result was earned over the current underwriting year, in line with our goal of a cost-covering premium.

The operational result in the current underwriting year amounted to €66 million (2018: €39 million negative). The higher result is due to lower than expected medical expenses, particularly due to favourable expense developments for district nursing. Higher investment results and lower operating expenses also contributed to the improvement. The negative result in 2018 was caused by higher than expected healthcare expenses, partly due to higher than expected expenses for expensive medicines – this was partly compensated for by a higher contribution from the Health Insurance Equalisation Fund. Higher reorganisation expenses were also made in 2018.

The result from prior years amounted to €92 million negative (2018: €84 million). In 2019, the result from previous years can partly be attributed to higher than expected medical expenses for Specialist Medical Care for the 2016 underwriting year. In 2018 the result from previous years benefited from a positive trend in medical expenses from prior years for Specialist Medical Care, Pharmacy and mental healthcare, in particular for the 2017 underwriting year.

In 2019, limited capital reserves were deployed for setting premiums for 2020. A provision of €17 million in total was made for three labels for setting premiums below cost price in 2020. In 2018, a provision was made of €21 million for setting premiums below cost price in 2019. The very limited use of the capital reserves is in line with our objective of stable and sound premium development over time for the basic health insurance business.

The combined ratio of basic health insurance increased to 100.2% (2018: 99.4%) as a result of higher healthcare expenses than expected on prior years. The combined ratio for the current underwriting year was 99.5%.

SUPPLEMENTARY HEALTH INSURANCE

Supplementary health insurance posted a positive operational result of €86 million (2018: €85 million). The decrease in premium income caused by a lower number of policyholders is in line with the lower healthcare expenses due to the smaller number of policyholders. The percentage of basic health insurance policyholders with supplementary coverage remained stable in 2019 at around 80%. This reaffirms the value of supplementary health insurance to our customers.

The current underwriting year accounted for €79 million of the result (2018: €62 million). The increase is mainly due to lower organisational expenses and higher investment income. There was also a positive result from previous underwriting years of €7 million (2018: €23 million). In 2019 a small adjustment was made on the estimate for prior years, while last year a substantially lower cost of claims had been expected for previous underwriting years.

The combined ratio of supplementary health insurance policies increased slightly in 2019 and stood at 92.8% (2018: 92.4%) as a result of higher medical expenses on the one hand and lower premium income on the other.

OTHER (HEALTHCARE OFFICES & SERVICES)

The Other category relates to healthcare offices that implement the Long-term Care Act (Wlz) and the healthcare service companies. The healthcare service companies aim to assist customers if they urgently require healthcare when abroad, travelling in the Netherlands or at home and to help people to improve their vitality at work and in everyday life. The operational result for Other was €2 million in 2019 (2018: €2 million negative). The higher operational result can be attributed to higher reimbursements for administrative expenses relating to the Wlz. Furthermore, operating expenses have been reduced at both the healthcare offices and the healthcare service companies.

BREAKDOWN OF NET PROFIT HEALTH INSURANCE

€ MILLION.

	2019				
	ZILVEREN KRUIS ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	ACHMEA ZORGVERZEKERINGEN	FBTO ZORGVERZEKERINGEN	**DE FRIESLAND ZORGVERZEKERINGEN**
Gross written Premiums	10,280	483	1,248	623	1,448
Reinsurers' Share	1	0	0	0	0
Net written Premiums	10,279	483	1,248	623	1,448
Change in Provision Unearned Premiums	0	-3	0	1	5
Net earned Premiums	10,279	480	1,248	624	1,454
Gross Claims Incurred	10,046	478	1,027	634	1,421
Reinsurers' Share	0	0	0	0	0
Net claims Incurred	10,046	478	1,027	634	1,421
Investment Income Technical Account	0	0	0	0	0
Other Technical Income/ Expenses	-22	0	-8	0	-1
Operating Expenses	208	13	132	17	43
Result on Technical Account	2	-11	81	-26	-11
Investment Income Non-Technical Account	-12	1	-17	-1	4
Other Income and Expenses	4	0	-1	1	1
Net Profit	**18**	**-10**	**63**	**-26**	**-7**

	2018				
	ZILVEREN KRUIS ZORGVERZEKERINGEN	INTERPOLIS ZORGVERZEKERINGEN	ACHMEA ZORGVERZEKERINGEN	FBTO ZORGVERZEKERINGEN	**DE FRIESLAND ZORGVERZEKERINGEN**
Gross written Premiums	10,142	468	1,321	622	1,389
Reinsurers' Share	-2	0	1	0	0
Net written Premiums	10,144	468	1,320	622	1,389
Change in Provision Unearned Premiums	-83	0	1	-10	13
Net earned Premiums	10,228	468	1,321	612	1,402
Gross Claims Incurred	9,934	447	1,086	633	1,328
Reinsurers' Share	-0	-0	2	0	0
Net claims Incurred	9,934	447	1,084	633	1,328
Investment Income Technical Account	14	1	1	1	2
Other Technical Income/ Expenses	-31	-0	-10	0	0
Profit Sharing and Rebates	0	0	0	0	0
Operating Expenses	214	14	136	20	41
Result on Technical Account	63	8	91	-40	35
Investment Income Non-Technical Account	-7	-0	41	-2	-3
Other Income and Expenses	-2	-0	-4	0	-6
Net Profit	**54**	**7**	**129**	**-42**	**26**

Developments in Pension and Life Insurance in the Netherlands (IFRS accounting)

RESULTS

€ MILLION

	2019	2018	Δ
Gross written premiums	1,164	1,420	−18%
Operating expenses	155	150	3%
Operational result	**363**	**334**	**9%**

Achmea’s Pension & Life services the group pension contracts and traditional savings and life insurance products. In addition, the service organisation manages a growing open-book portfolio containing term-life insurance policies and individual annuities and pension products. The service organisation’s ambition is to earn a stable result with positive capital generation combined with a high level of customer satisfaction.

Gross written premiums

In 2019, total gross written premiums decreased by 18% to €1,164 million in 2019 (2018: €1,420 million). Of this amount, €924 million comes from the service book and €240 million from the open book.

In 2019, total written premiums on our service-book pension portfolio amounted to €244 million (2018: €424 million). Total written premiums on our service-book life insurance portfolio amounted to €680 million (2018: €769 million). In line with our strategy, no new insurance contracts are being sold in these portfolios. The decline in the premium income is therefore the result of natural portfolio development.

The Technical Provisions for our traditional pension and life insurance products are gradually declining, in line with our long-term projections, and stood at €20.8 billion as of Year-end 2019.

The open-book portfolio showed a slight increase from written premiums from term-life insurance policies to €57 million (2018: €54 million). Production of individual annuities and pensions amounted to €183 million in 2019 (2018: €173 million). Due to the growing open-book portfolio we are able to keep the average expenses low for longer and extend the total duration of the complete portfolio.

Operating expenses

The operating expenses increased slightly to €155 million in 2019 (2018: €150 million) due to investments in future efficiency. In 2019 we invested a larger amount in further automation of processes and also made an additional reorganisation provision. The additional investments in IT will bring down operating expenses in the years to come, as less IT systems and less employees will be required. When adjusted for these expenses and the additional investments, a small decrease was visible in operating expenses.

Operational result

The operational result increased to €363 million in 2019 (2018: €334 million). This was driven by an improvement of both the technical and investment results.

The technical result increased by €35 million in 2019 compared to the same period last year. This improvement was primarily driven by a recalibration of the provision for insurance liabilities. In contrast, a lower mortality rate versus 2018 partially limited the increase in the result. The investment results increased by €9 million, largely due to more positive trends on the equity markets and improved foreign exchange results. These positive developments were partially cancelled out by lower revaluation results on real estate and tightening spreads.

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

	2019	2018
Gross Written Premiums	1,165	1,420
Reinsurers' Share	25	32
Net Written Premiums	**1,140**	**1,388**
Gross Claims Incurred and Changes in Insurance Liabilities	2,931	1,502
Reinsurers' Share	7	11
Net Claims Incurred and Changes in Insurance Liabilities	**2,923**	**1,491**
Investment Income Technical Account	3,972	189
Other Technical Income/ Expenses	1	26
Profit Sharing and Rebates	1,916	-32
Operating Expenses	158	167
Result on Technical Account	**116**	**-22**
Investment Income Non-Technical Account	217	316
Other Income and Expenses	-2	-5
Profit Before Tax	**331**	**288**
Taxes	17	183
Net Profit	**314**	**106**

INTERNATIONAL ACTIVITIES

RESULTS € MILLION

	2019	2018	Δ
Gross written premiums (excluding Ireland)	1,041	1,037	0%
Gross written premiums (including Ireland)	1,041	1,106	−6%
Operating expenses	240	266	−10%
Operational result	22	29	−24%

GROSS WRITTEN PREMIUMS PER COUNTRY	2019	2018	Δ
Slovakia	442	415	7%
Greece	341	331	3%
Turkey	231	271	−15%
Australia	27	20	35%
Ireland [16]	–	69	n.m.*

* *n.m: not meaningful*

Achmea International focuses on property & casualty, health and agricultural insurance products, distributed via the online (direct) and banking channels. Achmea pursues an international growth strategy by exporting knowledge and online expertise gained in the Netherlands. This expertise is used selectively and capital-light in specific international markets. We are accelerating growth and gaining market share in existing and new markets. We do so on the basis of our commitment to the individual local societies. For instance, in Australia we do our best to “Keep Farmers Farming”, allowing Achmea to deliver added value to its customers in times of crisis, such as during the wildfires.

Gross written premiums

When adjusted for exchange-rate effects and the absence of premium contribution from Friends First, which was sold in 2018, gross written premiums increased by 3% to €1,041 million (2018: €1,006 million).

In Slovakia both the property & casualty and health businesses performed well, with premium growth of 15% and 6% respectively. The digital channel, a cornerstone of our international strategy, noted a 22% increase in premiums.

In Greece, Interamerican saw growth of 4% in its property & casualty business versus 2018, partly thanks to its leading role in creating a mobility ecosystem. In doing so it outperformed the general market and consolidated its position as market leader. Within the health business, Interamerican launched the ‘BeWell’ modular healthcare product and showed growth in gross written premiums of 4% here as well. Interamerican’s direct online insurance channel ‘Anytime’ also grew further this year, with the new portfolio in Cyprus displaying particularly strong growth and doubling its market share.

In Turkey, gross written premiums decreased by 4% in local currency to TRY 1,467 million (2018: TRY 1,522 million). In line with our strategic objectives, Non-Motor products are undergoing growth, while Motor products are noting a decline. Health business premiums decreased by 49% due to the departure of a major group health contract.

In Australia, gross written premiums grew in local currency by 34% to AUD 43 million (2018: AUD 32 million) thanks to its unique ‘All-in-One Farm Pack’. This product is sold via a successful partnership with Rabobank and Angus Australia.

In Canada, Onlia was successfully launched with the digital motor vehicle proposition and an app aimed at promoting safe driving behaviour. The ‘Onlia Sense’-app got off to a promising start and, combined with the sales of online car insurance, Onlia made an innovative breakthrough in the Canadian market.

Operating expenses

Operating expenses totalled €240 million (2018: €266 million). When adjusted for exchange-rate effects and the sale of Friends First, operating expenses were up slightly by 2%, mainly caused by higher personnel expenses due to strong inflation in Turkey and investments in growth. The expense ratio improved by about 1%-pt in Australia, Greece and Slovakia, in line with our strategic objective of creating added value for customers.

Operating Result

The total operational result was €22 million (2018: €29 million). The decrease can mainly be attributed to a higher cost of claims deriving from the wildfires in Australia, as well as to lower positive one-off results on Health in Slovakia and Greece. In spite of the economic conditions in Turkey, the business displayed stable and positive results. Greece and Slovakia also made a stable, positive contribution to the result for International.

ACHMEA REINSURANCE COMPANY N.V.

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

	2019				2018			
	NON LIFE	LIFE	OTHER NON TECHNICAL	TOTAL	NON LIFE	LIFE	OTHER NON TECHNICAL	TOTAL
Gross written premiums	187	84		271	115	89		204
Reinsurance premiums	129	20		149	72	20		92
Movement in insurance liabilities for net unearned premiums	4	0		4	2			2
Net reinsurance premiums	**54**	**64**		**118**	**44**	**69**		**113**
Investment income	2	25	11	38	2	3	5	10
Total income	**56**	**89**	**11**	**156**	**46**	**72**	**5**	**123**
Net expenses from insurance contracts	23	43		65	56	17		73
Operating expenses	13	47		60	11	46		57
Other expenses	0	2		2				
Total expenses	**36**	**87**		**123**	**67**	**63**		**130**
Result before taxes				**33**				**-7**
Taxes				8				3
Net profit				**24**				**-10**

GENERAL INFORMATION

As Achmea's reinsurance expert, Achmea Reinsurance has three roles: advisor, purchaser and risk carrier. In its role as group reinsurer and risk carrier, Achmea Reinsurance provides reinsurance coverage to the Dutch and foreign insurance entities within Achmea. As such, it serves as the principal centre of excellence. The reinsurance portfolio on behalf of third parties has been created in order to diversify insurance risk and to increase earnings for Achmea.

The result of Achmea Reinsurance improved considerably to €33 million in 2019 (2018: €13 million negative). While last year's result was significantly negatively affected by reinsurance claims for Dutch group business in the wake of the severe January storm (€-30 million), there were no exceptional claims in 2019. The improved result at Achmea Reinsurance was also supported by a more positive claims development of €8 million on group business from prior years compared to 2018.

Gross written premiums increased substantially to €271 million compared to 2018 (€205 million), largely due to a new group reinsurance contract for income protection which was retroceded to the market. Slight growth was also achieved in the reinsurance portfolio for third parties. Achmea Reinsurance's total risk profile remained broadly unchanged.

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

€ MILLION.

	2019	2018
Dividends	124	378
Rent	62	68
Interest	1,301	1,331
Bonds	450	510
Mortgages and loans	231	219
Derivatives	261	225
Other	358	377

The return on equities, presented as dividends, decreased from €378 million in 2018 to €124 million in 2019. This is mainly caused by dividend payments of Achmea Bank N.V. (€29 million), Syntrus Achmea Real Estate and Finance (€11 million), Union Zdravotna Poist'ovna A.S. (€8 million) and Staal Beheer N.V. (€10 million).

Rental income decreased from €68 million in 2018 to €62 million in 2019. The rental income is mainly realised by Achmea Pensioen- en Levensverzekeringen N.V. (€57 million).

Interest income decreased from €1,331 million in 2018 to €1,301 million in 2019. The received interest on bonds decreased from €510 million to €450 million due to derecognition and recognition of bonds during the year together with decreasing interest rates. Received interest on mortgages and loans increased from €219 million in 2018 to €231 million in 2019 and consisted mainly of received interest on mortgages (€210 million).

As a result of an increased receiver swap portfolio in 2019 received interest on derivatives has increased from €225 million in 2018 to €261 million in 2019 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

€ MILLION.

	2019	2018
Equity investments	1,414	-960
Bonds	1,122	-63
Loans and Mortgages	529	-33
Other	1,540	-459

Gains and losses in equity investments mainly comprise revaluations within legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€1,176 million), of which €1,089 million is attributable to investments held for Unit Linked and index linked funds.

Gains and losses on bonds originated from Achmea Pensioen- en Levensverzekeringen N.V. amount to €966 million as a result of decreasing interest rates. An amount of €141 million originates from the bond portfolio of Achmea Schadeverzekeringen N.V., the Health entities amount to €-4 million and Achmea Reinsurance Company N.V. amount to €2 million as a result of tightening credit spreads and decreasing interest rates.

Revaluations on Loans and Mortgages originate from the portfolio of Achmea Pensioen- en Levensverzekeringen N.V. for an amount of €103 million.

Finally, gains and losses on other investments are mainly attributable to Achmea Pensioen- en Levensverzekeringen N.V. as well. Devaluations of these products within Achmea Pensioen- en Levensverzekeringen N.V. sum up to a total of €1,572 million and consist mainly of interest derivatives. Furthermore, Achmea Reinsurance Company N.V. presents a capital allocation on the reinsurance contract with a British Life insurer for €11 million.

A.4. PERFORMANCE OF OTHER ACTIVITIES

Retirement Services

€ MILLION

RETIREMENT SERVICES TOTAL	2019	2018	Δ
Total Income	272	232	17%
Of which: administration and management fees pension administration	125	121	3%
Operating expenses[13]	242	217	12%
Operational result	30	15	100%

ACHMEA BANK			
Net interest margin	146	112	30%
Fair value result[14]	−2	−2	0%
Operating expenses	105	79	33%
Withdrawals from loan loss provisions	3	1	200%

	31-12-2019	31-12-2018	Δ
Common Equity Tier 1 ratio	19.2%	20.8%	-1.6%-pt

€ BILLION

ACHMEA INVESTMENT MANAGEMENT	31-12-2019	31-12-2018	Δ
Assets under Management[15]	147	129	18

Through Retirement Services, Achmea provides pension funds, employers and retail customers with solutions for pensions and capital accrual as well as housing-related products. Achmea Pension Services administers the pensions for the Centraal Beheer General Pension Fund (GPF), which 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 distributed through, among others, the Centraal Beheer brand and managed by Achmea Bank, Achmea Investment Management, Achmea Pension Services and Achmea Pensioen- en Levensverzekeringen N.V.

The operational result for Retirement Services increased to €30 million in 2019 (2018: €15 million). The increase in the result can largely be attributed to a higher interest margin and a one-off fair-value result at Achmea Bank. This higher result was achieved against a background of higher investments in future growth at Achmea Bank and Achmea Investment Management and higher expenses due to an adjusted cost allocation to Achmea Bank. The strategic growth ambitions of Achmea Pension Services, combined with efficiency improvements deriving from investment in automation, are expected to lead to a further reduction of operational losses over the coming years.

Achmea Bank

Achmea Bank's result increased to €50 million (2018: €36 million). The increase in the result was driven by a higher interest margin, a higher fair-value result and increased fee income. This more than fully absorbed the higher expenses that followed from a changed cost allocation. As a result of the changed cost allocation, Achmea Bank's operating expenses increased by €15 million. Furthermore, expenses were higher due to increased investments in projects. The interest margin improved due to lower financing expenses. About €18 million of the fair-value result relates to the interest and spread result on the savings and mortgage portfolios acquired from a.s.r. bank. New mortgage origination increased sharply by €863 million to €1,774 million in 2019. Of this amount, €1,037 million is for the balance sheet of Achmea's pension and life insurance business. Moreover, the size of the mortgage portfolio was expanded by about €2 billion as a result of the acquisitions. In addition to the above-mentioned transaction with a.s.r., this also includes the acquisition of a mortgage portfolio from the balance sheet of Achmea's Pension & Life insurance business. Alongside the growth in the mortgage portfolio arising from the acquisition of part of a.s.r. bank's banking operations, a savings portfolio containing approximately 125,000 customers was also acquired. The acquisition of these portfolios is aligned with Achmea's strategy to position and grow Centraal Beheer as a financial service provider.
As of 31 December 2019, the Common Equity Tier 1 ratio stood at 19.2% (31 December 2018: 20.8%), a decrease caused by the two above-mentioned transactions.

Achmea Investment Management

As of 31 December 2019, Assets under Management (AuM) had grown to €147 billion (31 December 2018: €129 billion). This increase in AuM is mainly due to the positive growth in value of the investments thanks to the favourable financial markets. Furthermore, LocalTapiola and Pensioenfonds Horeca & Catering have opted for Achmea Investment Management's Socially Responsible Investment proposition. The Green Bond Fund launched in 2018 has now exceeded €120 million. On 4 April 2019, Pensioenfonds Vervoer announced that it had selected Achmea Investment Management as its overall manager for the fund. Onboarding of Pensioenfonds Vervoer was completed as of the start of 2020 and the total asset value of approximately €32 billion was added to the AuM of Achmea Investment Management. This is a major step towards further increasing the scale of our asset management activities.

Achmea Investment Management's contribution to the result decreased slightly to €6 million (2018: €8 million). This decrease can partly be attributed to one-off higher expenses for the onboarding of Pensioenfonds Vervoer.

Achmea Pension Services

Since the phasing-out of administrative services to mandatory sectoral pension funds in 2018, Achmea Pension Services has focused solely on services to the Centraal Beheer General Pension Fund (GPF) and to company, occupational and exempt sectoral pension funds.
It welcomed the Alliance and Metro company pension funds as clients in 2019. At the same time, the number of affiliated employers in the Centraal Beheer GPF also grew and was expanded further. The Delta Lloyd GPF, Cindu and Sligro pension funds switched to the Centraal Beheer GPF in 2019. In addition, as of January 2020 about 250 new employers joined the Centraal Beheer GPF, as did the Chemours and Equens pension funds.

The operational result of Achmea Pension Services improved slightly to €26 million negative in 2019 (2018: €29 million negative). This improvement derives from the phasing-out of our sectoral pension fund services and growth in revenue from the Centraal Beheer GPF. Achmea Pension Services is currently in a transitional phase, whereby the portfolio containing mandatory sectoral pension funds has been phased out and large-scale investments are now being made in the sustainable growth of the general pension fund and company pension fund administration. We are optimising processes in order to reduce expenses, while at the same time this enables us to maintain highly-valued services. Moreover, the replacement of the legacy IT infrastructure is an important element in further improvements of future results.

Syntrus Achmea Real Estate & Finance

Syntrus Achmea Real Estate & Finance manages in excess of €20 billion in real estate and mortgages on behalf of over 60 pension funds and other institutional investors. It expressly aims to make sustainable investments that earn both a financial and a social return. Assets under Management in real estate and mortgages increased to €23.3 billion (2018: €21.5 billion). This increase is due to the new mandates for institutional investors and higher revaluations of existing portfolios. Of the individual asset classes, residential property mortgages in particular experienced strong growth. Management fees increased to €90 million (2018: €82 million). The operational result decreased to €7 million (2018: €11 million) due to higher reorganisation expenses and higher investment in projects.

B. SYSTEM OF GOVERNANCE

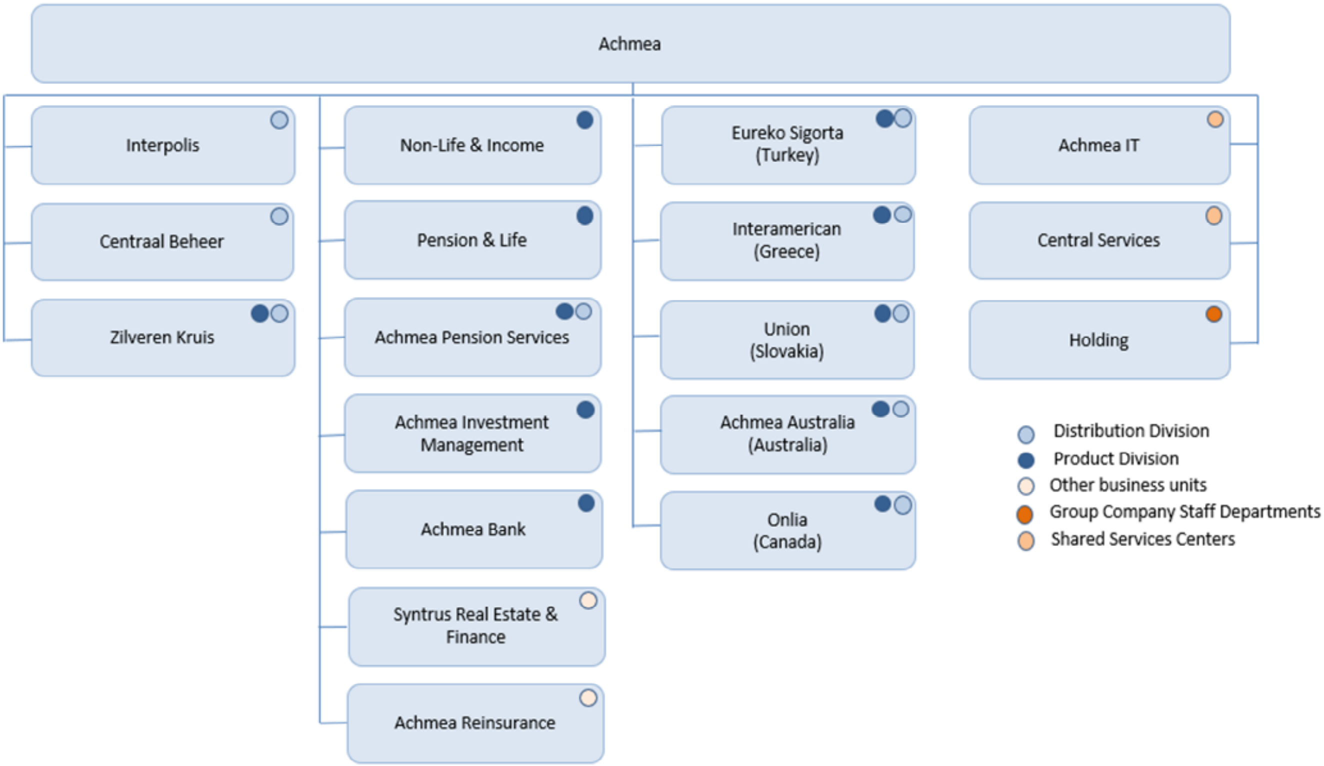
B.1. GENERAL INFORMATION ON THE SYSTEM OF GOVERNANCE

Organisational structure

Achmea has an organisational set-up with a divisional structure. This operational organisational model contains distribution divisions, product divisions, shared services centers, 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, shared services centers, 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, shared services centers 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. The regulated companies within the Group have separate statutory boards. 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 supplementary management bodies, that support decision making by the executive board or the statutory boards of the group companies:

- Group Committee:
  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[3];
- Asset Liability Committee[3];
- Management team Distribution & Innovation: the objective of this management team is to fully exploit the strengths of several Achmea brands to be able to provide services which meet the evolving needs of our customers. Furthermore this team stimulates the development of new transdivision propositions.

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.

For more detailed information, Achmea refers to the Annual report of 2019[4].

Transactions with shareholders

In 2019 Achmea B.V. did not execute any share transaction with shareholders of Achmea B.V. €118 million dividend was paid on the ordinary shares and €17 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 dependence 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; an
- The supervisory authorities DNB and/or AFM must ascertain the dependence of key officers (those with ultimate responsibility for key functions) and the institution itself must ascertain their suitability.

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

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

For an adequate risk management system at Achmea, there needs to be 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;

[3] We refer to paragraph B.3 for more details

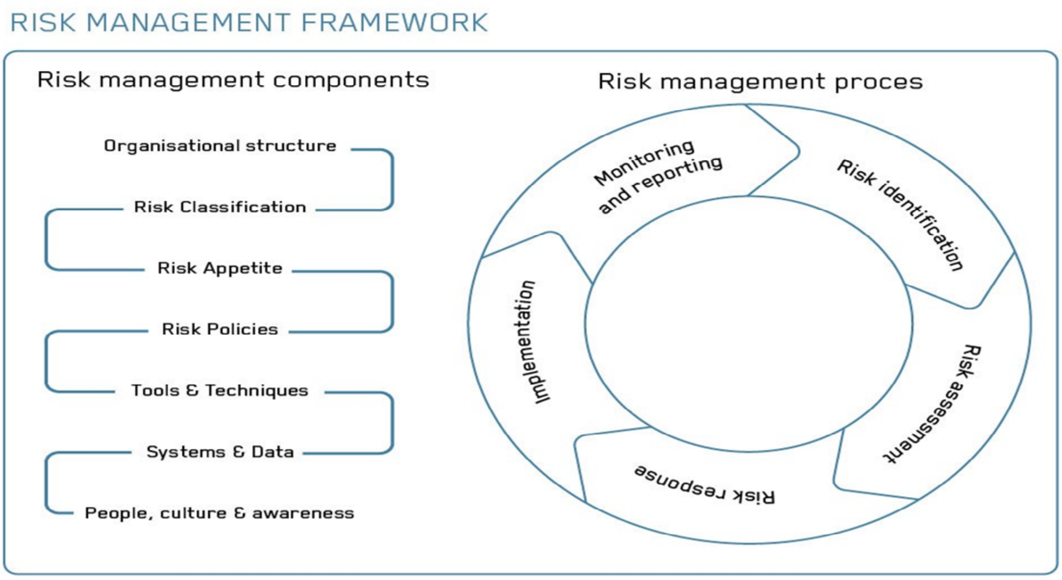
[4] part 2 Year Report, note 33 Related Parties Transactions, paragraph Remuneration of the Executive Board

- 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 operating companies and supervised entities in conjunction with another;
- Principles pertaining to the culture such as the encouragement by the Achmea Executive Board and management of an open culture in which risks can be openly discussed and where decision making is based on an appropriate balance between risk, capital and expected return.

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

INTEGRATED RISK MANAGEMENT FRAMEWORK (IRMF)

The IRMF describes how the risks at Achmea are managed to ensure realisation of 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.



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 governance structure is based on the 'Three Lines of Defence' model the main features of which are set out in the diagram below.

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 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 Group Risk Committee (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 Asset Liability Committee (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 operating companies 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 'Three Lines of Defence' model has been set up for all supervised entities. 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 insurance 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 chairperson 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 chairperson of the Executive Board, the Audit & Risk Committee and the Supervisory Board;
- For the foreign supervised undertakings within 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;
    - Reviewing the calculation of the Solvency II outcomes as reported to the regulators;
    - To support the business in preparing reports on the results of the ORSA and the update of the Preparatory Crisis 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 the minimum requirements for the development, management and change of models (such as value and capital models). 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 model risk management requirements is that model changes are implemented and approved in accordance with a controlled change procedure. This model governance is already operational for the partial internal model for Solvency II and is being implemented gradually for all other models within Achmea.

Besides the approval in the MAC the partial internal model Solvency II is also approved by the Executive Board, the boards of the entities that use the model, the Audit & Risk Committee and the Supervisory Board. After the internal governance is completed a newly developed model is submitted for approval to the College of Supervisors. Following approval by the MAC, major model changes are 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 KRIs.

Financial	Principles	KRI's
Returns, result and volatility of result	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
Capital	Achmea has a strong capital position.	• Solvency ratio Solvency II • Capital surplus S&P • Capital surplus Fitch • Economic solvency AP&L • 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 capacity 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 • Impact of interest rate on economic solvency of AP&L • 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 clients' needs, at a fair price.	• Certification Customer Oriented Insurer • Achmea KBC customer interest Dashboard • Deviation from market average in AFM surveys related to Customer Centricity 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 • Reputation score • Financial loss because of operational risks • Urgent issues and 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 • 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 association of Investors of sustainable development. • Inquiries of the 'fair insurance pointer'

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

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 operating companies 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 program, 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 analyze the key risks in greater depth.

The Strategic Risk Analysis is performed annually at Group level and for the operating companies, 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 Preparatory Crisis Plan, and may lead to a re-evaluation of the strategy.

Reports are drawn up periodically 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 the effectiveness of 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 appropriateness of the PIM is also assessed in the ORSA.

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

PREPARATORY CRISIS PLAN

Achmea's Preparatory Crisis Plan contains an overview of the recovery measures which Achmea on Group level and the supervised undertaking can use. On 1 January 2019 the Recovery and Resolution (Insurance Firms) Act entered force. Key elements for Achmea are the production of a Preparatory Crisis Plan (VCP) and the preparation by DNB of a resolution plan. Achmea has conducted a gap analysis between the requirements for the VCP and the current recovery plan. On this basis Achmea is working to produce the first VCP, which adds greater depth in relation to the feasibility of recovery measures and their applicability to all business units. In essence the VCP is a collection of recovery measures that Achmea at group level and the supervised entities can adopt in the event of a crisis situation.

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 have been 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 The Dutch Central Bank and Solvency II. In addition an organisation-wide systematic issue and incident management process has been set up.

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. Failing to comply may result in legal or regulatory sanctions, material financial loss, or reputational damage.

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.

The compliance policy describes how compliance risk is managed. Additional policies and regulations are available specific compliance areas such as CDD (Customers Due Diligence), privacy, competition, whistleblower regulations and insider regulations. Compliance is closely involved in monitoring compliance with the Money Laundering and Terrorist Financing Prevention Act (Wwft) and the Sanctions Act 1977 (Sw), privacy dilemmas issues and compliance with the General Data Protection Regulation (GDPR or AVG), including initiatives on big data and ethics in relation to artificial intelligence. 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.

Annually risk analyses are performed to identify the compliance risks within Achmea. Also during the year, risk analyses are conducted at various levels and on various topics. With regard to compliance with laws, regulations and internal rules of conduct, the most important legal provisions are translated into risks. For the internal control of the identified risks and control measures the Internal Control Framework and issue and incident management process are used in accordance with the Operational Risk management.

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. Achmea monitors the implementation of laws and regulations through a specific module in the Internal Control Framework.

Supervisory investigations have a major impact on the business. Not only from local regulations but also international legislation such as European legislation on duty of care, outsourcing, CDD and sustainability. Much effort is required to assist the regulators in their investigations and this is coordinated by the Laws & Regulation Committee.

Privacy, CDD and Duty of Care are the main focus areas for the compliance function in 2019. Short-cycle monitoring is used to monitor compliance with laws and regulations. The compliance issues identified during the monitoring are addressed to the responsible management, thus ensuring settlement within the frameworks of the defined compliance and integrity risk appetite.

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 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 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 scenario and stress 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 five phases: analysis, initiation, transfer, management and exit;
- 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;
- If a cloud or external hosting is part of the outsourcing, a specific cloud risk assessment is mandatory in order to determine the content of the security agreement; 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.
- Contracts are periodically reviewed to determine if they are compliant with the law and policy, if necessary documents are updated;
- Business Continuity plans and exit plans are tested to ensure a smooth transition in case of transferring the contract to another supplier or insourcing the outsourced activities.

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 SF. 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, our ‘risk response’. A key ingredient is the Product Life Cycle (PLC) approach, which consists of the following phases: business planning - product development - underwriting - reinsurance - policy management - claim process - determination of assumptions - reserving - product review - reporting and analysis.

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

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

In the Netherlands and Slovakia, Achmea is no longer selling any new life insurance products, with the exception of annuities and term life insurance. In Greece, 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.

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 in The Netherlands 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 levels 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 were Life insurance contracts are recognised, 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 differences between current developments and non-economic assumptions or the occurrence of improbable 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. Since the end of 2018 online car and home insurances has been offered in Canada by a joint venture (Onlia). Achmea does not run the risks associated with these products.

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 Greece and Turkey. Motor hull insurance in the Netherlands includes also the flood risk. As a result of climate change, the severity of claims due to hail is expected to increase. In 2019, Achmea modified its internal model for hail risk, incorporating the latest insights on hail risk in the quantification of the risk. Achmea has close contact with the organisations developing the catastrophe models, with universities and the Royal Netherlands Meteorological Institute (KNMI). In this way Achmea aligns the modelling, pricing, acceptance criteria, reserving and product offering where appropriate with the developments in the risk of climate change.

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. Premiums and reinsurance programmes can be modified each year. 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.

Acceptance guidelines ensure a good assessment of the risk, acceptance (under possible conditions) and premium setting. The acceptance guidelines prescribe that Achmea does not underwrite heavy industrial risks such as airports or power plants. An exception is made in Turkey, where 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.

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.

The Netherlands is the main market where Achmea offers health insurance. The health insurance system in The Netherlands 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 Dutch-based 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 (5% 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. Achmea limits Counterparty Default Risk by periodic monitoring and stopping payments exceeding contractual arrangements.

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/insurance contracts 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. A reinsurance contract has been agreed for the WGA product. Achmea Schadeverzekeringen N.V. has concluded a quota share agreement with Achmea Reinsurance for this purpose, fully underwritten by the reinsurance market. In addition to the quota share agreement Achmea Reinsurance offers stop-loss cover, which is also fully underwritten by the reinsurance market. Finally, additional cover is also provided for high salaries by the WIA supplementary cover product. This reduces the financial consequences and volatility of the work-related disability risk in relation to this portfolio.

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 sets out how Achmea manages Market Risk for its insurance entities and provides a framework to:

- Ensure a level of Market Risk that is within the boundaries set by the risk appetite;
- Establish an investment plan within the limits of the Market Risk budget;
- Analyse and monitor Market Risk to safeguard that the risk exposure remains within the risk budget;
- Optimise the return within the risk appetite.

The following items are excluded from this policy:

- Market Risks that are borne by policyholders are outside the scope of the policy. This includes market risk in unit linked products (except future profits and guarantees);

- The Solvency II definition of Market Risk includes concentration risk as a sub-risk of Market Risk. Market Concentration Risk measures the extra risk of insufficiently diversified portfolios. Management of Market Concentration Risk is covered in the Counterparty Risk Policy.

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 manages the Interest Rate Risk using different interest scenarios. For this assessment, interest rate shocks are applied to the replicating portfolios of the insurance liabilities and the related actual investment portfolios. Achmea Group maintains a limit for the interest rate sensitivity of the solvency ratio at parallel interest rate shocks of 50 basis points. The interest rate sensitivity of the net position is assessed on a monthly basis for the entities under supervision;
- In case of higher Solvency ratios a higher sensitivity for interest increases is allowed in order to enable Achmea and Achmea Pensioen- en Levensverzekeringen N.V. to hedge more economically. Additionally, the longer-term effects of parallel interest rate movements and changes in the shape of the interest rate curve are monitored for Achmea Pensioen- en Levensverzekeringen N.V;
- Achmea's foreign subsidiaries apply a duration matching approach within bandwidths laid down in the local investment plans and monitored locally via committees.

SENSITIVITIES

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

SENSITIVITIES € MILLION.

	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	9,535	4,352	219%	198%
Without VA	9,295	5,645	165%	137%
Ultimate Forward Rate 3.55% (level applicable from 1 January 2021)	9,354	4,359	215%	n/a
Ultimate Forward Rate 3.75% (level applicable from 1 January 2020)	9,458	4,356	217%	n/a
Last liquid point 30 years	8,281	4,977	166%	156%

SENSITIVITIES INTEREST € MILLION.

	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	9,535	4,352	219%	198%
Interest -100bps	10,112	4,658	217%	n/a
Interest +100bps	8,980	4,137	217%	n/a
Interest -50bps	9,799	4,482	219%	198%
Interest +50bps	9,288	4,237	219%	199%

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

€ MILLION.

	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	9,535	4,352	219%	198%
Equity prices -20%	9,110	4,283	213%	196%

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

€ MILLION.

	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	9,535	4,352	219%	198%
Property Prices - 20%	9,280	4,334	214%	193%

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, mortgages 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

€ MILLION

	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	9,535	4,352	219%	198%
All Spreads -50bps	9,926	4,390	226%	198%
All Spreads +50bps	9,372	4,302	218%	199%

SENSITIVITIES SPREAD

€ MILLION

	OWN FUNDS
Baseline	9,535
Mortgage loans -50bps	9,820
Mortgage loans +50bps	9,270
Spreads Government -50bps	9,831
Spreads Government +50bps	9,457

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 €23,367 million (2018: €18,138 million) and the total amount of collateral pledged is €783 million (2018: €535 million).

C.2.10. SECURITIES LENDING

In 2019 there were no changes in the security lending program of Achmea. The value of the lended securities remains stable at €4,243 million (2018: €4,084 million). Mostly government bonds, were lend to selected counterparties.

C.2.11. BORROWING TRANSACTIONS

Achmea did not enter in new borrowing transactions in 2019 excluding Achmea Bank N.V.

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, retail loans, reinsurance, securities lending, receivables of healthcare providers, intermediaries, and policyholders.

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

Limits per rating

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

MAXIMUM EXPOSURE ON GROUPLEVEL

€ MILLION.

	SUPRANATIONAL INSTITUTIONS AND GOVERNMENTS	OTHER COUNTERPARTIES
AAA	(no limit)	700
AA+, AA, AA-	500	500
A+, A, A-	400	400
BBB+	250	250
BBB	200	200
BBB-	125	125

Reinsurers are subject to a higher credit rating with a minimum rating restriction at level A-. The Counterparty Default Risk policy also contains limit deviations for specific exposures and makes it possible to apply for exemptions in specific situations. A specific deviation applies regarding exposure limits at Group level to exposure to Rabobank Group. This exposure is mainly comprised of savings premiums associated with mortgage loans.

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 non-regular transactions have an impact, such as the refinancing of external funding, internal capital injections or M&A transactions.

From the perspective of the insurance activities the liquidity risk is in particular related to stress scenarios such as catastrophes in the form of extreme storms and hail in the case of non-life insurance or large-scale surrender in the case of the life activities.

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.

The liquidity risk of the insurance activities is managed by the entities. In its liquidity planning, cash inflows and outflows from insurance activities are taken into account for the liquidity risk of the insurance activities. Furthermore, a number of stress scenarios are set up and regularly updated by each insurer. These stress scenarios consider subjects such as a catastrophe in the case of non-life insurance, large-scale lapse in the case of life insurance and also the possible impact of changes in collateral requirements. The entities report on this matter each quarter. Liquidity risk within Achmea's insurance operations is mitigated through the availability of cash and a high level of investments in liquid assets.

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

€ MILLION.

	2019	2018
Achmea Pensioen- en Levensverzekeringen N.V.	698	888
Achmea Zorgverzekeringen N.V. (Consolidated)	83	123
Achmea Schadeverzekeringen N.V.	87	71
Other Entities	62	26
Group EPIFP	930	1,108
EPIFP % Tier 1 EOF	12%	16%

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 van scenario analyses. A scenario analysis regarding cybercrime led for instance to a cyber risk insurance being taken out. The risk analyses also take into account innovations that have an impact on operations and control, such as the use of algorithms in processes.

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 material 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 operating companies and the Executive Board. These risks are characterised by their specific nature and can have a major impact if they were to materialise without any risk management measures having been taken.

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

Key themes	Details
Future revenue model	It is important for Achmea to update its processes, products and services fast enough and to adapt to new trends. Key focus areas in this regard include the possibility that other providers will launch new distribution, product and/or service models; underperformance in healthcare procurement and the equalisation result; and declining insurance needs for Non-Life Insurance due to advances in technology (including driverless vehicles and fireproof houses) reducing or eliminating certain risks and the shift from ownership-based to user-based insurance products (more liability). We are addressing these themes, for example, by monitoring the specific trends mentioned above, improving management of Achmea's innovation portfolio at the central level, and developing an Achmea-wide innovation policy.
Sustainability and climate change	Sustainability and climate change have an impact on many aspects of our business operations and relate to areas such as claims management, investment and finance, operational management and our range of products and services. To cover risks related to climate change the policy on the various sub-areas was brought together in a single sustainability policy relating to the themes climate & energy transition, safety & livability, and health & healthcare. This policy ensures that the measures to be implemented are consistent and comprehensive. This has been elaborated in plans for different areas, which will be implemented in the years ahead. Over the longer term, it is important for our future revenue model that we adapt our products and services as and when needed in order to keep up-to-date with trends in sustainability and climate change.
Leveraging Achmea's combined strength	It is important for Achmea as a Group to use the Group's scale to be able to provide a full range of products and services and keep expenses in check. More so than in the past, Achmea works with partners across supply chains, domains, brands and distribution channels. Due to the speed of the changes affecting our company, we need to be able to quickly adjust expenses.
Financial markets	As a financial services provider with an investment portfolio, products with minimum guarantees, and profit-sharing provisions, Achmea has substantial 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. In addition, we are exposed to the risk of investment returns falling short of the market average. This risk is managed by having a robust investment plan in place, resulting in a diversified investment portfolio and active management of the various financial positions. See the section on Market Risk for further information.
Prolonged low or lower interest rates	If interest rates remain low for an extended period of time or decline even further, this will result in lower investment income in the future. Particular attention is paid to the valuation of the Technical Provisions under Solvency II and the liability adequacy test under IFRS. The valuation of the liabilities is based on a rise in interest rates (through the use of the Ultimate Forward Rate) to a level higher than the current market interest rate. This is why we have put additional monitoring in place to ensure policyholder obligations are met – see the section on Market Risk for further details.
Distribution partners	Achmea makes use of several distribution partners for the sale of its products, such as Rabobank. The parties' mutual expectations are consistently aligned to ensure that the products and services developed match what the distribution partners wish to sell.
Longevity Risk	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 patterns of the life and pension activities. Longevity Risk is managed through active product management in order to ensure diversification of the life insurance and pension portfolios and through periodic assessment of the possible transfer of a portion of the risk.
Non-Life and Income	Setbacks may manifest in the Non-Life and Income Protection portfolios due to higher than expected injury claims and/or

Protection	differences in the estimated disability and rehabilitation probabilities, resulting in higher claims than provided for by the current reserves. This is kept in check through claims monitoring, with a specific focus on claims management and changes in laws and regulations and case law. Natural catastrophes such as storms and extreme hail events may have a significant impact, with the risk of thunderstorms combined with hail and strong winds appearing to increase during the summer months as a result of climate change. Catastrophe Risk is largely mitigated by reinsurance.
Cybercrime	Cybercrime is an increasingly important social issue, including for Achmea. 'Cybercrime' refers to the risk of material damage arising from, for example, loss of data or unauthorised data processing, prolonged disruption of business operations, and hardware disruptions as a result of inadequate security measures. It also includes the risk of Achmea developing a negative reputation as a result of incidents on social media and/or loss or theft of privacy-sensitive data. A specific maturity model is used for cyber security to identify the level of security, which also involves the use of scenario analyses. An integrated security approach has been implemented for control purposes, with a strong focus on awareness and outsourcing. Achmea's reputation is monitored on an ongoing basis, and in addition Achmea has taken out its own cyber-risk insurance. Through information security and privacy protection measures, the key security and privacy risks are managed through a control framework.
Duty of care	This refers to the risk that Achmea is required to pay or compensate a larger amount of money due to potential liability claims. Achmea monitors customer feedback and social and legal trends with regard to the duty of care. Key areas of focus in terms of the duty of care are product development, customer advice, and advertising and website communications.
Laws and regulations	Laws and regulations have a significant impact on Achmea as a company. There is a risk that Achmea's business operations, revenue model and, more specifically, the solvency requirements will be affected by political developments and changes in tax-related and other laws and regulations and/or by changes in how the principle of societal solidarity is applied. This risk affects all Achmea product ranges. In addition, Achmea is exposed to reputational risk when it fails to comply with laws and regulations. Main areas for attention are the compliance themes related to Know Your Client and privacy. However, since any changes in laws and regulations are closely monitored, this can be adequately anticipated upon.
Competences and talents	Achmea relies to a large extent on the competences and talents of its people to achieve its corporate objectives. As part of its efforts to be an attractive employer, Achmea gives extra attention to business acumen, innovation, agile working and working in an international context, required expertise and appropriate remuneration.

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 requirements and collateral requirements. ISDA master agreements (International Swaps and Derivative Association) are in place between Achmea entities and its derivative counterparties. The counterparty default risk policy defines collateral requirements that must be specified in the individually negotiated Credit Support Annexes (CSA).

Only 'prime collateral' is accepted, comprised of government bonds issued by highly rated countries and cash collateral in Euros, US dollars, British pounds and Swiss francs. Independent valuation of derivatives, daily settlement of collateral and improved valuation adjustments related to remaining maturity of the collateral received, further reduces the counterparty default risk. In addition, Central Clearing is used for a portion of the derivatives portfolio.

C.6.2. USE OF REINSURANCE AND FINANCIAL MITIGATION TECHNIQUES

Achmea Reinsurance Company N.V.

Achmea has a Reinsurance Policy which is part of the Group Policy framework. The Reinsurance policy contains an overview of all responsibilities with regard to the reinsurance process. Achmea Reinsurance Company N.V. (hereinafter Achmea Reinsurance) is the reinsurance company of the group and fulfils three main roles: advisor regarding reinsurance for all other entities within the group, risk carrier and purchaser. Achmea Reinsurance provides reinsurance cover for the Achmea entities. To that end it enters into reinsurance contracts with the Achmea entities, including the non-Dutch. These contracts are partially placed with external reinsurers. In addition to the group reinsurance programme Achmea Reinsurance has entered into a reinsurance contract with a financial character and a number of incoming reinsurance contracts with strategic partners, Eurapco partners and other external insurers and reinsurers.

The Underwriting Committee of Achmea Reinsurance decides on the retention within the framework of the Reinsurance Policy, Achmea's risk appetite and the risk appetite of Achmea Reinsurance. After approval by the Reinsurance Delegates Committee and the Executive Board respectively 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. Given a close cooperation between Achmea Reinsurance and the reinsurance departments of the non-Dutch entities, Achmea Reinsurance participates in parts of their reinsurance programs as a risk carrier.

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 2019 the catastrophe programme was the main reinsurance programme. In order to protect the result for IFRS purposes, Achmea Reinsurance 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 has a quota-share agreement with Achmea Pensioen- en Levensverzekeringen N.V., part of which is placed in the market. These contracts are sensitive to the mortality and Catastrophe Risk. 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 protect capital and earnings from weather-related events, natural disasters, major fires, large claims in general and motor third-party liability. Part of the retention is maintained at Achmea Reinsurance.

For SLT Health Risk reinsurance is used to protect capital and earnings. Achmea Reinsurance has WIA quota-share and stop-loss excess of loss agreements with Achmea Schadeverzekeringen N.V., which are placed in the market.

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 local 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 local 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.

C.6.3. USE OF FUTURE ACTIONS

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

C.6.4. SIGNIFICANT RISK CONCENTRATIONS WITHIN THE GROUP

The main exposure (value of the exposure) by counterparty and by type of exposure outside the scope of the re/insurance group. Significant exposure is exposure that supersedes a threshold of 10% of the SCR of Achmea €435 million(2018: €450 million).

SIGNIFICANT RISK CONCENTRATIONS

€ MILLION.

COUNTERPARTY	TYPE	EXPOSURE
Coöperatieve Rabobank U.A.		8,724
	Assets – Bonds	13
	Assets – others	8,710
The Kingdom of The Netherlands		6,705
	Assets – Bonds	5,860
	Assets – others	845
Bundesrepublik Deutschland		1,954
	Assets – Bonds	1,954
Direction générale du Trésor		1,078
	Assets – Bonds	1,078
Total		**18,461**

The majority of Achmea's risk concentration is related to exposures in government bonds (The Netherlands and Germany) and our relationship with the Rabobank (mortgage saving products, distribution channel, and shareholder). For the mortgage saving insurance products, Achmea and the Rabobank agreed on so called Cession/retrocession and sub-participation contracts. The transactions ensured that policyholders of the mortgage saving insurance contracts are even better protected in dire and adverse circumstances which would affect the Rabobank as a counterparty of Achmea Pensioen- en Levensverzekeringen N.V.

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 € MILLION.

ASSETS	2019	2018
Intangible assets	0	0
Deferred Tax Assets	397	542
Property, plant & equipment held for own use	472	333
Investments (excl. index-linked and Unit Linked funds)	50,518	46,228
Assets held for index-linked and Unit Linked funds	9,101	8,337
Loans and mortgages	8,852	8,360
Reinsurance recoverables	562	584
Deposits to cedants	5	4
Insurance and intermediaries receivables	2,819	2,798
Reinsurance receivables	3	2
Receivables	1,821	1,799
Own shares (held directly)	479	335
Cash and cash equivalents	737	1,165
Any other assets, not elsewhere shown	276	281
Total assets	**76,042**	**70,768**

ECONOMIC BALANCE SHEET € MILLION.

LIABILITIES	2019	2018
Technical provisions - Non-Life (excluding Health)	3,307	3,216
Technical provisions - Health (similar to Non-Life)	4,754	4,904
Technical provisions - Health (similar to Life)	2,912	2,735
Technical provisions - Life (excluding Health and index-linked and Unit Linked)	38,000	36,065
Technical provisions - index-linked and Unit Linked	8,558	7,909
Provisions other than technical provisions	112	200
Pension benefit obligations	952	860
Deposits from reinsurers	2	1
Deferred Tax Liabilities	37	25
Derivatives	1,453	261
Debts owed to credit institutions	46	1,022
Financial liabilities other than debts owed to credit institutions	946	63
Insurance & intermediaries payables	1,198	1,043
Reinsurance payables	66	28
Payables (trade, not insurance)	288	279
Subordinated liabilities in Basic Own Funds	2,053	2,076
Any other liabilities, not elsewhere shown	2,445	1,747
Total liabilities	**67,129**	**62,433**
Excess of assets over liabilities	**8,913**	**8,335**

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

Goodwill, deferred acquisition costs and intangible assets obtained by means of a business combination are valued at nil.

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. For more detailed information, Achmea refers to the Annual report of 2019[5].

"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

€ MILLION.

	2019	2018
EQUIPMENT	62	50
PROPERTY FOR OWN USE	409	284
Closing balance	**472**	**333**

"Equipment" is recognised in all countries where Achmea pursues insurance business: The Netherlands (82%), Greece (12%), Turkey (4%) and Slovakia (2%). In The Netherlands "Equipment" has been recognised mainly in Ancillary Service Entities.

"Property for own use" is mainly located in The Netherlands (89%), Turkey (3%), Greece (7%) and Slovakia (1%). 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

€ MILLION.

	PROPERTY (OTHER THAN FOR OWN USE)	HOLDINGS IN RELATED UNDERTAKINGS	EQUITIES	BONDS	COLLECTIVE INVESTMENTS UNDERTAKINGS
Closing Balance	**1,104**	**1,017**	**1,341**	**28,797**	**1,070**

INVESTMENTS

€ MILLION.

	DERIVATIVES (INCL LIABILITIES.)	DEPOSITS	OTHER	TOTAL 2019	TOTAL 2018
Closing Balance	**4,908**	**842**	**9,986**	**49,065**	**45,967**

[5] part 2 Year Report, note 15 Property for own use and equipment

Investments have increased with €3,098 million mainly due to the effect of decreasing interest rates and tightening risk premiums on fixed income (including interest rate derivatives).

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 €35,349 million of the €49,065 million investments. This mainly consists of investments in bonds (€18,429 million). The other investment categories are mortgage savings (€9,331 million), collective investments undertakings (€526 million), investment property (€1,058 million), equities (€491 million), Non-UCITS funds (€569 million) and derivatives (€4,929 million).

Achmea Schadeverzekeringen N.V. has in total €5,886 million. The largest part consists of investments in bonds (€5,211million). The other investment categories consist mainly of equities (€266 million), collective investments undertakings (€316 million), Non-UCITS funds (€69 million) and deposits (€24 million).

Achmea Zorgverzekeringen N.V. has in total €3,654 in investments. These consist mainly of bonds (€2,933 million), equities (€381 million), deposits (€195 million), collective investments undertakings (€140 million) and Non-UCITS funds (€4 million).

Achmea Reinsurance Company N.V. has in total €882 million in investments. These mainly consist of deposits (€468 million), bonds (€262 million), equities (€84 million) and collective investments undertakings (€56 million).

N.V. Hagelunie has in total €224 million in investments, mainly consisting of bonds (€187 million).

Within the foreign entities, the total investments are €1,037 million, mainly consisting of bonds (€932 million).

Achmea B.V. has in total €1,759 in investments. These mainly consist of participations (€984 million) (including CRD entities), bonds (€583 million) and equities (€91 million).

The other entities have in total €259 million in investments. These consist of Achmea IM Grondstoffen Fonds (€81 million), Achmea IM Green Bond Fund (€81 million) and Achmea IM Euro Corporate Bond Fund (€97 million).

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, which is based on an independent revaluation carried out annually (or more frequently if market conditions are volatile). Investment property which is still under construction and land is 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. For more detailed information Achmea refers to the Annual report of 2019[6].

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 presents the actual exposure to property based on a look-through basis.

PROPERTY (OTHER THAN FOR OWN USE) € MILLION.

	2019	2018
Total direct Property	1,104	1,103
Total indirect Property	206	167
Total Investment Property	**1,310**	**1,270**

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.

[6] part 2 Year Report, note 5 Investment Property

Investment property is mainly recognised within Achmea Pensioen- en Levensverzekeringen N.V. (€1,199 million), Achmea Schadeverzekeringen N.V. (€65 million) and Achmea Interne Diensten N.V. (€38 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.

On the Economic Balance Sheet all these entities are presented in the balance sheet item “Participations”, but in order to calculate their capital requirements these are treated differently.

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

Participations show a total movement of €-40 million in 2019, mainly due to the administrative settlement (liquidation) of AFFH DAC and FFF Ltd. Both entities were presented as other subsidiaries in the Economic Balance Sheet of 2018.

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 statutory 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 by the CRD/CRR, IORP or similar (national) regime. The valuation of these entities is based on their sectoral valuation principles. Intra-Group transactions between the entity and Achmea are not eliminated in the consolidation in order to maintain the link with the disclosures made for prudential basis. This has no impact on the value of the Excess of Assets over Liabilities.

CRD IV / IORP / SIMILAR LEGISLATION

€ MILLION.

	ASSET	LIABILITY	2019	2018
Syntrus Achmea Real Estate & Finance B.V.	71	26	45	50
Achmea Investment Management B.V.	55	14	41	36
Achmea Bank N.V.	13,693	12,859	834	825
Union Zdravotna Poist'ovna A.S.	146	116	30	30
Total CRD IV/ IORP/ SIMILAR LEGISLATION			**950**	**941**

The CRD/IORP/Similar legal entities increased in value in 2019 for an amount of €9 million due to an increase of the net asset value of these entities.

PARTICIPATIONS (CATEGORY 2)

Achmea has significant influence over the following entities.

PARTICIPATIONS

€ MILLION.

	SHARE %	STRATEGIC	2019	2018
Life Sciences Partners II B.V.	30	N	3	5
Health Innovation Fund I B.V.	35	N	1	1
Zorgmatch B.V.	50	N	0	0
Grendel Games B.V.	30	N	0	0
I-Cane Social Technology B.V.	40	N	0	0
Laevo B.V.	30	N	0	0
Mofixx B.V.	45	N	0	0
Nextgen Ventures B.V.	25	N	1	0
On(t)roerend goed B.V.	25	N	0	0
PA Imaging Holding B.V.	35	N	0	0
Stroke2prevent B.V.	26	N	0	0
Money Market Insurance Brokers S.A.	48	Y	0	0
Megatrust Olympic Business Consultants	20	N	0	0
DFZ Participaties	20-40	N	0	2
Total Participations			**7**	**9**

Participations in which Achmea has significant influence decreased in value for an amount of €-2 million due to net results of the entities.

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

	2019	2018
Other subsidiaries in The Netherlands	47	39
Other subsidiaries in Ireland	3	61
Other subsidiaries in Greece	0	0
Other subsidiaries in Canada	11	6

In 2019 Other subsidiaries showed a total movement of €-45 million mainly due to the liquidation of Achmea Friends First Holding and Friends First Finance (effect: €-57 million). This effect is compensated by the liquidation of Achmea Health Centers (effect: €23 million).

D.1.4.3. EQUITY INVESTMENTS

These instruments are valued at their economic value using the economic value hierarchy. For those investment where no quoted price in an active market exists a valuation technique is used. The majority of listed equities (€1,186 million) are valued by their quoted prices, an amount of €1 million is reported as valuation hierarchy level 2 due to staleness of prices in the last month. Valuation of unlisted equities is based on the adjusted equity method, classified under valuation hierarchy level 3 (an amount of €88 million). All investment property (both direct property and property in investment funds) are classified as fair value level 4.

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:

- Equity investments directly held;

- Equity investments held within Collective Investment Undertakings and Investment Funds;
- Participations, where the main risk driver is equity;
- Equity derivatives, where the economic value is derived from its underlying assets which have an Equity type exposure;
- Other, which comprises equity investment funds which do not meet the criteria of the UCITS framework.

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

€ MILLION.

	2019	2018
Equities	1,341	1,243
Equities, listed	1,186	1,104
Equities, unlisted	155	139
Equities in Investment Funds	864	908
Equity Participations	18	29
Equity Derivatives	-18	-18
Other	654	662
Total Equity Investments	**2,859**	**2,823**

Listed equities increased in value in 2019, mainly due to positive revaluations as a result of increased stock market (effect: €217 million) and positive foreign exchange results, mainly resulting from a stronger US Dollar (€30 million). Finally, net derecognitions caused the listed equities portfolio to decrease in value with €-163 million.

Unlisted equities increased in value for an amount of €16 million, mainly due to the unlisted Garanti Emeklilik with a market value of €77 million. The net asset value of Garanti Emeklilik benefited (effect €15 million) from a good operational result and this effect was mitigated by a slightly weaker Turkish Lira.

Investments in equities are mainly recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€429 million), Achmea Zorgverzekeringen N.V. (€381 million), Achmea Schadeverzekeringen N.V. (€264 million), Achmea Reinsurance Company N.V. (€84 million), N.V. Hagelunie (€17 million) and Interamerican Greece (€12 million).

Equities in investment funds are mainly recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€385 million), Achmea Schadeverzekeringen N.V. (€250 million), Achmea Zorgverzekeringen N.V. (€140 million), Achmea Reinsurance Company N.V. (€56 million) , N.V. Hagelunie (€20 million) and Interamerican Greece (€13 million).

The categories Equities in Investment funds, Equity participations, Equity derivatives and Other will be discussed in their respective paragraphs.

Achmea uses foreign exchanges contracts for its hedging strategy to minimise the net currency exposure. These developments are discussed in the 'Derivatives' section D.1.4.6.

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 Balance Sheet Management. 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 € MILLION.

	2019	2018
Government Bonds and related exposures	13,712	14,337
Corporate Bonds (including convertibles)	14,127	11,469
Collateralised Securities	958	1,356
Total Bonds	**28,797**	**27,162**

The bonds portfolio increased by €1,635 million in 2019. The main reason is the decrease in interest rates (10-year German state -50 bps and 30-year -65bps) and incoming credit spreads (corporate -56 bps, financials - 66 bps) and positive foreign exchange results. The total positive effect of changes in economic assumptions is €1.080 million. The remainder consists of net recognitions of €554 million. Underlying within the bond portfolio and in accordance with the investment plan, a major shift has taken place from government bonds and collateralised securities to the corporate bonds.

Investments in bonds are recognised within the legal entity Achmea Pensioen- en Levensverzekeringen N.V. (€18,429 million), Achmea Schadeverzekeringen N.V. (€5,211 million), Achmea Zorgverzekeringen N.V. (€2,933 million), Achmea Reinsurance Company N.V. (€262 million), N.V. Hagelunie (€187 million), Achmea B.V. (€583 million), Interamerican (€742 million), Eureko Sigorta A.S. (€101 million) and Union Zdravotna Poist'ovna A.S. (€90 million). Achmea Pensioen- en Levensverzekeringen N.V. and Achmea Schadeverzekeringen N.V. have invested in the Achmea IM Green Bond Fund (€81 million) and Achmea IM Euro Corporate Bond Fund (€97 million). Achmea Pensioen- en Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V., Achmea Zorgverzekeringen N.V. and Achmea Reinsurance Company N.V. have invested in the Achmea IM Grondstoffen Fonds (€81 million).

D.1.4.5. COLLECTIVE INVESTMENT UNDERTAKINGS

When determining the capital requirements for Market Risk, Achmea uses the "look-through approach" with respect to Collective Investment Undertakings (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 € MILLION.

	2019	2018
Equity Funds	517	444
Debt Funds	270	414
Asset Allocation Funds	13	12
Real Estate Funds	206	167
Alternative Funds	0	0
Private Equity Funds	59	31
Infrastructure Funds	0	0
Other	6	8
Total Investment Funds	**1,070**	**1,076**

The exposure to collective investment undertaking – which meet the UCIT criteria – is in line with the exposure at the end of 2018.

The largest exposure within equity funds is the Robeco QI Institutional Emerging Markets Enhanced Index fund and has a market value of €432 million. This fund is listed and is therefore classified as level 1 in the valuation hierarchy. Equity funds benefited from increasing stock market indices. The main risk exposure is Equity Risk.

The debt funds are not daily quoted in an active market (valuation hierarchy level 2), but within the fund there is exposure to listed bonds. The largest exposure is to M&G Active Euro Loan Fund (€269 million). During 2019 this fund was derecognised for €146 million. The main risk exposure is Spread Risk.

The real estate funds mainly comprise of several funds managed by Syntrus Achmea Real Estate & Finance (€191 million) and benefited from good sentiments in the property market. The main risk exposure is Property Risk.

Collective Investment Undertakings are recognised within the legal entities Achmea Pensioen- en Levensverzekeringen N.V. for €526 million, Achmea Schadeverzekeringen N.V. for €316 million, Achmea Zorgverzekeringen N.V. for €140 million, Achmea Reinsurance Company N.V. for €56 million, N.V. Hagelunie for €20 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

€ MILLION.

	2019		2018	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Interest Rate Derivatives	6,340	1,425	3,304	222
Currency Derivatives	21	11	14	21
Equity Derivatives	0	18	0	18
Credit Default Swaps	0	0	0	0
Other	0	-0	-0	0
Total Derivatives	**6,362**	**1,453**	**3,318**	**261**

The derivative portfolio is mainly held by the Dutch legal entities and for a small amount by the Greek legal entities. The interest rate derivatives are mainly held by Achmea Pensioen- en Levensverzekeringen N.V. for €4,726 which comprise plain vanilla interest rate swaps and swaptions and Achmea Schadeverzekeringen N.V. for €-8 million. Net currency derivatives consists mainly of Achmea Pensioen- en Levensverzekeringen N.V. for €6 million and Achmea Schadeverzekeringen N.V. for €2 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 and are classified as fair value level 1, since these futures have a quoted price in an active market.

In 2019, total net amount of derivatives (excluding collateral) increased by an amount of €1,852 million. This is mainly visible in interest rate derivatives, where receiver interest rate swaps and receiver swaptions benefited from decreasing swap interest rates, resulting in positive effect in change in economic assumptions (€1,396 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 €426 million. These effects are mitigated by currency derivatives, which experienced negative revaluations mainly due to a stronger US Dollar (and GBP) €-98 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 €116 million.

Achmea both has pledged and received collateral amounting to €783 million and €23,365 million respectively (2018: €535 million and 2018: €18,138 million). A breakdown of the assets pledged/received is presented in the following table.

COLLATERAL

€ MILLION.

	PLEDGED		RECEIVED	
	2019	2018	2019	2018
Cash	9	108	2,060	1,408
Government Bonds	775	427	5,095	4,833
Corporate Bonds	0	0	57	82
Equity Investments	0	0	2,414	1,239
Property	0	0	13,739	10,575
Total Collateral	**783**	**535**	**23,365**	**18,138**

Achmea and its counterparties received and pledged collateral as assurance for the values on interest rate swaps, swaptions, futures, asset switch, security lending, reinsurance arrangements and loans and mortgages.

Achmea pledged €775 million in government bond securities. 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 €9 million. The pledged cash collateral consists of Achmea Schadeverzekeringen N.V. (€7 million), Achmea Reinsurance Company N.V. (€1 million) and Achmea Zorgverzekeringen N.V. (€1 million).

In 2018 Achmea back-loaded a section of its interest rate swaps portfolio to Central Clearing. This resulted in received cash collateral of €2,060 million within Achmea Pensioen- en Levensverzekeringen N.V. by the end of 2019. The collateral received (granted claims on bonds in the portfolio of Achmea's counterparties) increased to €5,152 million (2018: €4,915 million). Main driver is the decrease in interest rates (for example long-term swap). As a result the market value of fixed income securities (including swaps) increased. To mitigate Counterparty Default Risk, Achmea claims to receive more collateral (on and off balance) as assurance. In June 2017 the securities lending programme started. The received collateral for the security lending programme amounted to €4,475 million. The received collateral for the over-the-counter derivatives are €3,022 million. Furthermore, Achmea received collateral for reinsurance arrangements of €60 million (2018: €89 million) and loans, mortgages of €11,094 million, Rabobank savings of €2,644 million and for Friesland Campina of €7 million. The received collateral mainly consisted of Achmea Pensioen- en Levensverzekeringen N.V. (€19,122 million), Achmea Schadeverzekeringen N.V. (€2,180 million) and Achmea Zorgverzekeringen N.V. (€2 million).

D.1.4.7. DEPOSITS (OTHER THAN CASH EQUIVALENTS)

These assets are fixed income instruments where, given the short-term duration, the nominal value accumulated with accrued interest is deemed to be a good proxy for the economic value.

DEPOSITS – DURATION

€ MILLION.

	2019	2018
Less than 1 month	198	25
Between 1 month and 3 months	85	22
Between 3 months and 1 year	90	42
More than 1 year	0	126
Other	468	458
Total Deposits	**842**	**673**

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 €153 million was recognised in 2019. Furthermore, there was an increase of €22 million caused by foreign exchange results from GBP deposits in possession of Achmea Re-assurance. This was mitigated by a foreign exchange result of €-7 million from Turkish Lira deposits within Eureko Sigorta A.S. portfolio.

The line item Other refers to a deposit (€468 million) which is part of a contract with a British life insurer. Economic value changes in this deposit (€22 million) were 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 €468 million, Achmea Zorgverzekeringen N.V. for €195 million, Achmea B.V. for €79 million, Eureko Sigorta A.S. for €37 million, Interamerican for €27 million, Achmea Schadeverzekeringen N.V. for €24 million and Union Zdravotna Poist'ovna A.S. for €11 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

	2019	2018
Saving mortgage Achmea Bank N.V.	845	900
Saving mortgage Rabobank U.A.	8,202	8,790
Saving mortgage Obvion	277	232
Saving mortgage ABN AMRO N.V.	4	3
Saving Mortgage NIBC Bank N.V.	3	0
Non UCITS Investment Funds	654	672
Total Other Investments	**9,986**	**10,597**

Achmea classifies all savings related to mortgage products and investment funds which do not meet the UCITS criteria in the balance sheet item "Other Investments".

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

Since the end of December 2018, Achmea 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 and the Rabobank agreed on so called Cession/retrocession and sub-participation contracts. The transactions ensured that policyholders of the mortgage saving insurance contracts are even better protected in dire and adverse circumstances which would affect the Rabobank as a counterparty of Achmea Pensioen- en Levensverzekeringen N.V.

These transactions have an impact on the valuation of the saving parts of these products and the related capital requirements. The value of the liabilities is calculated based on cash flows that are discounted with the EIOPA curve including VA, CRA and UFR. The assets are also valued using the same EIOPA curve, whereby a reduction is still applicable for expected credit losses. Achmea has been using the mark-to-model method for both Rabobank and Achmea Bank since Q4 2018. This is a bottom-up method based on model-based surcharges and reductions for expected credit losses (expected loss) and reflection on the degree of marketability (illiquidity). The Expected loss component in this approach is modelled as the product of the probability of bankruptcy (Probability of Default, PD) and the loss in the event of bankruptcy (Loss Given Default, LGD).

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 €9,331 million.

Non-UCITS funds are recognised within the legal entities Achmea Pensioen- en Levensverzekeringen N.V. (€569 million) and Achmea Schadeverzekeringen N.V. (€69 million), Achmea Reinsurance Company N.V. (€13 million) and Achmea Zorgverzekeringen N.V. (€4 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

€ MILLION.

	PROPERTY (OTHER THAN FOR OWN USE)	HOLDINGS IN RELATED UNDERTAKINGS	EQUITIES	BONDS	COLLECTIVE INVESTMENTS UNDERTAKINGS
Closing Balance	**0**	**0**	**7,214**	**1,100**	**0**

ASSETS HELD FOR INDEX-LINKED AND UNIT-LINKED FUNDS

€ MILLION.

	DERIVATIVES	DEPOSITS	LOANS & MORTGAGES	OTHER	TOTAL 2019	TOTAL 2018
Closing Balance	**92**	**226**	**0**	**468**	**9,101**	**8,337**

The increase of the asset held for index-linked and Unit Linked is mainly due to effect of changes in economic assumptions (€1,055 million). This mainly comprises positive revaluations of the AIM funds due to the effect of increasing stock markets and decreasing interest rates on the underlying equity and fixed income securities.

Achmea Pensioen- en Levensverzekeringen N.V. has €8,871 million of the €9,101 million investments. This mainly consists of investments in participations in the Achmea IM Funds management for €7,324 million (2018: €6,698) and GBD investments for €1,546 million (2018: €1.419). Due to SII regulations the investment funds which do not meet the criteria of the UCITS framework for €468 million are reclassified from equities to Other investments.

Interamerican has in total investments in these categories for €221 million and Union Zdravotna Poist’ovna A.S. for €9 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, LTV, etc.). Several parameters are used in the mortgage loan portfolio valuation model. The following section contains a summary of these parameters:

- The discount rate is determined via the average of the top six primary market rates for each combination of loan to market value (i.e. the ratio of the mortgage loan balance and the market value of the property backing the mortgage loan), fixed rate period, amortisation type, and whether or not the loan is backed by NHG (“Nationale Hypotheek Garantie”) is determined by sorting the primary market rates for each combination in ascending order and by excluding action rates. The resulting rates are termed “processed market rates”;
- A downward adjustment of 10 bps 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

	2019	2018
Loans on policies	13	18
Loans and mortgages to individuals	7,924	7,481
Other Loans and Mortgages	916	861
Total Loans and Mortgages	**8,852**	**8,360**

Achmea Pensioen- en Levensverzekeringen N.V. has €7,971 million of the €8,852 million in investments. This mainly consists of investments in loans and mortgages to individuals for €7,148 million and other loans for €823 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 €4,500 million and Achmea Woninghypotheken II B.V. having invested €2,207 million. Within Achmea Pensioen- en Levensverzekeringen N.V., a mortgage portfolio of €441 million is invested.

The Loans and Mortgages of Achmea Schadeverzekeringen N.V. consist of €776 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, Eureko Sigorta A.S. of €14 million Interamerican Greece of €14 million, Achmea Zorgverzekeringen N.V. of €6 million and Achmea B.V. of €2 million. Within other legal entities, the investments amount to €2 million in total.

The loans portfolio mainly comprises the following components: senior real estate debt (€171 million, 2018: €220 million), “Waarborgfonds Sociale Woningbouw” (WSW) Loans (€588 million, 2018: €513 million), ECA loans (€33 million, 2018 €18 million and Other loans (€137 million, 2018: €110 million). WSW loans are investments in loans to housing associations guaranteed by WSW. Weighted average maturity date of the loans in WSW portfolio is May 2044. The senior real estate debt and WSW loans are mainly held by Achmea Pensioen- en Levensverzekeringen N.V.

LOANS & MORTGAGES

€ MILLION.

	2019	2018
Closing Balance	**8,852**	**8,360**

Effect of changes in economic assumptions mainly comprise a positive revaluation effect on investment mortgages and loans of €530 million, due to decreasing interest rates. Portfolio developments comprise a net derecognition of €-39 million. In December 2019 the Obvion portfolio was sold to Achmea Bank for approximately €-670 million, but this effect was mitigated by recognition of new mortgage.

Criteria for impairing a mortgage loan are: arrears greater than four months in combination with economic mortgage loan value lower than nominal value. These criteria were applied and no significant impairments were processed.

The discount rate within the mortgage portfolio decreased due to decreased interest rates. The weighted average coupon rate also decreased due to lower interest rates on new production. Adjustment of the constant prepayment rate amounted to 3.70% (until Q3 2019: 3.51%) (€-14 million).

LOANS TO VALUE

€ MILLION.

	2019	2018
< 80%	6,274	4,380
80% - 100%	1,605	2,563
> 100%	45	537
Total	**7,924**	**7,481**

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

€ MILLION.

	2019	2018
Receivables from direct insurance	433	469
Contribution from Dutch health insurance fund	2,386	2,329
Receivables on reinsurance	3	2
Investment receivables	77	42
Prepayments to Dutch hospitals	994	1,174
Receivables from healthcare providers	572	402
Other	178	181
Total	**4,643**	**4,599**

Receivables are recognised within all legal entities. The main contribution to the receivables are recognised in Achmea Zorgverzekeringen N.V (€4,181 million), Achmea Schadeverzekeringen N.V. (€162 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€198 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 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 paid amounts above contractual agreements with healthcare providers are presented as part of the receivables. These receivables are discounted with a duration that has been set at 3 years from the year in which the claim arose.

In case of a negative net position, where the prepayments exceed the amount of work in progress, the prepayments should not only be discounted with the risk-free curve for the non-insurance assets, but a surcharge will be calculated as well. The related prepayments are discounted with the risk-free curve for the non-insurance assets and a surcharge reflecting the adjustment for expected defaults is added.

"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 provided as “Cash collateral” is not included as part of “Cash and cash equivalents” but is included as “Other receivable”.

CASH AND CASH EQUIVALENTS

€ MILLION.

	2019	2018
Cash and bank balances	737	1,157
Call deposits	0	7
Total	**737**	**1,165**

The amount of cash and cash equivalents decreased by approximately €-428 million. The decrease is mainly accounted for by the decrease in liquid assets of Achmea Pensioen- en Levensverzekeringen N.V. (€-254 million) and Achmea B.V. (€-211 million).

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

D.1.10. OWN SHARES

The valuation of the “Own Shares” will be based on the economic value using the valuation hierarchy. For the shares of Achmea no quoted price in an active market is available.

Achmea has two types of shares: ordinary shares and preference shares.

Ordinary shares

Achmea will use the net adjusted equity value as the basis for the valuation of the “Own shares”. The adjusted equity value following the consolidated Balance Sheet from Achmea will be the basis (excluding subordinated liabilities). This basis will be recalculated to resemble 100% of the shares. Achmea’s holding of the own shares will then be calculated. In this calculation, the economic value of the preference shares should be subtracted.

Preference shares

For the preference shares, Achmea will discount the expected dividend payments over the perpetual lifetime of the preference shares. The discount rate will be based on the swap curve adjusted with a relevant spread reflecting the risk of Achmea.

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.

OTHER ASSETS

€ MILLION.

	2019	2018
Prepayments and accrued income	270	270
Other assets	7	11
Total	**276**	**281**

“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 (€112 million), Achmea Schadeverzekeringen N.V. (€118 million) and Achmea Pensioen- en Levensverzekeringen N.V.

D.2. TECHNICAL PROVISIONS

PARAMETERS SET BY EIOPA AND KEY ASSUMPTIONS USED BY ACHMEA

Basic risk-free interest rate term structure

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	10 bps	20	60	3.90%
TRY	Swap	35 bps	10	60	5.50%
USD	Swap	13 bps	50	90	3.90%
GBP	Swap	11 bps	50	90	3.90%

The methodology for deriving the basic risk-free interest rate 2019 and the underlying assumptions have not changed compared with 2018 Year-end. The Credit Risk Adjustment above is the one as determined by EIOPA at 2019 Year-end. One of the major underlying assumptions is the use of the Ultimate Forward Rate. Currently, an Ultimate Forward rate of 3.90% is used (2018: 4.05%).

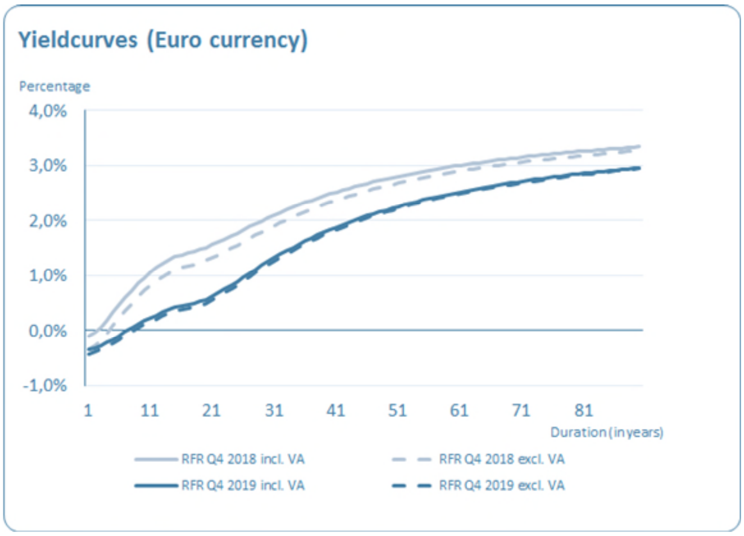
Volatility adjustment

Achmea uses the 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 the proportionality principle or the duration of the insurance liabilities an insurance entity can opt not to use the VA.

The VA for the Euro at Year-end was determined by EIOPA at 7 bps (2018: 24 bps).

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 EOF 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 EOF 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. 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 contract 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 contract 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 basic assumption for mortality experience rates is the industry-wide statistic (as published by the CVS ("Centrum voor Verzekeringsstatistiek") in September 2018), adjusted for a better fit with the observations in the own portfolio.
  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 case-by-case 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 on own experience data. The cash flows are discounted with the prescribed yield curve of 31 December 2019 (EIOPA curve incl. VA).

- 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 2001-2018. For Group business, the investigation has been carried out for the period 2006-2018.
- 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 decreased to 25% in 2019 (2018: 30%).

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 7.1 bps per year over the Best Estimate liabilities and the Risk Margin. In the first half year of 2019 Achmea Pensioen- en Levensverzekeringen N.V. used a flat expense inflation percentage of 1.75%. Since 2019Q2 this changed to an inflation curve.
  The Best Estimate provision for claim handling expenses of Achmea Schadeverzekeringen N.V. is determined on the basis of the paid-to-paid methodology. This implies that the incurred claims handling per calendar year is expressed as a percentage of the claim payments. These are multiplied by the reserve for periodic claim payments.
- Greece
  The expenses used are based on the 2020 budget, allowing for future inflation.
- Slovakia
  Expenses are split into: 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 2019 Year-end calculation (in Euro per policy).

EXPENSE ASSUMPTION

	2019	2018
Traditional savings	46.47	49.63
Risk	51.32	55.24
Unit Linked	52.58	53.97
All non-annuity business	48.97	51.57
Annuities (2nd pension pillar scheme)	0.56	0.29

Following table shows expense inflation as used for 2019 Year-end calculation.

EXPENSE INFLATION

	2019	2018
Expense inflation	2.34%	1.96%

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 (31 October 2019). 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)

€ MILLION.

	BEST ESTIMATE	RISK MARGIN	GROSS TECHNICAL PROVISIONS	REINSURANCE	GROSS TECHNICAL PROVISIONS EXCLUDING REINSURANCE
Achmea Pensioen- en Levensverzekeringen N.V.	44,879	1,568	46,447	125	46,322
Achmea Schadeverzekeringen N.V.	5,551	146	5,696	116	5,580
N.V. Hagelunie	33	3	36	-0	36
Achmea Reinsurance Company N.V.	599	29	628	133	495
Achmea Zorgverzekeringen N.V.	119	15	134	0	134
Zilveren Kruis Zorgverzekeringen N.V.	3,311	121	3,431	0	3,431
FBTO Zorgverzekeringen N.V.	212	7	220	0	220
Interpolis Zorgverzekeringen N.V.	133	6	139	0	139
De Friesland Zorgverzekeraar N.V.	412	17	429	0	429
Union Poist'ovna A.S.	96	4	101	2	99
Eureko Sigorta A.S.	230	29	259	161	98
Interamerican Hellenic Life Insurance Company S.A.	625	25	650	0	650
Interamerican Assistance General Insurance Company S.A.	3	1	3	0	3
Interamerican Property & Casualty Insurance Company S.A.	260	22	282	25	258
Other Group	-923	0	-923		-923
Total	**55,541**	**1,991**	**57,532**	**562**	**56,970**

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)

€ MILLION.

	2019	2018	Δ
Best Estimate	3,145	3,070	75
Risk Margin	162	145	17
Total Gross technical provisions	**3,307**	**3,216**	**92**

BEST ESTIMATE NON-LIFE (EXCL. HEALTH)

€ MILLION.

	2019	2018	Δ
Gross Best Estimate premium provision	320	318	2
Gross Best Estimate claim provision	2,825	2,752	73
Total Best Estimate Non-Life	**3,145**	**3,070**	**75**

In 2019 the gross Best Estimate technical provision for Non-Life business increased by €75 million. The premium provision increased by €2 million and the claim provision increased by €73 million.

The increase in the Best Estimate of €75 million is mainly due to developments within Achmea Schadeverzekeringen N.V. (€103 million) and Interamerican Property & Casualty Insurance Company S.A. (€-26 million). The increase within Achmea Schadeverzekeringen N.V. is mostly in the Motor TPL Line of Business (€86 million) due to an increase in the bodily injury provisions. Also in 2019 the "Waarborgfonds" (€13 million) is included as part of the technical provision. General TPL (€17 million) increased due to an increase in the bodily injury provisions and a re-estimation relating to prior years especially in the commercial lines. The influence of claims inflation is accounted for in the claims provision. The decrease within Interamerican Property & Casualty Insurance Company S.A. is mainly caused by improved modelling of the claim cash flow patterns for the branches medical bodily injuries and motor property damage by distinguishing judicial and non-judicial claims.

The Risk Margin increased by €17 million and is mainly caused by Eureko Sigorta A.S. (€13 million) due to a model improvement with regard to the cash flow patterns and Achmea Reinsurance Company N.V. (€2 million) and Interamerican Property & Casualty Insurance Company S.A. (€2 million) in line with the underlying risks.

D.2.3. TECHNICAL PROVISIONS HEALTH NSLT

TECHNICAL PROVISIONS – HEALTH (NSLT)

€ MILLION.

	2019	2018	Δ
Best Estimate	4,575	4,719	-144
Risk Margin	179	185	-6
Total Gross technical provisions	**4,754**	**4,904**	**-150**

The decrease of the Best Estimate is the result of an increase in the Premium Provision and a decrease in the Claim provision.

Premium Provision

The Best Estimate Premium Provision increased in 2019 by €81 million. It consists mostly of the amount of premium paid in advance and the expected result for the coming period. The expected future profit for accident year 2019 of €98 million decreased to €69 million for accident year 2020, explaining an increase of the Premium Provision by €30 million. The amount of premium paid in advance increased by €51 million and leads to an increase of the Premium Provision by the same amount.

Claim Provision

The Best Estimate claim provision decreased by €-225 million mainly caused by developments within Achmea Zorgverzekeringen N.V. (€-252 million). This is due to a quicker runoff of claims (in particular, hospitals have less temporary backlogs), partly offset by a higher total claims amount for accident year 2019 as compared to accident year 2018.

The remaining development in claim provision is caused by Achmea Schadeverzekeringen N.V. and is mainly caused by the re-estimation of the provisions relating to bodily injury claims, higher than expected claims in 2019 relating to the absenteeism portfolio and bodily injury claims and the impact of the lower yield curve.

The Risk Margin decreased in 2019 by €6 million and is due to the decrease within the Dutch Health insurance entities €5 million and Achmea Schadeverzekeringen N.V. €1 million. The main drivers of the decrease within the Dutch Health insurance entities is the decrease of the capital requirement for Health Underwriting Risk and the quicker run-off of the Best Estimate Health NSLT.

BEST ESTIMATE HEALTH NLST

€ MILLION.

	2019	2018	Δ
Gross Best Estimate Premium provision	658	577	81
Gross Claim provision	3,918	4,142	-225
Total Best Estimate Health NSLT	**4,575**	**4,719**	**-144**

D.2.4. TECHNICAL PROVISIONS HEALTH SLT

TECHNICAL PROVISIONS – HEALTH (SLT)

€ MILLION.

	2019	2018	Δ
Best Estimate	2,852	2,676	176
Risk Margin	60	59	1
Total Gross technical provisions	**2,912**	**2,735**	**177**

The Best Estimate Health SLT of Achmea Group increased by €176 million.

The SLT portfolio Within Achmea Schadeverzekeringen N.V. is interest-sensitive due to the long durations of the AOV insurance portfolio. The decrease of the yield curve in 2019 and the decrease of the VA to 7 bps (2018: 24 bps) is the main reason for the increase the Best Estimate.

The Risk Margin increased by €1 million due to a decrease within Achmea Schadeverzekeringen N.V. (€-1 million) and an increase within Achmea Reinsurance Company N.V. (€2 million).

D.2.5. TECHNICAL PROVISIONS LIFE

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

€ MILLION.

	2019	2018	Δ
Best Estimate	36,463	34,686	1,777
Risk Margin	1,538	1,379	158
Total Gross technical provisions	**38,000**	**36,065**	**1,935**

The Best Estimate increased by €1,777 million.

The change due to economic assumptions (€3,730 million) includes the decrease of the yield curve in 2019. Therefore the impact of the change in the economic assumptions was an increase of the Technical Provisions, including the adjustment of the UFR from 4.05% to 3.90% and the changes in volatilities, which has an impact on the Time Value of Options and Guarantees (TVOG). The unwinding of discount is also included in the effect of change in economic assumptions.

The change due to the non-economic assumptions (€-62 million) include mortality, lapse, expense and investment expense assumptions. The Best Estimate decreased by an amount of €-38 million due to model changes. The remaining impact is mainly the impact of (closed) book (portfolio) developments and the addition of new business.

The Risk Margin for the traditional Life portfolio has increased in 2019 by €158 million from €1,379 million to €1,538 million. The changes were mainly caused by developments within Achmea Pensioen- en Levensverzekeringen N.V. (€155 million), Interamerican Hellenic Life Insurance Company S.A. (€3 million) and Achmea Reinsurance Company N.V. (€1 million).

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

TECHNICAL PROVISIONS – UNIT- AND INDEX-LINKED

€ MILLION.

	2019	2018	Δ
Best Estimate	8,506	7,861	645
Risk Margin	52	47	5
Total Gross technical provisions	**8,558**	**7,909**	**650**

The increase of the Best Estimate of €645 million is mainly caused by the change in 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. The impact of non-economic assumptions (€1 million) include mortality, lapse, expense and investment expense assumptions. The impact of model changes increased the Best Estimate by €56 million due to improvements in the valuation models.

The Risk Margin for the Unit Linked portfolio increased in 2019 by €5 million to €52 million due to developments within Achmea Pensioen- en Levensverzekeringen N.V. mainly due to the increase in the value of Unit Linked funds.

D.2.7. REINSURANCE RECOVERABLES

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

REINSURANCE RECOVERABLES – NON-LIFE (EXCL. HEALTH) € MILLION.

	2019	2018	Δ
Recoverables reinsurance premium provision	75	89	-14
Recoverables reinsurance claim provision	212	234	-22
Total reinsurance recoverables Non-Life	**287**	**323**	**-36**

The decrease of €-36 million is mainly caused by Achmea Schadeverzekeringen due to re-estimation of the provisions.

D.2.7.2. REINSURANCE RECOVERABLES HEALTH (NSLT)

REINSURANCE RECOVERABLES HEALTH NLST € MILLION.

	2019	2018	Δ
Recoverables reinsurance Premium provision	0	1	-0
Recoverables reinsurance Claim provision	1	2	-0
Total reinsurance recoverables Health NSLT	**2**	**2**	**-1**

D.2.7.3. REINSURANCE RECOVERABLES - HEALTH (SLT)

REINSURANCE RECOVERABLES HEALTH SLT € MILLION.

	2019	2018
Closing Balance	106	99

The increase of €7 million is mainly caused by Achmea Reinsurance Company N.V. due to several new contracts and within Achmea Schadeverzekeringen N.V. 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 (EXCL. HEALTH AND UNIT-LINKED) € MILLION.

	2019	2018
Closing Balance	167	159

The increase of €8 million is due to regular portfolio developments.

D.2.8. TECHNICAL PROVISIONS EXCLUDING THE VOLATILITY ADJUSTMENT

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 2019, a VA of 7 bps (2018: 24 bps) 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 VOLATILITY ADJUSTMENT ON TECHNICAL PROVISIONS (GROSS)

€ MILLION.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Technical Provisions (gross)	57,532	57,841	-309
Technical Provisions - Non-Life (excluding Health)	3,307	3,314	-7
Technical Provisions - Health (similar to Non-Life)	4,754	4,755	-1
Technical Provisions - Health (similar to Life)	2,912	2,926	-14
Technical Provisions - Life (excluding Health and Index-Linked and Unit Linked)	38,000	38,283	-283
Technical Provisions - Index-Linked and Unit Linked	8,558	8,563	-4

IMPACT OF VOLATILITY ADJUSTMENT ON TECHNICAL PROVISIONS MINUS RECOVERABLES FROM REINSURANCE

€ MILLION.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Technical Provisions minus Recoverables from Reinsurance	56,970	57,277	-307
Technical Provisions - Non-Life (excluding Health)	3,021	3,027	-7
Technical Provisions - Health (similar to Non-Life)	4,752	4,753	-1
Technical Provisions - Health (similar to Life)	2,806	2,819	-13
Technical Provisions - Life (excluding Health and Index-Linked and Unit Linked)	37,833	38,116	-283
Technical Provisions - Index-Linked and Unit Linked	8,558	8,563	-4

IMPACT OF VOLATILITY ADJUSTMENT ON RECOVERABLES FROM REINSURANCE

€ MILLION.

	ECONOMIC BALANCE SHEET	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Recoverables from Reinsurance	562	563	-2
Technical Provisions - Non-Life (excluding Health)	287	287	-0
Technical Provisions - Health (similar to Non-Life)	2	2	-0
Technical Provisions - Health (similar to Life)	106	107	-1
Technical Provisions - Life (excluding Health and Index-Linked and Unit Linked)	167	167	-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 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 IFRS Financial Statements of Achmea[7].

OTHER PROVISIONS € MILLION.

	RESTRUCTURING	LEGAL CLAIMS	ONEROUS CONTRACTS	EMPLOYEE BENEFITS (EXCLUDING POST-EMPLOYMENT BENEFITS)	OTHER	2019	2018
Opening balance	65	28	43	37	28	200	193
Closing balance	47	11	0	37	18	112	200

The restructuring provision is recognised in The Netherlands within the Ancillary Services Entities.

The provision for legal claims is mainly located in The Netherlands (63%) and Greece (37%). In The Netherlands Achmea B.V. (€2 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€4 million) have recognised a provision for legal claims. Within Greece (€4 million) the provision for legal claims is recognised in the insurance entity.

The onerous contracts regarding operational lease are reclassified to Property for own use and equipment due to the application of IFRS 16 Leases.

The employee benefits (excluding post-employment benefits) provision is recognised in The Netherlands (91%), Turkey (6%) and Greece (3%). In The Netherlands the employee benefits (excluding post-employment benefits) provision has been recognised mainly in Ancillary Service Entities (€33 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 (93%) and Greece (7%). In The Netherlands the other provision has been recognised in Ancillary Service Entities (€5 million) and Achmea Schadeverzekeringen N.V. (€10 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 €41 million (2018: €42 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 2019 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

[7] part 2 Year Report, note 20 Other Provisions

mortgage loans in the amount of €645 million (2018: €817 million). This commitment is offset by a received guarantee of €155 million (2018: €134 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 €14 million (2018: €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.). We note that the probability of occurrence of the triggering event is near nil;
- 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 PVF 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 PVF 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 7 companies within the group (Frexit Assuradeuren B.V., Frexit Assurantiën B.V., respectively H.I. Sevices B.V., Inshared Nederland B.V., Inshared Services B.V., Legal Shared B.V. and Online Claims 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

€ MILLION.

	2019	2018
Present value of defined benefit obligation	860	907
Fair value of total investments backing defined benefit obligation	92	-47
Net defined benefit liability	**952**	**860**

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 11,600 employees in the Netherlands, is a so-called Collective Defined Contribution (CDC) scheme. The obligation of Achmea related to the pension scheme is limited to payment of the agreed premium for the current year of service. In 2019 contributions paid to the CDC scheme amounted to €204 million (2018: €231 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. and remain stable compared to previous year.

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

€ MILLION.

	SECURED LOANS	UNSECURED LOANS	OTHER	2019	2018
Closing balance	**0**	**0**	**46**	**46**	**1,022**

In November 2013, Achmea B.V. completed the issuance of €750 million of Senior Unsecured Notes. The Notes have a maturity of 7 years (maturity date is 19 November 2020). The coupon on the Notes equals 2.5%. The economic value, calculated with the initial spread (102 bps) amounts to a total of €764 million. This debt has been reclassified from Debts owed to credit institutions to Financial liabilities other than debts owed to credit institutions.

In May 2013, Achmea B.V. completed the issuance of CHF200 million (€161 million) of Senior Unsecured Notes with a coupon of 1.5%. On 19 June 2019 these Notes have reached their maturity. The economic value, calculated with the initial spread (95 bps), amounts to a total of €180 million.

Debts owed to credit institutions are held in The Netherlands, within Achmea B.V. (€44 million) and Achmea Interne Diensten N.V. (€1 million).

D.3.6. FINANCIAL LIABILITIES OTHER THAN DEBTS OWED TO CREDIT INSTITUTIONS

Financial liabilities other than debts owed to credit institutions include all loans from external parties to Achmea, financial lease liabilities and financial reinsurance liabilities. Financial liabilities are valued at their economic value, with the exception of the effect of changing Achmea’s own creditworthiness since the recognition date. When the economic value is determined Achmea adds this fixed ‘initial’ spread to the risk-free interest rate at reporting date.

FINANCIAL LIABILITIES OTHER THAN DEBTS OWED TO CREDIT INSTITUTIONS

€ MILLION.

	2019	2018
Closing balance	**946**	**63**

The amount of €946 million consists of the Senior Unsecured Notes of Achmea B.V. (€764 million), and a lease liability from Achmea Interne Diensten N.V. (€179 million).

The financial liability finally consist of a financial liability from Achmea Pensioen- en Levensverzekeringen N.V. (€2 million), which is related to transferred pension obligations to other insurance companies.

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

€ MILLION.

	2019	2018
Payables from direct insurance	1,198	1,043
Payables on reinsurance	66	28
Creditors	122	112
Taxes	139	141
Other	27	26
Total	**1,551**	**1,349**

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. (€202 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€730 million).

D.3.8. SUBORDINATED LIABILITIES NOT IN BASIC OWN FUNDS

Any subordinated liabilities which do not qualify as being part of the EOF are presented as a separate Balance Sheet item. 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 2019 Achmea had no such subordinated liabilities (2018: 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

€ MILLION.

	2019	2018
Accruals and deferred income	173	149
Other	2,272	1,598
Total	**2,445**	**1,747**

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 €2,006 million (2018: €1,403 million).

“Any other liabilities” are recognised within all legal entities. The main contribution to “Any other liabilities” are recognised in Achmea B.V. (€10 million), Achmea Interne Diensten N.V (€66 million), Achmea Zorgverzekeringen N.V. (€18 million), Achmea Schadeverzekeringen N.V. (€67 million) and Achmea Pensioen- en Levensverzekeringen N.V. (€2,132 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 DTL and the Loss LACDT (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 = -)

€ MILLION.

	OPENING BALANCE	CLOSING BALANCE
Intangible assets	11	11
Property for own use and equipment	0	0
Investments	-3,123	-3,345
Other assets	32	-18
Insurance liabilities	3,650	3,758
Other provisions	14	3
Pension benefit obligations	-10	-7
Other liabilities	21	37
Loss carry-forwards	-78	-80
Total	**516**	**360**
Of which Deferred Tax Assets	542	397
Of which Deferred Tax Liabilities	-25	-37

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

€ MILLION.

	DEFERRED TAX ASSETS	DEFERRED TAX LIABILTIES	TOTAL	PART OF FISCAL UNITY ACHMEA B.V.
Achmea Interne Diensten N.V.	2	0	2	Y
Achmea B.V.	-4	0	-4	Y
Achmea Schadeverzekeringen N.V.	-157	0	-157	Y
Achmea Pensioen- en Levensverzekeringen N.V.	473	0	473	Y
Achmea Reinsurance Company N.V.	-10	0	-10	Y
N.V. Hagelunie	0	11	-11	N
InShared Holding B.V.	11	0	11	N
Consolidation	37	13	24	N
Total Netherlands (25%)	**352**	**25**	**327**	
Turkey (20%)	4	0	4	
Greece (29%)	41	12	29	
Total	**397**	**37**	**360**	

D.4. ALTERNATIVE METHODS FOR VALUATION

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 SFCR. For some exposures own techniques or expert judgment is used as a basis for the valuation. This section of the SFCR describes these alternative valuation approaches in more detail.

Property for own Use and Investment Property

The Property for own use is valued using a discounted cash flow technique. The cash flows for the coming twenty years are projected and discounted. In this projection information and parameters are used as suggested by the National association of appraisers (NVRT), for example the inflation scenario. After twenty years the terminal value is predicted which is subject to expert judgment. The valuation is performed by an external party. The value of the Property is also compared to recent transactions in the same geographical area. Based on differences in location and characteristics of the building adjustments are made. This valuation is also benchmarked with the so-called “capitalisation method”. The outcomes of both methods may not differ significantly. 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 will rotate and another external party will be involved. 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 receivables

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. With a solvency level of 219% (2018: 198%) Achmea is in the green zone of the risk appetite. No action is 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 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 Solvency II ratio increased by 21% percentage points to 219% (31 December 2018: 198%). The improved capital position results from a combination of an increase of €610 million in the Solvency II eligible own funds to €9,535 million (2018: €8,925 million) and a decrease of €145 million in the Solvency Capital Requirement to €4,352 million (2018: €4,497 million).

ELIGIBLE OWN FUNDS – GROUP

€ MILLION.

	2019	2018	Δ
Tier 1 restricted	784	1,040	-256
Tier 1 unrestricted	6,783	6,030	753
Tier 2	1,580	1,347	233
Tier 3	388	508	-120
Total eligible Own Funds	**9,535**	**8,925**	**610**

The Tier 1 capital has increased by the net profit for the year 2019 and the upturn in equity values. Set against this, €500 million RT1 capital was raised in 2019 and €600 million was redeemed. The Tier 2 capital increased due to the issue of €250 million Tier 2 capital in 2019. The Tier 3 capital decreased due to a lower net deferred tax. This impact is partially offset by interest rate and spread developments.

Tier 1

- Tier 1 consists of an unrestricted 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:
- €358 million Preference shares 5.5% (nominal value: €311 million, grandfathered), issued in 2003, having a coupon reset date every 10 years, with no option to call. Buy-in of preference shares is possible on a yearly basis;
- €473 million Capital security 4.625% (nominal value: €500 million), issued in September 2019, no maturity date (perpetual), issuer call option annually, first call option is 24 March 2029.

Tier 2

The capital components included within Tier 2 consist of the following instruments:
- €551 million Note 6% (nominal value: €500 million, grandfathered) 6% until April 2023, issued in 2013, having the maturity date in April 2043, issuer call annually, first call option in April 2023;
- €790 million Note 4.25% (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;
- €240 million Capital security 2.5% (nominal value: €250 million, grandfathered) 2.5% issued in September 2019, having a maturity date in September 2039, issuer call annually, first call option in June 2039.

Tier 3

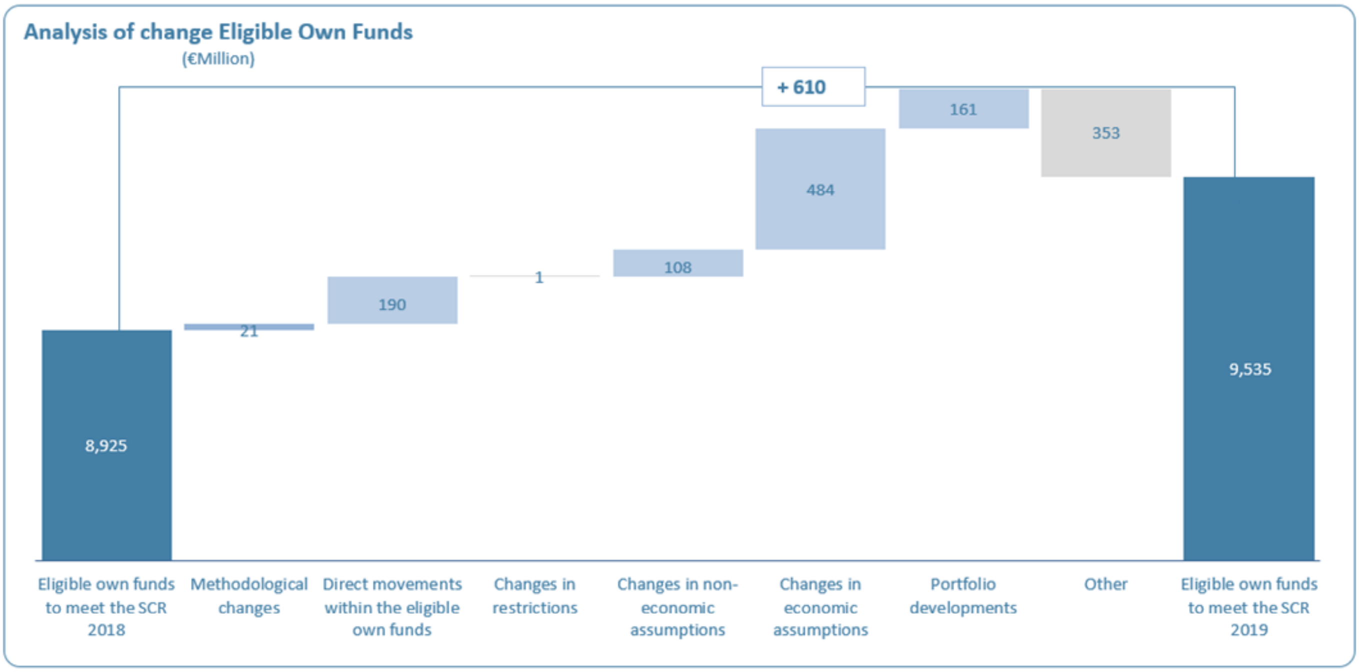
Within Tier 3 Achmea includes the net Deferred Tax Assets as recognised on the Economic Balance Sheet maximised at 15% of the SCR.

Own Funds to cover the Minimum Capital Requirement

Achmea also has to assess whether the capital components are able to cover the group MCR. 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 €1,105 million (2018: €876 million).

Analysis of Change in the Eligible Own Funds

The EOF increased by €610 million.



Methodological changes (€21 million)

Annually, Achmea recalibrates assumptions used in the Best Estimate calculations based on back-testing and forward looking assessments. This led to changes in the technical provisions in The Netherlands and Greece. The impact on the EOF is €21 million.

Direct movements within the Eligible Own Funds (€190 million)

The direct movements within the EOF relate to the issue of the Perpetual Restricted Tier 1 Capital security 4.625% (€500 million) and Tier 2 Capital security 2.5% (€250 million) and the repayment as of November 1, 2019 of the existing Tier 1 Perpetual Restricted Capital security 6% (€-600 million).

Dividends were received from Achmea Bank (€29 million) and Syntrus Achmea Real Estate & Finance B.V. (€11 million). This dividend received reduced the negative adjustment of the CRD entities (the Own Funds based on sectoral requirements is deducted from the Available Own Funds of Achmea).

Impact of changes in restrictions (€-1 million)

The change in restrictions is largely the result of a higher required capital in Australia based on local prudential legislation, which led to lower restrictions at Group level (€3 million) and higher non-distributable Own Funds of the Dutch care administration offices ('zorgkantoren') (€-2 million). The current recognised surplus capital of Eureko Ireland Ltd. is restricted because the liquidation process is expected not to be completed within the following 9 months and therefore the surplus is not available to absorb losses (€-1 million).

In 2019, the amount equal to the value of net Deferred Tax Assets not available at the Group level is €-1 million. This restriction is mostly related to Inshared Holding B.V. and Inshared Nederland B.V., entities which are not part of the fiscal unity.

Impact of changes in non-economic assumptions (€108 million)

The development in the non-economic assumptions mainly relates to Achmea Pensioen- en Levensverzekeringen N.V. It concerns the effect of the revision of the inflation curve (€153 million) on the cost assumptions and the periodic update of the cost assumptions (€- 37 million), lapse rates and mortality assumptions in the Best Estimate of the insurance liabilities (€-4 million).

By Interamerican Hellenic Life Insurance Company S.A. the decrease of lapse rates in savings products and increased operating expenses have led to an increase in the technical provisions, with an impact in the EOF of €-6 million.

Achmea Reinsurance Company N.V. reported changes of costs of the cedants in the underlying life portfolio, with an impact on the EOF of €2 million.

Impact of changes in economic assumptions (€484 million)

The impact in the EOF as a result of developments in the economic assumptions is a combination of effects on mainly the financial investments and technical provisions. On the Economic Balance Sheet of Achmea, different discount rates are required to be used for interest rate sensitive financial instruments and insurance liabilities. Achmea anticipates on this difference is the investments strategy. Despite this, changes in the discount rate and spreads have a different impact on the value of the financial instruments and insurance liabilities.

The changes in the economic assumptions during 2019 had an overall positive impact on the EOF. The main changes were:

- Compared to Year-end 2018, there was a general decrease with respect to the spread level for corporate and government bonds. The reduced spreads resulted in a subsequent decrease of the VA from 24 bps to 7 bps. The economic value of assets and liabilities both increased. The combined impact is an increase of the Own Funds. The average spread related to the own investment portfolio of Achmea decreased more than the average spreads included in the reference portfolio underlying the VA.
- The equity markets increased in 2019 (27.67% increase for the year on the MSCI World and in 26% increase for AEX index). As a result the economic value of equities investments increased which has a positive impact on the Own Funds.
- The property markets increased in 2019, which resulted in an increased value of property and an increase in the Own Funds.
- The spread on the Dutch mortgage loans increased in 2019, however the discount rate decreased, which led to a positive effect on the EOF.
- The Euro decreased compared to the US dollar (-1.9%), with a positive impact on the value of the US dollar investments. The devaluation of Turkish Lira compared to Euro had an negative impact on the valuation of the Turkish participations denominated in Euro.

The entities which contributed to a positive impact on the EOF of the Group are:

Achmea Pensioen- en Levensverzekeringen N.V. contributed positively to the development of the EOF (€206 million), due to the interest rate, spread and UFR developments (€606 million) and the return on investments (return-portfolio) (€283 million), partly offset by the increase in the Best Estimates due to the adjustment of the UFR to 3.9% (€-65 million) and changes in VA (€-618 million).

Achmea Schadeverzekeringen N.V. contributed positively to the development of the EOF (€188 million), due to positive investment results, owing to the increased equity markets and decreased volatility on the financial markets.

Achmea Zorgverzekeringen N.V. also contributed positively to the development of the EOF (€78 million), mainly due to increasing equity markets and tightened credit spreads.

Other effects (€13 million) with influence on the changes in the economic assumptions are mostly related to the valuation of Garanti Emeklilik denominated in Euros (€15 million). The valuation in Turkish Lira increased due to positive developments on the Turkish market, however the positive developments are partly offset by the devaluation of the Turkish Lira.

Impact of portfolio developments (€161 million)

The portfolio developments have a positive contribution to the EOF. The main drivers are the positive technical results, decrease of Risk Margin and investment results. The portfolio developments mainly relate to Achmea Pensioen- en Levensverzekeringen N.V. (€64 million), Achmea Zorgverzekeringen N.V. (€48 million), Achmea Reinsurance Company N.V. (€23 million), Achmea Schadeverzekeringen N.V. (€8 million) and other entities (€18 million).

Positive portfolio developments of Achmea Pensioen- en Levensverzekeringen N.V. are mainly the result of the portfolio run-off leading to a release in the Risk Margin (€116 million). This effect is partly offset by the inflation adjustment for the funeral insurances (€-32 million) and by the cost result (€-20 million).

The increase of the EOF at Achmea Zorgverzekeringen N.V. is mostly due to the development in the expected positive result of 2020 (€76 million), the development in the expected result of prior years (€48 million), investment results (€36 million), offset by the development in the expected result of 2019 (€-90 million) and other effects (€-21 million).

Achmea Schadeverzekeringen N.V. had a positive technical result, which contributed to the increase of the EOF of Achmea Group.

Impact of other changes (€-353 million)

The other changes are mostly related to the regular tax effects as a result of the individual changes in the EOF, mainly reported by Achmea Pensioen- en Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V. and Achmea B.V. and other changes. The other changes consisted of movements which cannot be categorised in the above building blocks.

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

RECONCILIATION EQUITY FINANCIAL STATEMENTS - BASIC OWN FUNDS SII

€ MILLION.

	2019	2018	Δ
Equity Financial statements	10,191	9,705	486
Subordinated liabilities in Basic Own Funds[1]	-1,250	-1,350	100
Own shares (held directly)	335	335	0
Total Financial statements excess of assets over liabilities (IFRS adjusted)	**9,276**	**8,691**	**586**
Intangible assets	-717	-724	8
Investments	366	416	-50
Deferred Tax Assets	-9	-2	-8
Deferred Acquisition Costs	-40	-44	5
Reinsurance recoverables	-81	-147	66
Receivables	-2	9	-12
Other assets	142	3	138
Technical provisions	68	374	-306
Deferred Tax Liabilities	-19	-24	5
Financial liabilities	-77	-279	203
Other liabilities	12	71	-58
Total delta valuation Financial statements - SII	**-357**	**-349**	**-8**
Other	-7	-7	0
Total excess of assets over liabilities	**8,913**	**8,335**	**577**

1. *The subordinated liabilities in basic Own Funds of 1,250 million are the subordinated liabilities eligible for IFRS and are therefore deducted to calculate Total excess over liabilities.*

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 are adjusted to reflect the economic value. The remeasurement regards mainly:

- the Rabobank savings: For IFRS purposes, Achmea applies an adjustment to the mortgage savings based on covered bond spreads association with the counterparty as a proxy for the default risk of the instruments. Under Solvency II this is approximated by using the VA and a LGD*PD adjustment determined based on the Discounting Cash Flow method;
- The unlisted equity investment in Garanti Emeklilik: Under IFRS Garanti Emeklilik is deemed to be a participation and measured on a net asset value basis. Under Solvency II, Garanti Emeklilik is classified as an investment and measured accordingly.

Deferred Acquisition Costs

The deferred acquisition costs are valued nil.

Receivables

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

Other assets

Solvency II recognises "Own Shares" as a separate asset. The own shares that are measured at cost in the IFRS balance sheet are revalued at their economic value.

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 LACDT (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 differences between IFRS and Solvency II Technical Provisions and reinsurance recoverables are given by:

- The Solvency II Technical Provisions are based on Best Estimates and a Risk Margin. IFRS takes into account a provision and a prudency margin based on IFRS accounting principles.
- For Achmea Pensioen- en Levensverzekeringen N.V. the IFRS accounting principles include a reserve for capital gains on fixed interest assets.
- The Solvency II Technical Provisions are discounted with a yield curve whereas IFRS Technical Provisions are in general either discounted with a fixed interest rate or are not discounted.
- The IFRS technical provisions do not take lapses, expenses, future profit sharing to the expiration date into account, where Solvency II does.
- The following are all included under line item "Other":
  - The Solvency II Fair value valuation of savings mortgages
  - Premiums paid in advance are an element of the Premium Provision under Solvency II.
  - IFRS only reports expected loss in the Technical Provisions while under Solvency II the expected result (profit/loss) is reported.
  - Dutch health care institutions receive prepayments if they have (technical) problems with invoicing. These prepayments are temporary in nature and are generally short. They have been netted in the IFRS balance sheet with the Technical Provisions. Under Solvency II, however, netting with the Technical Provisions is not permitted.
  - The Dutch ministry of VWS receives a discount for a number of expensive medicines (VWS arrangements). This discount is to be received by all health insurers. Netting in the IFRS balance sheet with the Technical Provisions is not permitted. Since there is a direct relation between the Technical Provisions and the discount netting with the Technical Provisions under Solvency II is permitted.

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

E.1.4. SOLVENCY RATIO

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	9,535	8,925	610
Required Capital	4,352	4,497	-146
Surplus	5,184	4,428	756
Ratio (%)	219%	**198%**	**21%-pt**

The Solvency II ratio of 219% increased by 21%-pt compared to the Year-end 2018 ratio of 198%.

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).

IMPACT OF VOLATILITY ADJUSTMENT ON SOLVENCY RATIO

€ MILLION.

	INCLUDING VOLATILITY ADJUSTMENT	EXCLUDING VOLATILITY ADJUSTMENT	IMPACT VA
Eligible Own Funds	9,535	9,295	241
Required Capital	4,352	5,645	-1,293
Surplus	5,184	3,650	1,534
Ratio (%)	219%	165%	**54%-pt**

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 EOF.

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 2019 a VA of 7bps (2018: 24bps) 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 €1,293 million and corresponding decrease of the EOF of €241 million.

SENSITIVITIES ULTIMATE FORWARD RATE

The Ultimate Forward Rate (UFR) is part of the relevant risk-free interest rate used to discount the Best Estimate. In the calculations per 31 December 2019 an UFR of 3.90% is used. The UFR will be lowered to 3.75% per 1 January 2020. 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 3.75%, UFR 3.55%, Last Liquid Point 30 years).

The impact on the Solvency ratio of using 3.55% or 3.75% is presented below. 3.75% is the UFR that will be applicable from 1 January 2020.

IMPACT UFR SOLVENCY RATIO

€ MILLION.

	ULTIMATE FORWARD RATE 3.90%	ULTIMATE FORWARD RATE 3.75%	ULTIMATE FORWARD RATE 3.55%
Eligible Own Funds	9,535	9,458	9,354
Required Capital	4,352	4,356	4,359
Surplus	5,184	5,102	4,995
Ratio (%)	219%	217%	215%

The impact of the Ultimate Forward Rate is mainly visible in the Life insurance portfolio (long tail business in Life Underwriting Risk). The impact on the deferred taxes and SCR also has an impact on the determination of the LACDT.

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

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	3,779	4,021	-242
Required Capital	2,291	2,256	35
Surplus	1,488	1,765	-277
Ratio (%)	**165%**	**178%**	**-13%**

The EOF decreased in 2019 by €242 million to €3,779 million, mainly due to the payment of dividend (€400 million). Other developments regarding economic assumptions, due to interest rates and return on investments, and non-economic assumptions, regarding calculations of the technical provision, had on balance a positive impact on the EOF.

The SCR slightly increased compared to 2018. This is mainly caused by the higher capital requirement for Life Underwriting Risk, resulting from decreased relevant risk-free interest rate and the lower VA. Due to the increase of the sub-risks within the BSCR, the diversification effect increased. Furthermore, the LACDT increased which led to a lower capital requirement. The LACDT improved mainly due to the increased Basic SCR and to the implementation of the new LACDT model. In the new LACDT model calculations are based on a more granular approach.

NON-LIFE INSURANCE ENTITIES

Achmea Schadeverzekeringen N.V.

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	1,126	1,071	55
Required Capital	763	761	2
Surplus	363	309	54
Ratio (%)	**148%**	**141%**	**7%**

At Year-end 2019 the Solvency ratio of Achmea Schadeverzekeringen N.V. was 148% (2018: 141%).

The EOF have increased by €55 million compared to 2018. The positive return on investments of €188 million and a positive underwriting result of €8 million are offset by a paid-out dividend of €81 million and €54 million tax liability. In addition, other results showed a loss of €6 million consisting of restructuring costs (€12 million) and a decrease in the restricted capital for the Australian insurance activities of €6 million.

Required Capital at Year-end 2019 has increased by €2 million compared to 2018. This increase is due to an increase in Non-Life Underwriting Risk (€25 million), an increase of the Operational Risk (€4 million), a decrease of the diversification effect (€26 million) and less tax compensation (€15 million). This is almost offset by a lower Market Risk (€-5 million), a lower Counterparty Default Risk (€-11 million), a lower Health Underwriting Risk (€-47 million) and higher LACEP (€-6 million).

The increase in Non-Life Underwriting Risk is primarily caused by an increase in the Catastrophe Risk due to indexation of the sum insured. Operational Risk increases due to increasing premium volumes.

The decrease of Market Risk is mainly due to the lower volatility in the financial markets despite the higher stock prices. Counterparty Default Risk decreased due to lower exposures, mainly on intercompany positions and current account with intermediaries. The purchased reinsurance of the WIA portfolio resulted in a decrease in Health Underwriting Risk (Similar to Life Techniques (SLT)). The increase in LACEP is mainly due to higher expected profits in the 2020 budget.

N.V. Hagelunie

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	194	184	11
Required Capital	44	44	-0
Surplus	151	140	11
Ratio (%)	**444%**	**419%**	**25%**

The Solvency II ratio increased by 25%-pt to 444% due to an increase in the EOF.

The EOF increased compared to Year-end 2018. The positive insurance result and market developments is offset by the effect of the Quota Share contract with Achmea Schadeverzekeringen N.V. which is included in the calculation for 2020. Also the renewal of January 2020, which is relatively large, is included in the calculation.

The Required Capital remained almost similar compared with Year-end 2018. Increase in Market Risk and Counterparty Default Risk is offset by lower reserve risk and a decrease in the LACEP.

Eureko Sigorta A.S.

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	117	112	5
Required Capital	66	70	-4
Surplus	51	43	8
Ratio (%)	**178%**	**162%**	**16%**

The Solvency ratio based on Turkish prudential legislation denominated in Euros increased by 16%-pt to 178%.

Due to the devaluation of the Turkish Lira, the available capital in Euros shows a lower increase as compared with the Turkish Lira. The Available capital in Turkish Lira is increasing due to good operational results. Claim development is better in motor, liability and fire compared with last year, which led to better results. Investment income is also higher than last year as a result of good portfolio management.

There are no major movements on the risk side compared to last year. Macro-economic environment is the key driver for changes in the assets and exchange rate risk. In content of investment strategy, higher corporate bonds held in the portfolio and higher assets in foreign currency led to a slight increase in the required capital.

Interamerican Property & Casualty Insurance Company S.A.

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	145	137	9
Required Capital	78	74	3
Surplus	68	63	5
Ratio (%)	**187%**	**185%**	**2%**

The Solvency II ratio increased by 2%-pt to 187%.

The EOF increased by €9 million to €145 million due to improved profitability of the motor portfolio. Interamerican Property & Casualty Insurance Company S.A. expected a dividend payment of €13 million to Interamerican Hellenic Life Insurance Company S.A. in 2019. This reduced the EOF per end of 2019.

The required capital increased by €3 million. Increased SCR is driven mainly by respective development of Non-Life Underwriting Risk. This is driven by MTPL Bodily Injuries new PIM calibration. Marine, Aviation and Transport, Property and Motor Other also increased since 2018. Regarding Premium Risk, for some risk groups, assumption for higher budgeted figures and different calibration approach were used, causing an increase in capital. The increase was compensated by Market Risk decrease due to lower Concentration Risk and bigger diversification effect.

Interamerican Assistance General Insurance Company S.A.

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	16	16	0
Required Capital	12	11	1
Surplus	4	5	-1
Ratio (%)	**131%**	**143%**	**-12%**

The Solvency II ratio of Interamerican Assistance General Insurance Company S.A. decreased by 12%-pt to 131%.

The EOF remained stable due to an increase of the company performance €2 million and €2 million decrease due to foreseeable dividend to Interamerican Property & Casualty Insurance Company S.A. (IAGPC). The Required Capital of Interamerican Assistance General Insurance Company S.A remained fairly stable with a slight increase of €1 million due to an increase in Non-Life Underwriting Risk.

HEALTH INSURANCE ENTITIES

In The Netherlands basic and supplementary health care insurance is offered via dedicated entities. Achmea manages these entities via one organisational division (division Zilveren Kruis). In this respect the consolidated solvency position of Achmea Zorgverzekeringen N.V. is calculated via a look-through approach (sub-consolidation).

Within Achmea Zorgverzekeringen N.V. the following insurance entities are consolidated: FBTO Zorgverzekeringen N.V., De Friesland Zorgverzekeraar N.V., Interpolis Zorgverzekeringen N.V. and Zilveren Kruis Zorgverzekeringen N.V., which offer basic health care insurance only. Achmea Zorgverzekeringen N.V. is the parent and offers supplementary health care insurance and is not deemed to be an Insurance Holding Company. At the end of 2019 Avéro Achmea Zorgverzekeringen N.V. and Zilveren Kruis Zorgverzekeringen N.V. merged into Zilveren Kruis Zorgverzekeringen N.V.

The SCR are calculated with the SF and no VA has been applied. No Internal Model is used.

Achmea Zorgverzekeringen N.V. (Consolidated)

The following table presents the Solvency Ratio of Achmea Zorgverzekeringen N.V. at Year-end 2019 and Year-end 2018.

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	3,311	3,185	126
Required Capital	2,102	2,110	-8
Surplus	1,209	1,076	134
Ratio (%)	**158%**	**151%**	**7%**

At Year-end 2019 the Solvency ratio of Achmea Zorgverzekeringen N.V. was 158% (2018: 151%). The Solvency Ratio increased compared to last year as a result of the increase of the EOF (€126 million) and a decrease of the Required Capital (€-8 million).

The EOF increased by €126 million in 2019. This was mainly caused by positive changes in economic assumptions (€78 million) as well as positive portfolio developments (€48 million).

The SCR of Achmea Zorgverzekeringen N.V. (consolidated) decreased by €8 million compared to 2018 due to an increase in Market Risk (€47 million) due to increased Equity Risk and decreased Spread Risk. Health Underwriting Risk decreased with €31 million due to a lower (expected) premium volume and lower claim provisions. Operational Risk increased with €4 million.

The Solvency Ratios of the individual insurance legal entities of Achmea Zorgverzekeringen N.V.:

SOLVENCY RATIO'S INDIVIDUAL HEALTH ENTITIES

%

ENTITY	2019	2018
Achmea Zorgverzekeringen N.V.	428%	414%
Zilveren Kruis Zorgverzekeringen N.V.	144%	143%
FBTO Zorgverzekeringen N.V.	146%	132%
Interpolis Zorgverzekeringen N.V.	175%	202%
De Friesland Zorgverzekeraar N.V.	152%	147%

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

The Solvency Ratio increased by 15%-pt to 428%.

The EOF increased by €126 million in 2019. This increase is caused by the recognition of expected positive economic results of 2020 and the development of the expected result of prior years. Furthermore, the positive investments led to an increase in the EOF.

The SCR of Achmea Zorgverzekeringen N.V. (non-look-through) increased by €3 million compared to 2018. The SCR Market Risk increased by €11 million. The main reason is that the market value of equity investments increased due to positive performance. The SCR Counterparty Default Risk increased by €3 million due to an increase of the Type 1 and Type 2 exposures.

The SCR Health Underwriting Risk decreased by €12 million due to a lower (expected) premium volume and lower claim provisions.

Zilveren Kruis Zorgverzekeringen N.V.

At the end of 2019 Avéro Achmea Zorgverzekeringen N.V. and Zilveren Kruis Zorgverzekeringen N.V. merged into Zilveren Kruis Zorgverzekeringen N.V. The comparative figures are restated.

The Solvency Ratio increased by 1%-pt to 144%.

The EOF increase by €4 million to €2,129 million. This was mainly caused by an increase due to positive changes in economic assumptions (€48 million), while negative portfolio developments (€-12 million) and capital contributions of €-32 million to Achmea Zorgverzekeringen N.V. had a negatively influence on the EOF.

The decrease due to portfolio developments is related to the development of the expected positive result of 2020 and the developments of the (expected) result of prior years.

The SCR of Zilveren Kruis Zorgverzekeringen N.V. decreased by €8 million to €1,481 million. The SCR Market Risk increased by €23 million due to the increase of the market value of equity investments due to positive performance. Also the symmetric adjustment increased. Spread Risk decreased, mainly due to new EIOPA guidelines and stress factors for securitisations.

The SCR Counterparty Default Risk decreased by €8 million due to a decrease of both Type 1 and Type 2 exposures.

The SCR Health Underwriting Risk decreased by €18 million due to a decrease of both the claim provision and the premium volume.

Interpolis Zorgverzekeringen N.V.

The Solvency Ratio decreased by 27%-pt to 175%.

The EOF at 31 December 2019 decreased with €15 million to €122 million. This was mainly caused by negative portfolio developments (€-18 million), while investments had a positive influence by the effect of changes in economic assumptions (€3 million).

The decrease due to portfolio developments was mostly related to the development of the expected positive result of 2020 and the developments of the (expected) result of prior years.

The SCR of Interpolis Zorgverzekeringen N.V. increased by €2 million to €70 million. The SCR Market Risk increased by €2 million. Equity Risk increased due to positive performance and due to an increase of the symmetric adjustment. The SCR Counterparty Default Risk increased by €1 million due to an increase of the Type 2 exposure. The SCR Underwriting Risk increased by €1 million. The Best Estimate Claim Provision decreased, while on the other hand the premium volume increased.

FBTO Zorgverzekeringen N.V.

The Solvency Ratio increased by 14%-pt to 146%.

The EOF at Year-end 2019 increased with €11 million to €132 million. This was caused by a decrease due to negative portfolio developments (€-25 million). The decrease was offset by €32 million of capital contributions from Achmea Zorgverzekeringen N.V.

The decrease of the EOF due to portfolio developments was mostly related to the expected negative result of 2020 and the developments of the (expected) result of prior years.

The SCR of FBTO Zorgverzekeringen N.V. decreased by €2 million to €91 million. The SCR Market Risk increased by €1 million. The market value of equity investments increased due to positive performance. The SCR Underwriting Risk decreased by €2 million. The Best Claim Provision decreased, while on the other hand the premium volume increased slightly.

De Friesland Zorgverzekeraar N.V.

The Solvency Ratio increased by 5%-pt compared to 2018 to 152%.

The EOF at 31 December 2019 increased with €3 million to €317 million. This was caused by an increase of the positive influence of investment by the effect of changes in assumptions (€11 million) and negative portfolio developments (€-7 million).

The decrease of the EOF due to portfolio developments is mostly related to the expected negative result of 2020 and the developments of the (expected) result of prior years.

The SCR of De Friesland Zorgverzekeraar N.V. decreased by €5 million to €209 million.

The SCR Market Risk increased by €5 million. Equity Risk increased due to positive performance (increase in the market value of equity investments). The SCR Counterparty Default Risk increased by €1 million due to an increase of the Type1 and Type 2 exposure. The SCR Health Underwriting Risk decreased by €10 million. The claim provision decreased and on the other hand the premium volume increased. Operational Risk increased by €2 million also due to the increase in premium volume.

COMPOSITE INSURANCE ENTITY

Interamerican Hellenic Life Insurance Company S.A.

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	126	131	-5
Required Capital	100	91	9
Surplus	26	40	-14
Ratio (%)	**126%**	**144%**	**-18%**

The Solvency II ratio decreased by 20%-pt to 124%.

The EOF decreased by €5 million caused by the result of the entity, mainly due to the effect of change in interest rate, decrease of lapse rates in savings products and increased operating expenses and model changes. The positive effects were partially offset by the operational result of the company, the result of the subsidiaries and change in Risk Margin.

The Required Capital increased by €9 million. Market Risk increased by €5 million driven by higher Equity, Interest and Spread Risk. Life Underwriting Risk increased by €5 million due to higher Lapse Risk caused by the impact of the decrease in yield curves in pension/savings products and Health Underwriting Risk increased by €2 million mainly due to Premium and Reserve Risk. The increase was partially offset by the increase of diversification effect €-3 million.

Union Poist'ovňa A.S.

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	25	26	-1
Required Capital	17	16	2
Surplus	8	10	-3
Ratio (%)	**143%**	**166%**	**-23%**

The Solvency II ratio decreased by 23%-pt to 143%.

The EOF decreased by €1 million compared to Year-end 2018. This was mainly driven by negative result of the year.

Required Capital increased by €2 million compared to 2018. This was mainly due to increases of Non-Life Underwriting Risk, Life Underwriting Risk and Counterparty Default Risk compensated by decrease in Market Risk and better diversification of risks. Offsetting effect is also provided by movement in LACDT as a result of updated Business Plan expectations.

REINSURANCE ENTITY

Achmea Reinsurance Company N.V.

SOLVENCY RATIO

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	284	250	35
Required Capital	133	135	-2
Surplus	152	115	37
Ratio (%)	**214%**	**185%**	**29%**

The Solvency II ratio increased by 29%-pt to 214%.

Compared to Year-end 2018 the EOF increased with €35 million to €284 million (2018: €250 million). The increase is mainly due to positive financial market developments and the absence of large exceptional claims (severe January Storm 2018).

The SCR decreased by an amount of €2 million to €133 million. The decrease in SCR is caused by a decrease in Market Risk mainly due to reduced volatility This is effect is further strengthen by an increased impact of the LACDT due to higher expected results in the coming years due to the renewal thereby impacting the carry forward positively and changes within the tax legislation. These effects are partially offset by a higher risk appetite resulting in an increase of incoming Non-Life business as several new contracts were signed during the renewal. This caused an increase in Catastrophe Risk and volume effects increased Premium and Reserve Risk.

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 2019

€ MILLION.

ENTITY	RWA	TCR	CET 1-RATIO	CAPITAL REQUIREMENTS	OWN FUNDS
Syntrus Achmea Real Estate & Finance B.V.	151	30.1%	29.6%	12	45
Achmea Investment Management B.V.	210	19.4%	17.2%	17	36
Achmea Bank N.V.	4,042	19.2%	19.2%	509	777
Total	**4,403**	**19.5%**	**19.5%**	**538**	**858**

CRD RATIO'S 2018

€ MILLION.

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
Total	**4,084**	**20.8%**	**20.7%**	**607**	**850**

Achmea uses the standardised approach to determine its credit risk. The Total Capital Ratio based on CRD IV/CRR decreased from 20.8% in 2018 to 19.5% in 2019, which was related to the growth in the balance sheet due to the acquisition of the portfolio of a.s.r. and the internal transfer of the Obvion mortgage portfolio from the insurance activities to the banking activities.

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.

The EOF maintained with UZ at 2019 Year-end were €30 million (2018: €30 million). The local capital requirements for 2019 were €17 million (2018: €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

€ MILLION.

	2019	2018	Δ
Eligible Own Funds	10,495	10,109	386
Required Capital	2,361	2,337	25
Surplus	8,134	7,773	361
Ratio (%)	**444%**	**433%**	**11%**

The Notional Capital Requirement of Achmea B.V. consists mainly of a Notional Capital Requirements Market Risk. Notional Capital Requirements Market Risk remained constant at €2.4 billion year-end 2019. Market Risk of the Notional Capital Requirement is dominated by Equity Risk on the strategic participations of Achmea (€2.2 billion).

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

More detail regarding the SCR 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 2019 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.

Economic assumptions

At the end of 2019 the application ratio used for the several legal entities using the Dynamic VA (DVA) was:

- Achmea Schadeverzekeringen N.V. and N.V. Hagelunie: 65% (2018: 65%);
- Achmea Pensioen- en Levensverzekeringen N.V.: 64% (2018: 57%).

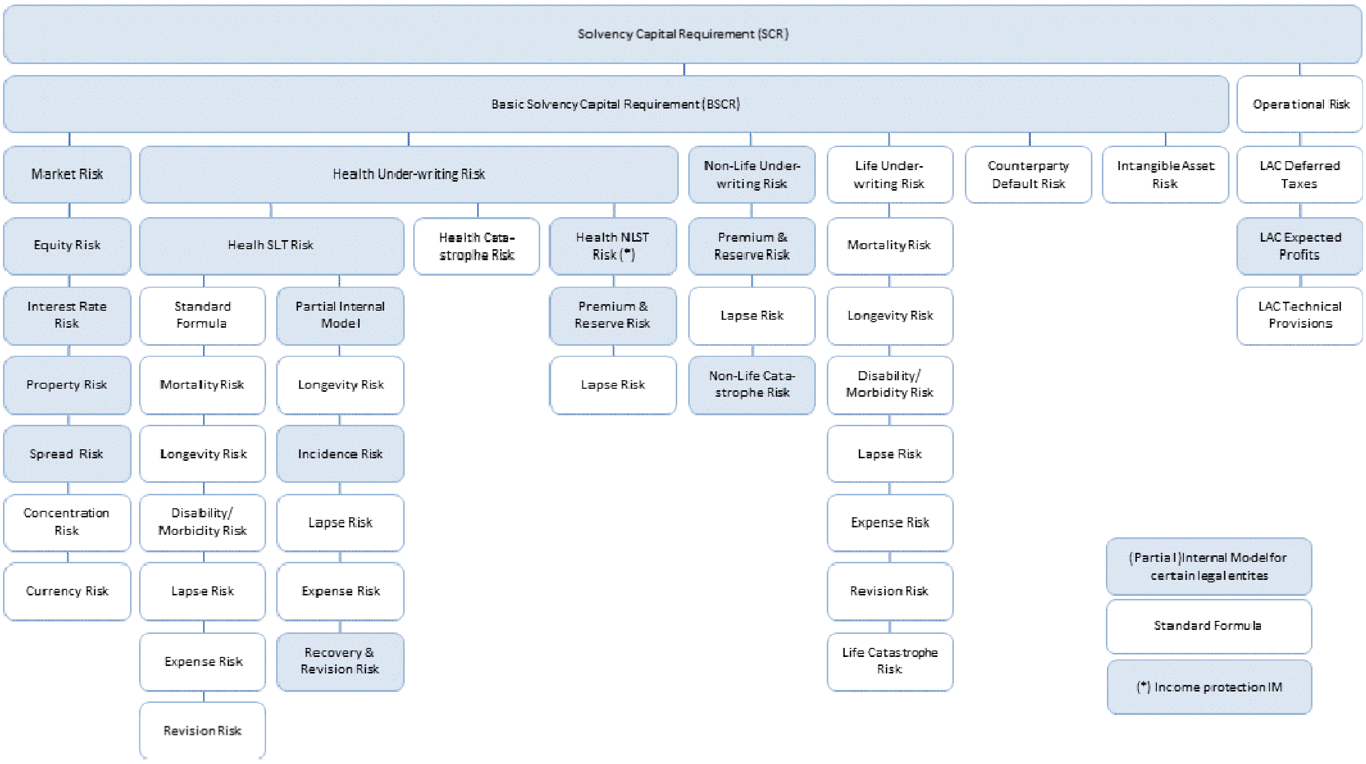
The discount rate used to calculate the Interest Rate Risk within the PIM for Market Risk is the German bund curve (Euro Core).

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[8] 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.

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

- 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.



Achmea uses a PIM to calculate the SCR. 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 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.

In addition to the Internal Model components Achmea has added a capital correction for Inflation Risk to the Interest Rate Risk within Market Risk for Interamerican Property & Casualty Insurance Company S.A. Achmea excluded the Inflation Risk from the Internal Model for Non-Life Underwriting and Health SLT Underwriting Risk. In order to capture this risk in the SCR, Achmea has determined a capital requirement in "Pillar II" associated with this risk. Within "Pillar I", the SCR for Inflation Risk is added at the level of "Interest Rate Risk" by means of the "simulation approach".

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

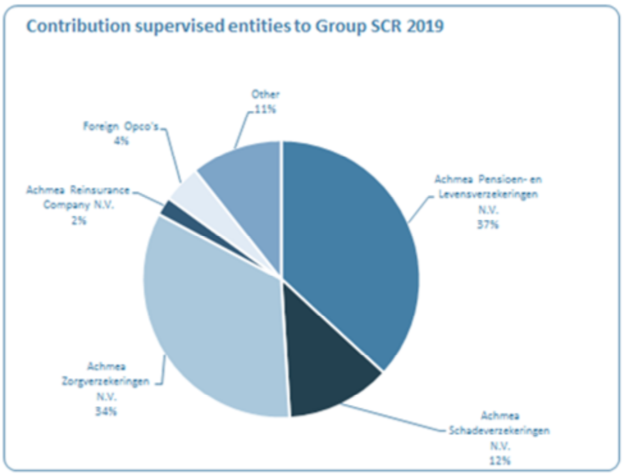
Following the differences between the SF and the PIM used, the outcome of the LACDT under the PIM differs from the outcome of the SF.

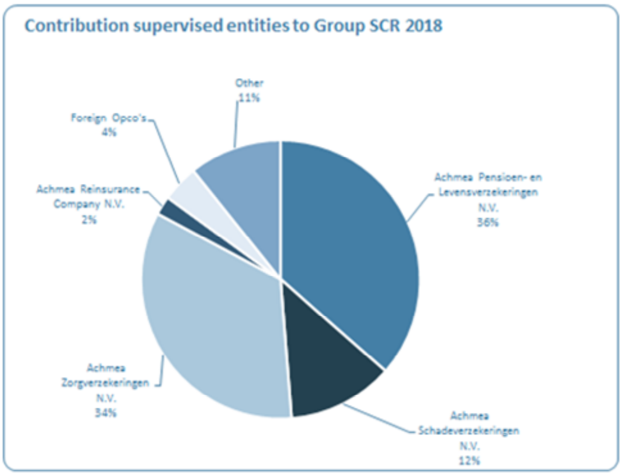
Within the SF the LACEP is not applicable, because it is assumed that the impact is already included in the various SF parameters as laid down in the Solvency II legislation. In Achmea's PIM an adjustment factor for LACEP is applied to take future profitability into account within the PIM[9].

E.2.3. SOLVENCY CAPITAL REQUIREMENT

E.2.3.1. SOLVENCY CAPITAL REQUIREMENT

SCR according to major legal entities[10]:





The contribution from the main legal entities is fairly stable compared to 2018.

The main SCR results based on the PIM are:

SOLVENCY CAPITAL REQUIREMENT

€ MILLION.

	2019	2018	Δ
Market Risk	2,365	2,566	-200
Counterparty Default Risk	273	261	12
Life Underwriting Risk	1,791	1,636	155
Health Underwriting Risk	1,773	1,832	-59
Non-Life Underwriting Risk	892	823	69
Diversification	-2,542	-2,495	-47
Intangible Asset Risk	0	0	-0
Basic Solvency Capital Requirement	4,553	4,622	-69
Operational Risk	599	596	4
Loss-Absorbing Capacity of Expected Profits Underwriting Risk	-73	-67	-6
Loss-Absorbing Capacity of Expected Profits Market Risk	-148	-138	-10
Loss-Absorbing Capacity of Technical Provisions	-0	-0	-0
Loss-Absorbing Capacity of Deferred Taxes	-619	-582	-37
SCR Other Financial Sectors & Other Entities	39	66	-28
Solvency Capital Requirement	**4,352**	**4,497**	**-146**

[9] For Achmea's Non-Life Premium- and Reserve and Market Risk calculated using the Partial Internal Model, the capital requirements are calculated as possible (99.5%) deviations from the expected figures. These capital requirements reflect (unexpected) deviations from the expected change in Own Funds for the forthcoming one-year period. The expected change in Own Funds serves as a first buffer to absorb unexpected deviations.

[10] Foreign OpCo's = supervised insurance entities outside The Netherlands.

The anticipated SCR of Achmea over its business planning time period based on the business strategy is given below. The small decrease of the SCR is amongst others linked to the decrease of the Life portfolio in The Netherlands, partly mitigated by the increase of Health NSLT Insurance Risk because of an increase of Health insurance claims.

DEVELOPMENT SCR OVER SII BUSINESS HORIZON

	2019	2020	2021	2022
Solvency Capital Requirements	4,582	4,534	4,433	4.405

E.2.3.2. MARKET RISK

Achmea uses a PIM for the calculation of the SCR for Market Risk.

MARKET RISK

€ MILLION.

	2019	2018
Interest rate	1,265	1,047
Equity	1,255	1,346
Property	345	373
Spread	1,318	1,429
Currency	114	95
Diversification	−1,931	−1,724
SCR Market Risk	**2,365**	**2,566**

The SCR for Market Risk decreased in 2019 from €2,566 million to €2,365 million. The decrease was caused by changes in the calculation of Market Risk. The implementation of minor changes in the PIM, the annual calibration of the Economic Scenario's and the reduced volatility resulted in a decrease of the capital requirements. Higher exposures and the adjustment of the capital hedge increased the capital requirements.

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 is presented below.

INTEREST RATE RISK

€ MILLION.

	ECONOMIC VALUES BEFORE SHOCK				SCR		
	2019		2018		2019	2018	Δ
	ASSETS	LIAB.	ASSETS	LIAB.			
Interest Rate Risk	51,901	57,411	48,043	54,711	1,265	1,047	218

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 increased by €218 million to €1,265 million, caused by changes in volume and duration.

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 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 recognised.

EQUITY RISK

€ MILLION.

	ECONOMIC VALUES BEFORE SHOCK				SCR		
	2019		2018		2019	2018	Δ
	ASSETS	LIAB.	ASSETS	LIAB.			
Equity Risk	3,189	4,358	2,888	3,886	1,255	1,346	-92

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

Equity Risk decreased by €92 million to €1,255 million. The capital requirements for Equity Risk are sensitive to changes in the equity market indices and the implied volatility (VIX). The VIX for 2019 is 14% (2018: 25%). A lower VIX results in a lower capital requirement for Equity Risk. This decreased Equity Risk by €216 million. Due to the high performance in equity markets the market value increased. This was partly offset by the sale of €100 million Conservative Equity. In total this increased Equity Risk with €124 million.

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

€ MILLION.

	ECONOMIC VALUES BEFORE SHOCK				SCR		
	2019		2018		2019	2018	Δ
	ASSETS	LIAB.	ASSETS	LIAB.			
Property Risk	1,656	188	1,620	172	345	373	-28

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

Property Risk fell by €28 million to €345 million. The capital requirements for Property Risk are sensitive in the volatility (VIX). The VIX for 2019 is 14% (2018: 25%). A lower VIX results in a lower capital requirement for Property Risk. This decreased Property Risk by €57 million. The annual calibration of the economic scenario generator increased Property Risk by €25 million. Higher real estate prices increased Property Risk by €5 million.

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 DVA.

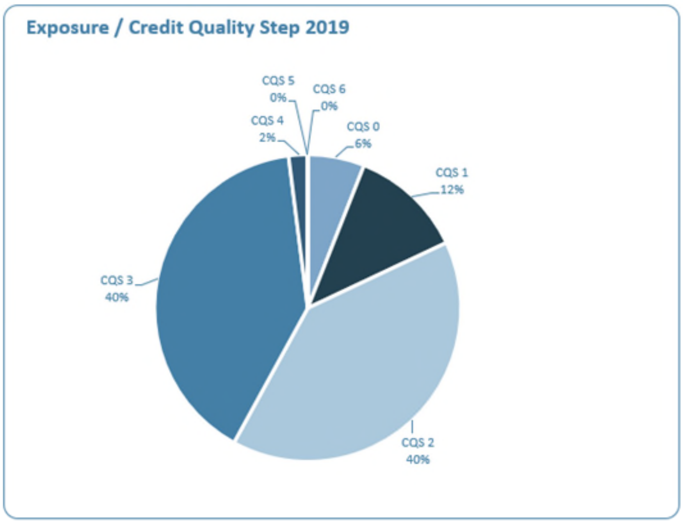
Credit Spread Risk is the risk that spreads increase, while the ratings remain unchanged. Migration and Default Risk address the risk of downgrades and defaults. The DVA is a (dynamic) adjustment to the basic risk-free curve to avoid pro-cyclical investment behaviour.

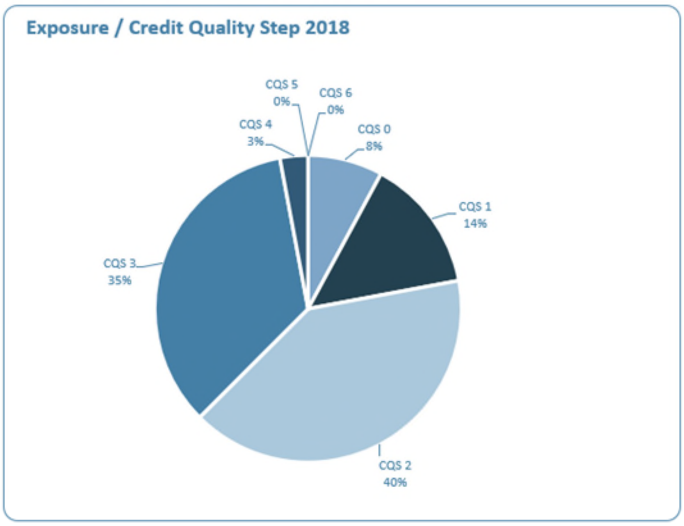
SPREAD RISK

€ MILLION.

	ECONOMIC VALUES BEFORE SHOCK				SCR		
	2019		2018		2019	2018	Δ
SPREAD RISK	41,899	54,004	34,282	1,411	1,318	1,429	-110

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





Spread Risk decreased with €110 million to €1,318 million. In line with the Investment Plan there was a shift from Government Bonds to Credits leading to higher Spread Risk. Lower interest rates leading to higher market values also increased Spread Risk. The net result of these effects is an increase of Spread Risk by €289 million. Decreasing credit spreads lowered the Spread Risk by €402 million and the annual calibration of the economic scenario generator lowered the Spread Risk by €56 million. The change in modelling of the Risk Margin increased Spread Risk by €55 million. The mitigating effect of the swap spread hedge increased by €58 million (2019 Q4: €-144 million vs. 2018: €-86 million).

Within the Spread risk sub risk, Achmea includes the DVA. The DVA resulted in a lower capital requirement. Achmea's DVA depends on the actual information regarding the fundamental spread at t=0 as published by EIOPA and Achmea's own application ratio.

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 2019, Achmea had no exposure to any counterparty that exceeded the Concentration Risk threshold. Therefore the SCR Market Concentration remained zero.

Currency Risk

The capital requirement for Currency Risk increased by €20 million to €114 million at the end of 2019, mainly due to increased investment in commodities and emerging markets equity.

The main unhedged exposures to foreign currencies are related to the subsidiary Eureko Sigorta S.A. and an investment in Garanti Emeklilik VE Hayat A.S.

Most foreign currency exposures in insurance and investment portfolios are hedged using currency derivatives. Achmea Reinsurance Company N.V. has exposures in several currencies 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. N.V. Hagelunie has Currency Risk in Canadian Dollar related insurance products sold in Canada. 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.

COUNTERPARTY DEFAULT RISK

€ MILLION.

	2019	2018	Δ
Reinsurance arrangements	25	29	-4
Derivatives	60	19	41
Other non-risk mitigating exposures	51	59	-8
Commitments depending on the credit standing of the counterparty	48	55	-8
Diversification	-26	-19	-8
SCR CDR on Type 1 exposures	**157**	**143**	**13**
Insurance and Intermediaries Receivables	21	24	-3
Other Credit exposures (excl. Mortgage Loans)	114	111	3
Mortgage loans	0	0	0
SCR CDR on Type 2 exposures	**135**	**136**	**-1**
Diversification	-19	-18	-1
SCR Counterparty Default Risk	**273**	**261**	**12**

The SCR CDR increased by €12 million to €273 million, which is mainly driven by the increase of the SCR CDR Type 1 exposure by €13 million to €157 million.

- The SCR for derivates increased as a result of a new risk classification applicable from Q3 2019 due to new Solvency II legislation with respect to the requirements for centrally cleared derivatives. This new legislation resulted in the Loss Given Default to increase.
- Achmea Pensioen- en Levensverzekeringen N.V. and the Rabobank agreed to a cession/retrocession and sub-participation contracts.
- The capital requirement of other non-risk mitigating exposures decreased by €8 million as a result of lower volume of Cash at bank (mainly at Achmea Group level) and improved credit standings.

The SCR Counterparty Default Risk Type 2 decreased with €-1 million to €135 million.

Derivatives

Derivatives are used to hedge undesirable risks in the investment portfolio and for efficient portfolio management. For interest management, Interest Rate Swaps and Swaptions are used to hedge interest rate risks arising from the insurance liabilities. Forward exchange contracts (FX forwards) are used for hedging currency risk. In line with the counterparty policy, positions in derivatives are collateralised. Daily collateral is exchanged with the relevant counterparties. For OTC contracts, only high rated government bonds are accepted as collateral. For positions cleared through Central Clearing the variation margin is exchanged in cash.

The capital requirement related to derivatives increased in 2019 by €41 million. Both volume as Risk Mitigating effect rises.

As per July 2019 new Solvency II legislation is applicable. Derivatives which are centrally cleared are subject to different capital requirements than derivatives which are not centrally cleared.

In order to calculate the capital requirements for derivatives (not being credit default swaps), derivatives are split into categories. Four categories of derivatives are identified:
- Derivatives - Type 1: The derivative is a CCP-related transaction in which Achmea is the client;
- Derivatives - Type 2: The derivative is a CCP-related transaction in which Achmea is the client, but Achmea is not required to be protected from losses in the event that the clearing member and another client of the clearing member jointly default;
- Derivatives - Type 3: The derivative is an OTC transaction not cleared by a CCP that falls within the requirements of Risk Mitigation techniques;
- Derivatives - Type 4: The derivative is an OTC transaction not cleared by a CCP that does not fall within the requirements of Risk Mitigation techniques.

Type 1 consists of cleared interest rate swaps, type 4 consists of bond futures and all the other derivatives are classified as type 3.

VOLUME DERIVATIVES

€ MLN.

	2019	2018	Δ
Type 1	2,014	0	2,014
Type 2	0	0	0
Type 3	2.854	0	2,854
Type 4	-6	1,701	-1,707
Total derivatives subject to CDR module -Type 1	**4.862**	**1,701**	**3,161**

The overall (collateralised) derivatives position increased by €3,161 million to €4,862 million in 2019 as did the related collateral position. This increase is mainly caused by the addition of the derivatives of Central clearing LCH in the capital requirement for CDR.

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

€ MILLION.

	2019	2018	Δ
Mortality Risk	183	209	-26
Longevity Risk	1,347	1,134	213
Disability/ Morbidity Risk	25	26	-1
Lapse Risk	338	381	-43
Expense Risk	600	599	1
Revision	0	0	0
Catastrophe Risk	140	128	12
Diversification Risk	-843	-842	-1
SCR Life	**1,791**	**1,636**	**155**

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.

Life Underwriting Risk increased (€155 million) due to the lower yield curve and decrease of the VA (24 bps to 7bps) leading to an increase of the Best Estimate and an increase of the required capital (€425 million). The capital requirement decreased due to the decreasing insurance portfolio in The Netherlands (€-145 million). Model and assumption changes led to a decrease of risk (€-124 million). Due to the change of the underlying risks the impact of diversification increased (€-1 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 2019, the relevant risk-free interest rate decreased. Ceteris Paribus other developments, this results in a higher value of the Best Estimate and related capital requirements, because the average duration of Achmea's Life portfolio is 12.1 years.

Mortality Risk

The SCR for Mortality Risk is determined by calculating the liabilities with mortality rates which are increased by 15% for future years.

The SCR for Mortality Risk has decreased by €-26 million to €183 million. The change is driven within Achmea Pensioen- en Levensverzekeringen N.V. The decrease in mortality shock is mainly caused due to changes in non-economic assumptions (€-26 million), model changes (€-10 million) and portfolio developments (€-12 million). The decrease was partly offset by an increase due to the decrease in interest rate levels (€22 million). 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 is determined by calculating the liabilities with mortality rates that are decreased by 20% for future years.

The SCR for Longevity Risk increased by €213 million from €1,134 million to €1,347 million. The increase within Achmea Pensioen- en Levensverzekeringen N.V is caused by the decrease of the yield curve, partly compensated by the impact of the closed book portfolio.

Disability/Morbidity Risk

For the Disability/Morbidity Risk in The Netherlands the capital requirements are determined using an approximation. The approximation 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 SCR for Disability/Morbidity Risk decreased by €-1 million to €25 million. Within Achmea Pensioen- en Levensverzekeringen N.V. Disability Risk decreased by €4 million due to portfolio developments due to the closed-book character of the portfolio the premium income for disability is decreasing. In 2019 a larger part of Disability Risk is modelled in the valuation models, causing a decrease of €1 million. Due to an update of the claim ratios the Disability Risk increased by €5 million. Within Achmea Reinsurance Company N.V. risk decreased by €1 million due to portfolio developments.

Lapse Risk

LAPSE RISK – LIFE

€ MILLION.

	2019	2018	Δ
Lapse Increase	117	134	-16
Lapse Decrease	66	56	11
Mass Lapse	338	381	-43
Scenario Used	Mass	Mass	

The outcome of the Mass lapse scenario decreased by €-43 million, mainly due to the decreasing portfolio of Achmea Pensioen- en Levensverzekeringen N.V. (€-57 million). Changes in non-economic assumptions caused a decrease of €-19 million, mainly because of an update of lapse assumptions. This update of lapse assumptions resulted in an increase of the Best Estimate and therefore in smaller differences between surrender value and Best Estimate, leading to a lower Lapse Risk. The decrease in interest rate levels caused the remaining impact. The mass lapse scenario is the most onerous within all entities, except for Interamerican Hellenic Life Insurance Company S.A. and Union Poistóvna A.S. (both decrease shock).

Expense Risk

The SCR for Expense Risk decreased by €1 million from €599 million to €600 million. Expense Risk is determined by calculating the impact on the liabilities where the costs are increased by 10% and the inflation rate has increased by 1%. The increase in Expense Risk is driven by the developments within Achmea Pensioen- en Levensverzekeringen N.V. The decrease in interest rate levels caused an increase in Expense Risk of €120 million. This was offset by a decrease due to changes in non-economic assumptions (€-53 million), mainly due to lower inflation rates. As of Q1 2019 the investment expenses are no longer shocked to calculate the Expense Risk. This model change, due to new EIOPA legislation, caused a decrease of €-34 million. Experience variance/portfolio developments also caused a decrease in Expense Risk (€-32 million).

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 increased by €12 million to €140 million. Catastrophe Risk is mainly driven by developments within Achmea Pensioen- en Levensverzekeringen N.V. (€7 million) and Achmea Reinsurance Company N.V. (€5 million). For the individual model the Catastrophe Risk is calculated according to a simplification, which is 0.15% of the Capital at Risk. The prescribed method is to increment the mortality rates in the first projection year by 0.15% and for the group model the mortality in the first year are increased by 0.15%.

The increase within Achmea Pensioen- and Levensverzekeringen N.V. is mainly due to improvements in the valuation models (€10 million) and change in economic assumptions (€2 million).This was offset by experience variance/portfolio developments

(€-5 million). Catastrophe Risk within Achmea Pensioen- en Levensverzekeringen N.V. is mitigated by a reinsurance contract with Achmea Reinsurance Company N.V. Last year the reinsurance mitigated risk was €12 million within Achmea Pensioen- en Levensverzekeringen N.V. This year reinsurance lowered the capital requirement for catastrophe by €-7 million and increased the risk within Achmea Reinsurance Company N.V. by €5 million.

Diversification Effects

The impact of diversification effects between sub-risks increased in 2019 by €1 million to €843 million due to the increase of the underlying sub-risks.

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 — € MILLION.

	2019	2018	Δ
Mortality	1	0	0
Longevity	28	25	2
Disability/Morbidity/Revision	220	266	-46
SLT Lapse	14	13	1
Expense	31	29	2
Diversification	-78	-82	5
SCR UR Health SLT	**215**	**251**	**-36**
NSLT Lapse	13	14	-1
Premium and Reserve	1,642	1,677	-35
Diversification	-13	-14	1
SCR UR Health NSLT	**1,642**	**1,677**	**-35**
Health catastrophe	50	59	-9
Diversification	-134	-155	21
SCR UR Health	**1,773**	**1,832**	**-59**

Mortality Risk SLT

Mortality Risk increased by almost €1 million to €1 million due to developments within Interamerican Hellenic Life Insurance Company S.A.

Longevity Risk SLT

Longevity Risk increased by €2 million to €28 million due to an increase within Achmea Schadeverzekeringen N.V. by €1 million and an increase within Interamerican Hellenic Life Insurance Company S.A. by €1 million. The increase is due to the decrease of the yield curve. Within Achmea Schadeverzekeringen N.V. this effect is partly offset by a new reinsurance contract “WIA” causing a lower volume measure.

Disability/Morbidity/Recovery Risk SLT

Health SLT Disability/Morbidity Risk (incidence + recovery) decreased by €46 million to €220 million.

Within Achmea Schadeverzekeringen N.V. Incidence Risk SLT decreased by €34 million and Recovery Risk SLT decreased by €12 million. The decrease is caused by a new reinsurance contract “WIA”. This impact is partly compensated by an increased volatility on disability inflow, which increases Disability Risk.

Lapse Risk SLT

In 2019 the “lapse decrease scenario” is the dominant scenario for Lapse Risk Health SLT on Group level. Lapse Risk increased by €1 million, mainly due to Interamerican Hellenic Life Insurance Company S.A. as a result of the decrease of the yield curve.

Expense Risk SLT

Expense Risk SLT increased by €2 million to €31 million due to a higher provision for claims handling expenses and an increased duration of the portfolio as a result of an increasing part of long-term disability products within Achmea Schadeverzekeringen N.V.

HEALTH NSLT

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

LAPSE RISK NSLT

Lapse Health NSLT decreased by €-1 million to €13 million due to the portfolio development within Achmea Schadeverzekeringen N.V. and Interamerican Hellenic Life Insurance Company S.A. 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. Due to DNB guidelines for LoB Medical Expenses Lapse Risk does not have to be taken into account for Achmea Zorgverzekeringen N.V (consolidated) and its subsidiaries.

Premium and Reserve Risk Health NSLT

Health NSLT Premium and Reserve Risk is mainly driven by the developments within the Health insurance business in The Netherlands (Achmea Zorgverzekeringen N.V. consolidated). The capital requirement decreased by €-35 million to €1,642 million and is caused by a lower premium volume 2020 and a lower Risk. The lower premium volume is due to a decrease in the number of insured. The lower Reserve Risk is due to a decrease of temporarily backlogs within the hospitals and two provisional settlements by Zorginstituut Nederland with regard to 2016 and 2018. In addition, Health Underwriting Risk has decreased by the new 50% Quota Share reinsurance contract “WIA” of Achmea Schadeverzekeringen N.V. and results in both a decrease of Incidence Risk and Recovery Risk, partly offset by increased Best Estimates of technical provisions due to the decreased yield curve.

HEALTH CATASTROPHE RISK

HEALTH CATASTROPHE RISK

€ MILLION.

	2019	2018	Δ
Mass Accident Risk	14	20	-7
Accident Concentration Risk	20	34	-14
Pandemic Risk	44	44	-0
Diversification	-27	-39	12
SCR CAT Risk Health	**50**	**59**	**-9**

Health Catastrophe Risk decreased by €-9 million to €50 million mainly due to changes within Achmea Schadeverzekeringen N.V. The change of the underlying health catastrophe scenario in which the temporary incapacity for work has been cancelled and replaced by higher risk factors for permanent incapacity for work has a drastic effect. As a result the “WGA” coverage within “WIA” is no longer included in Catastrophe Risk. Within Achmea Reinsurance risk increased due to several new contracts.

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 78% (2018: 81%) of Non-Life Underwriting Risk is based on the PIM (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 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

€ MILLION.

	2019	2018	Δ
Lapse	132	119	13
Premium and Reserve	590	592	-2
Catastrophe	525	431	94
Diversification	-355	-319	-36
SCR UR Non-Life	**892**	**823**	**69**

Underwriting Risk Non-Life increased by €69 million from €823 million to €892 million. Approximately 42% of Non-Life Underwriting Risk is driven by Achmea Schadeverzekeringen N.V., 25% by Achmea Reinsurance Company N.V., 24% by Eureko Sigorta A.S., 3% by N.V. Hagelunie, 5% by Interamerican Property & Casualty insurance Company S.A and 1% by Union Poisťovňa A.S.

Lapse Risk

The SCR of Non-Life Lapse Risk is modelled according to the SF and increased by €13 million from €119 million to €132 million. In The Netherlands, Lapse Risk increased by €16 million within Achmea Schadeverzekeringen N.V. due to the changed treatment of reinsurance premiums. Last year it was assumed in line with the determination of the reinsurance recoverables that the reinsurance premiums were spread out over the year, as a result of which a portion of the reinsurance premium did not have to be paid in the event of a mass lapse of the portfolio. This year the actual cash flows of the reinsurance contracts (in the reinsurance recoverables as well as in the calculation of the Lapse Risk) are taken into account. As a result, paid reinsurance premiums cannot be reclaimed from the reinsurers in the event of a mass lapse. This increases the Lapse Risk. The remaining impact is due to portfolio changes within N.V. Hagelunie (€-2 million), Achmea Reinsurance Company N.V. (€-2 million) and Interamerican Assistance General Insurance Company S.A. (€1 million).

Premium & Reserve Risk

Premium & Reserve Risk is modelled according to the PIM of Achmea and decreased by €-2 million to €590 million. The most important reason for the decrease of Premium & Reserve Risk in The Netherlands is due to increased diversification as the result of adjusting the correlations between homogeneous groups within the Premium & Reserve Risk by the expert panel correlations. This is partly compensated as a result of an increase in volumes. In particular within MTPL, due to additions to the provisions for bodily injuries.

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[11].

[11] Man-made and Other is modelled according to the Standard Formula.

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

	2019	2018	Δ
Natural Catastrophe Risk	360	298	62
Man-Made Catastrophe Risk	331	276	55
Catastrophe Risk of Non-Proportional property reinsurance	53	38	15
Diversification	-219	-181	-38
SCR Catastrophe Risk Non-Life	**525**	**431**	**94**

Non-Life Catastrophe Risk increased by €94 million in 2019 to €525 million. Catastrophe Risk increased due to rating downgrades of reinsurers of Eureko Sigorta A.S. and within Achmea Schadeverzekeringen N.V. due to a higher exposure of the residential portfolio due to indexation. Taking into account the impact of climate change resulted into a higher risk within Achmea Schadeverzekeringen N.V. and N.V. Hagelunie.

The increase of exposure of the residential portfolio due to indexation is based on a query from the statistics department of the Dutch Association of Insurers.

E.2.3.6. INTANGIBLE ASSET RISK

INTANGIBLE ASSET RISK € MILLION.

	2019	2018	Δ
Intangible Asset Risk	0	0	0
SCR Intangible Assets	**0**	**0**	**0**

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

E.2.3.7. OPERATIONAL RISK

OPERATIONAL RISK € MILLION.

	2019	2018	Δ
SCR OR based on Technical Provisions	412	405	7
SCR OR based on Earned Premiums	588	583	5
Charge before Capping	588	583	5
CAP BSCR	1,366	1,387	-21
Charge after capping	588	583	5
Expenses Unit Linked Business	46	53	-6
Charge related to Expenses Unit Linked Business (25%)	12	13	-2
SCR Operational Risk	**599**	**596**	**4**

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

Operational Risk increased by €4 million to €599 million as a consequence of the increased premium volumes in 2019 in the Health insurance portfolio. The decrease of the expenses Unit Linked business causes a decrease in the Operational Risk of €2 million.

OPERATIONAL RISK – SENSITIVE SCENARIO

	2019	2018
Achmea Pensioen- en Levensverzekeringen N.V.	Provision	Provision
Achmea Schadeverzekeringen N.V.	Premium	Premium
N.V. Hagelunie	Premium	Premium
Achmea Reinsurance Company N.V.	Premium	Provision
Achmea Zorgverzekeringen N.V. (consolidated)	Premium	Premium
Achmea Zorgverzekeringen N.V. (non-look through)	Premium	Premium
Zilveren Kruis Zorgverzekeringen N.V.	Premium	Premium

Interpolis Zorgverzekeringen N.V.	Premium	Premium
FBTO Zorgverzekeringen N.V.	Premium	Premium
De Friesland Zorgverzekeraar N.V.	Premium	Premium
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.	Provision	Premium

During 2019 Achmea Reinsurance Company N.V. and Eureko Sigorta A.S. changed into a sensitive scenario.

E.2.3.8. LOSS-ABSORBING CAPACITY OF EXPECTED PROFITS

LOSS-ABSORBING CAPACITY OF EXPECTED PROFITS

€ MILLION.

	2019	2018	Δ
LACEP Underwriting Risk	-73	-67	-6
LACEP Market Risk	-148	-138	-10
Total LACEP	**-221**	**-206**	**-16**

With the introduction of the PIM for Market Risk, Achmea introduced a Loss-Absorbing Capacity of Expected Profits (LACEP) related to Market Risk. The capital requirements calculated for several parts of Market Risk are based on the "Profit-at-Risk". The SCR is based on the "Value-at-Risk". The adjustment to arrive from "Profit-at-Risk" to "Value-at-Risk" is included as part of the LACEP.

The impact of the LACEP Underwriting Risk increased by €6 million caused by improved profitability of the insurance portfolio.

The impact of the LACEP Market Risk increased by €10 million due to increased volume and market value of the investments.

Within the SF the LACEP is not applicable due to the fact that it is assumed that the impact is already included in the various SF parameters.

E.2.3.9. LOSS ABSORBING CAPACITY OF TECHNICAL PROVISIONS

The Loss-Absorbing Capacity of Technical Provisions (LACTP) is negligible as was the case in 2018.

E.2.3.10. LOSS-ABSORBING CAPACITY DEFERRED TAXES

LOSS ABSORBING CAPACITY DEFERRED TAXES

The amount recognised as LACDT 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 LACDT is determined on the level of the individual legal insurance entities subject to the local fiscal legislation. On Group level the solo determined LACDT is aggregated taking the diversification effects into account.

LOSS-ABSORBING CAPACITY OF DEFERRED TAXES

€ MILLION.

	2019	2018	Δ
SCR Loss-Absorbing Capacity of Deferred taxes	**-619**	**-582**	**-37**

The following LACDT-outcomes were recognised on solo level:

RECOGNISED ADJUSTMENT FACTOR ON SOLO LEVEL (ADJ$_{DT}$) PIM — € MILLION

	2019	2018
Achmea Pensioen- en Levensverzekeringen N.V.	543	456
Achmea Schadeverzekeringen N.V.	234	249
N.V. Hagelunie	15	14
Achmea Reinsurance Company N.V.	41	29
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	16
Union Poist'ovna A.S.	3	2
Eureko Sigorta A.S.	0	0
Total without applying guideline 22	**851**	**766**
Diversification	232	184
Total recognised for ADJDT Achmea	**619**	**582**

The adjustment LACDT increased by €37 million from €582 million to €619 million.

The adjustment based on the diversification effect recognised at Achmea Group level is 72.7% (2018: 75.9%).

The increase of the impact of the LACDT Achmea Group is mainly caused by an increase of the LACDT for the Dutch insurance entities, especially Achmea Pensioen- en Levensverzekeringen N.V. The increase is the result of higher recognised LACDT amounts in the underlying entities. This is the result of increased maximum LACDT amounts and the reduction in the DTA which improved the recoverability.

E.2.3.11. OTHER COMPONENTS OF THE GROUP REQUIREMENTS

OTHER FINANCIAL SECTORS

SCR OTHER FINANCIAL SECTORS & OTHER ENTITIES — € MILLION.

	2019	2018	Δ
Non Ancillary entities	22	50	-28
Union Zdravotna Poistovna AS	17	17	0
Other	0	0	0
Total SCR Other financial sectors & Other Entities	**39**	**66**	**-28**

The capital requirement of Union Zdravotna Poist'ovna A.S. has remained unchanged. The capital requirement of €17 million (2018: €17 million) is equal to the legal minimum requirement in Slovakia of a health insurance company.

The other capital requirement decreased by €-28 million compared to 2018. The Non Ancillary entities are entities that are part of Achmea but undertake no activities which are supporting the insurance entities. These are classified as a Non Ancillary service entity. The decrease is caused by a decrease of the underlying adjusted net asset value and the liquidation of Achmea Friends First Holding DAC and Achmea Health Centers B.V.

E.2.4. MINIMUM CAPITAL REQUIREMENT

The following table shows the MCR of Achmea at the end of 2019 and 2018.

MINIMUM CAPITAL REQUIREMENT PIM

€ MILLION.

	2019	2018	Δ
Solvency Capital Requirement	4,313	4,431	-118
Minimum Capital Requirement	2,374	2,354	20
MCR/SCR (%)	**55%**	**53%**	**2%**

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)[12]. 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 increase in MCR by €20 million is mainly caused by an increase in the underlying MCR of Achmea Pensioen- en Levensverzekeringen N.V. (€16 million), IAG Interamerican Hellenic Life Insurance Company S.A. (€2 million) and Union Poist'ovna A.S. (€2 million). The MCR for Achmea Pensioen- en Levensverzekeringen N.V. is in 2018 and 2019 capped at 45% of the (increased) SCR.

MINIMUM CAPITAL REQUIREMENT (RE)INSURANCE ENTITIES

€ MILLION.

	2019	2018	Δ
Achmea Pensioen- en Levensverzekeringen N.V.	1,031	1,015	16
Achmea Schadeverzekeringen N.V.	343	343	0
N.V. Hagelunie	11	11	0
Achmea Reinsurance company N.V.	35	34	1
Achmea Zorgverzekeringen N.V. (Consolidated)	859	860	-1
Union Poist´ovna A.S.	10	7	3
Eureko Sigorta A.S.	22	23	-1
Interamerican Assistance General Insurance Company S.A.	4	4	0
Interamerican Property & Casualty Insurance Company S.A.	34	34	0
Interamerican Hellenic Life Insurance Company S.A.	25	23	2

IMPACT OF VOLATILITY ADJUSTMENT ON THE MCR

€ MILLION.

	INCLUDING VA	EXCLUDING VA	IMPACT VA
SCR	4,352	5,645	1,293
MCR	2,374	2,519	145
MCR/SCR (%)	**55%**	**45%**	**11%**

The use of the VA has an impact on the MCR because the value of the Best Estimate is higher when the VA is not used (lower discount rate).

[12] The contribution to the MCR Group of the foreign entities of Greece is based on fast close figures.

E.3. USE OF THE DURATION BASED EQUITY SUB-MODULE IN THE CALCULATION OF THE SCR

Achmea does not use the duration-based Equity sub-module.

E.4. DIFFERENCES BETWEEN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

For a description of the differences between the 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	14 April 2020
Interamerican Hellenic Life Insurance Company S.A.	https://www.interamerican.gr/interamerican/oikonomika-stoixeia	7 April 2020
Interamerican Property & Casualty Insurance Company S.A.	https://www.interamerican.gr/interamerican/oikonomika-stoixeia	7 April 2020
Interamerican Assistance General Insurance Company S.A.	https://www.interamerican.gr/interamerican/oikonomika-stoixeia	7 April 2020
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
- 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 LACDT. 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

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	46,447	3,779	2,291	164.9%	178.2%
Last Liquid Point 30 years	48,049	2,281	3,002	76.0%	100.1%
Equity prices -20%	46,447	3,530	2,266	155.7%	169.0%
Property prices -20%	46,447	3,530	2,304	153.2%	167.6%

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS

€ MILLION.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	IMPACT VA
Technical provisions (gross)	46,447	46,740	293
Technical provisions – Life (excluding Health and index-linked and Unit Linked)	38,126	38,416	290
Technical provisions – index-linked and Unit Linked	8,321	8,325	4
Recoverables from reinsurance	126	126	0
Technical provisions – Life (excluding Health and index-linked and Unit Linked)	126	126	0
Technical provisions – index-linked and Unit Linked	0	0	0
Technical provisions minus recoverables from reinsurance	46,321	46,614	293
Technical provisions – Life (excluding Health and index-linked and Unit Linked)	38,000	38,290	290
Technical provisions – index-linked and Unit Linked	8,321	8,325	4

IMPACT ULTIMATE FORWARD RATE ON SOLVENCY CAPITAL REQUIRMENT

€ MILLION.

	UFR 3,75%	UFR 3.55%
Market Risk	1,575.525	1,539.310
Counterparty Default Risk	112.994	112.994
Life Underwriting Risk	1,820.870	1,836.058
Diversification	-782.318	-775.949
Basic SCR	**2,727.070**	**2,712.412**
Operational Risk	176.250	176.745
LACTP	-84.777	-84.777
LACDT	-537.496	-531.569
Solvency Capital Requirement	**2,281.047**	**2.272.811**

Achmea Schadeverzekeringen N.V.

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	5,709	1,126	763	147,5%	140.6%
Equity prices -20%	5,709	1,046	743	140,7%	135.5%
Property prices -20%	5,709	1,116	763	146,3%	138.4%

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS

€ MILLION.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	IMPACT VA
Technical provisions (gross)	5,709	5,729	20
Technical provisions – Non-Life (excluding Health)	2,607	2,614	7
Technical provisions – Health (similar to Non-Life)	344	345	1
Technical provisions – Health (similar to Life)	2,757	2,771	14
Recoverables from reinsurance	239	241	2
Reinsurance recoverables – Non-Life (excluding Health)	92	92	0
Reinsurance recoverables – Health (similar to Non-Life)	0	0	0
Reinsurance recoverables – Health (similar to Life)	147	148	1
Technical provisions minus recoverables from reinsurance	5,470	5.488	18
Technical provisions – Non-Life (excluding Health)	2,515	2,522	7
Technical provisions – Health (similar to Non-Life)	344	345	1
Technical provisions – Health (similar to Life)	2,610	2,623	13

N.V. Hagelunie

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	35	194	44	443.6%	418.6%
Equity prices -20%	35	190	43	440.6%	416.8%

Appendix 2: Sensitivities

IMPACT OF VOLATILTY ADJUSTMENT ON TECHNICAL PROVISIONS

€ MILLION.

	ECONOMIC BALANCE SHEET	EXCLUDING VA	IMPACT VA
Technical provisions (gross)	36	36	0
Technical provisions – Non-Life (excluding Health)	36	36	0
Recoverables from reinsurance	3	3	0
Reinsurance recoverables – Non-Life (excluding Health)	3	3	0
Technical provisions minus recoverables from reinsurance	33	33	0
Technical provisions – Non-Life (excluding Health)	33	33	0

Achmea Reinsurance Company N.V.

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	756	284	133	214.3%	185.4%
Equity prices -20%	756	262	131	199.3%	176.4%

Achmea Zorgverzekeringen N.V. (consolidated)

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	4,352	3,311	2,102	157.5%	151.0%
Equity prices -20%	4,352	3,203	2,073	154.5%	147.6%

Achmea Zorgverzekeringen N.V. (solo)

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	134	3,311	774	428.0%	413.5%
Equity prices -20%	134	3,277	754	434.7%	415.5%

Interpolis Zorgverzekeringen N.V.

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	139	122	70	174.6%	201.7%
Equity prices -20%	139	118	69	171.9%	198.9%

Zilveren Kruis Zorgverzekeringen N.V

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	3,431	2,129	1,481	143.8%	138.1%
Equity prices -20%	3,431	2,075	1,468	141.3%	135.9%

De Friesland Zorgverzekeraar N.V.

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2019	SOLVENCY RATIO 2018
Baseline	429	317	209	151.9%	146.6%
Equity prices -20%	429	306	205	148.9%	143.2%

FBTO Zorgverzekeringen N.V.

SENSITIVITIES

€ MILLION.

	TECHNICAL PROVISIONS	OWN FUNDS	SCR	SOLVENCY RATIO 2018	SOLVENCY RATIO 2018
Baseline	220	132	91	145.9%	131.9%
Equity prices -20%	220	129	90	143.5%	129.5%

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

Non-Life

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

€ MILLION.

	2019					
	MEDICAL EXPENSE INSURANCE	FIRE AND OTHER DAMAGE TO PROPERTY INSURANCE	MOTOR VEHICLE LIABILITY INSURANCE	OTHER MOTOR INSURANCE	OTHER	TOTAL
Gross written Premiums	14,198	1,160	884	612	1,074	17,929
Net earned Premiums	14,199	1,044	826	584	961	17,614
Claims Incurred (net)	13,619	561	632	347	595	15,755
Expenses Incurred	535	359	238	195	378	1,705

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

€ MILLION.

	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	1,017	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	358	1,649

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

€ 1,000

MOTOR THIRD PARTY LIABILITY	2019			2018		
	ASNV	HAGELUNIE	ACHMEA RE	ASNV	HAGELUNIE	ACHMEA RE
Gross written Premiums	753	0	0	658	0	0
Net earned Premiums	699	0	0	647	0	0
Claims Incurred (net)	562	0	0	492	0	0
Expenses Incurred	203	0	0	195	0	0
MOTOR OTHER	ASNV	HAGELUNIE	ACHMEA RE	ASNV	HAGELUNIE	ACHMEA RE
Gross written Premiums	539	0	0	505	0	0
Net earned Premiums	509	0	0	491	0	0
Claims Incurred (net)	295	0	0	283	0	0
Expenses Incurred	178	0	0	157	0	0
FIRE	ASNV	HAGELUNIE	ACHMEA RE	ASNV	HAGELUNIE	ACHMEA RE
Gross written Premiums	899	91	28	880	85	23
Net earned Premiums	822	48	29	808	49	22
Claims Incurred (net)	480	15	37	514	41	18
Expenses Incurred	299	18	9	304	13	6

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%.

Appendix 3: Premiums, claims and expenses per line of business

PREMIUMS, CLAIMS AND EXPENSES LIFE BY LINE OF BUSINESS

€ MILLION.

	2019					
	HEALTH INSURANCE	INSURANCE WITH PROFIT PARTICIPATION	INDEX-LINKED AND UNIT LINKED INSURANCE	OTHER LIFE INSURANCE	OTHER	TOTAL
Gross written Premiums	366	87	522	608	85	1,668
Net earned Premiums	340	82	522	608	3	1,555
Claims Incurred (net)	272	406	1,801	785	59	3,322
Expenses Incurred	107	60	63	96	29	355

PREMIUMS, CLAIMS AND EXPENSES LIFE BY LINE OF BUSINESS

€ MILLION.

	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

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

ECONOMIC BALANCE SHEET

ASSETS	2019 ACHMEA PENSIOEN LEVENSVERZEKERINGEN N.V.	ACHMEA REINSURANCE COMPANY N.V.	ACHMEA SCHADEVERZEKERINGEN N.V.	N.V. HAGELUNIE	ACHMEA ZORGVERZEKERINGEN N.V. (SOLO)	ZILVEREN KRUIS ZORGVERZEKERINGEN N.V.	DE FRIESLAND ZORGVERZEKERAAR N.V.	FBTO ZORGVERZEKERINGEN N.V.	INTERPOLIS ZORGVERZEKERINGEN N.V.
Intangible assets	0	0	0	0	0	0	0	0	0
Deferred Tax Assets	715	0	0	0	0	0	0	0	0
Property, plant & equipment held for own use	0	0	1	0	0	0	0	0	0
Investments (other than assets held for index-linked and Unit Linked contracts)	37,083	896	5,837	224	3,355	2,440	320	151	119
Property (other than for own use)	1,027	0	0	0	3	0	0	0	0
Holdings in related undertakings, including participations	1,437	0	153	0	2,711	0	2	0	0
Equities	472	84	255	17	111	208	39	13	12
Bonds	17,692	262	5,015	187	445	2,018	264	119	88
Collective Investments Undertakings	511	69	317	20	69	63	12	4	4
Derivatives	6,095	1	7	0	1	2	0	0	0
Deposits other than cash equivalents	0	468	24	0	15	150	0	15	15
Other investments	9,850	13	66	0	0	-0	4	0	0
Assets held for index-linked and Unit Linked funds	8,870	0	0	0	0	0	0	0	0
Loans and mortgages	7,613	0	928	0	4	4	28	0	0
Reinsurance recoverables	126	133	239	3	0	0	0	0	0
Deposits to cedants	0	6	0	0	0	0	0	0	0
Insurance and intermediaries receivables	41	32	123	2	17	2,120	285	104	79
Reinsurance receivables	0	1	0	1	0	0	0	0	0
Receivables	156	2	38	5	58	1,304	138	83	51
Cash and cash equivalents	199	14	111	11	43	42	34	37	20
Any other assets, not elsewhere shown	6	28	120	3	1	4	6	0	0
Total assets	**54,810**	**1,113**	**7,399**	**249**	**3,479**	**5,914**	**811**	**375**	**270**

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

ECONOMIC BALANCE SHEET

	2019								
LIABILITIES	ACHMEA PENSIOEN LEVENSVE RZEKERING EN N.V.	ACHMEA REINSURANCE COMPANY N.V.	ACHMEA SCHADEVERZ EKERINGEN N.V.	N.V. HAGELUNIE	ACHMEA ZORGVERZEK ERINGEN N.V. (SOLO)	ZILVEREN KRUIS ZORGVERZEK ERINGEN N.V.	DE FRIESLAND ZORGVERZEK ERAAR N.V.	FBTO ZORGVERZEK ERINGEN N.V.	INTERPOLIS ZORGVERZEK ERINGEN N.V.
Technical provisions – Non-Life (excluding Health)	0	192	2,607	36	0	0	0	0	0
Technical provisions - Health (similar to Non-Life)	0	1	344	0	134	3,431	429	220	139
Technical provisions - Health (similar to Life)	0	81	2,757	0	0	0	0	0	0
Technical provisions – Life (excluding Health and index-linked and Unit Linked)	38,126	482	0	0	0	0	0	0	0
Technical provisions – index-linked and Unit Linked	8,321	0	0	0	0	0	0	0	0
Provisions other than technical provisions	5	0	8	1	0	0	0	0	0
Deposits from reinsurers	0	2	0	0	0	0	0	0	0
Deferred Tax Liabilities	0	10	159	11	0	0	0	0	0
Derivatives	1,363	1	12	0	0	1	0	0	0
Financial liabilities other than debts owed to credit institutions	2	0	1	0	0	0	0	0	0
Insurance & intermediaries payables	699	5	137	0	0	284	24	23	9
Reinsurance payables	2	32	57	0	0	0	0	0	0
Payables (trade, not insurance)	79	5	99	2	5	40	14	0	0
Subordinated liabilities not in Basic Own Funds	0	0	0	0	0	0	0	0	0
Subordinated liabilities in Basic Own Funds	0	0	0	0	0	0	0	21	0
Any other liabilities, not elsewhere shown	2,064	18	83	4	20	28	2	0	0
Total liabilities	**50,660**	**829**	**6,266**	**55**	**159**	**3,785**	**469**	**265**	**149**
Excess of assets over liabilities	**4,150**	**284**	**1,133**	**194**	**3,320**	**2,129**	**342**	**111**	**122**

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

ECONOMIC BALANCE SHEET

	2018								
ASSETS	ACHMEA PENSIOEN LEVENSVERZEKERINGEN N.V.	ACHMEA REINSURANCE COMPANY N.V.	ACHMEA SCHADEVERZEKERINGEN N.V.	N.V. HAGELUNIE	ACHMEA ZORGVERZEKERINGEN N.V. (SOLO)	ZILVEREN KRUIS ZORGVERZEKERINGEN N.V.	DE FRIESLAND ZORGVERZEKERAAR N.V.	FBTO ZORGVERZEKERINGEN N.V.	INTERPOLIS ZORGVERZEKERINGEN N.V.
Intangible assets	0	0	0	0	0	0	0	0	0
Deferred Tax Assets	622	0	0	0	0	0	0	0	0
Property, plant & equipment held for own use	1	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	2,493	364	144	136
Property (other than for own use)	820	0	0	0	3	0	0	0	0
Holdings in related undertakings, including participations	1,008	0	140	0	2,823	1,393	7	0	0
Equities	522	72	203	21	181	0	269	81	82
Bonds	16,395	261	4,865	191	255	1,066	79	62	44
Collective Investments Undertakings	578	61	273	0	30	0	1	0	0
Derivatives	3,176	1	6	0	0	0	0	0	0
Deposits other than cash equivalents	1	457	15	0	20	35	2	0	10
Other investments	10,452	0	72	0	11	-0	5	0	0
Assets held for index-linked and Unit Linked funds	8,123	0	0	0	0	0	0	0	0
Loans and mortgages	7,813	0	842	0	3	0	21	0	0
Reinsurance recoverables	162	99	162	2	0	0	0	0	0
Deposits to cedants	0	5	0	0	0	0	0	0	0
Insurance and intermediaries receivables	12	0	153	1	19	2,053	316	113	82
Reinsurance receivables	1	1	12	4	0	0	0	0	0
Receivables	297	5	105	0	41	1,295	176	87	53
Cash and cash equivalents	418	16	121	5	6	100	7	53	19
Any other assets, not elsewhere shown	43	5	115	8	1	9	7	0	0
Total assets	**50,441**	**983**	**7,086**	233	**3,393**	**5,950**	**890**	**396**	**290**

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

ECONOMIC BALANCE SHEET

	2018								
LIABILITIES	ACHMEA PENSIOEN LEVENSVE RZEKERING EN N.V.	ACHMEA REINSURANCE COMPANY N.V.	ACHMEA SCHADEVERZ EKERINGEN N.V.	N.V. HAGELUNIE	ACHMEA ZORGVERZEK ERINGEN N.V. (SOLO)	ZILVEREN KRUIS ZORGVERZEK ERINGEN N.V.	DE FRIESLAND ZORGVERZEK ERAAR N.V.	FBTO ZORGVERZEK ERINGEN N.V.	INTERPOLIS ZORGVERZEK ERINGEN N.V.
Technical provisions – Non-Life (excluding Health)	0	202	2,504	35	0	0	0	0	0
Technical provisions - Health (similar to Non-Life)	0	1	326	0	159	3,493	508	237	132
Technical provisions - Health (similar to Life)	0	42	2,625	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
Technical provisions – index-linked and Unit Linked	7,695	0	0	0	0	0	0	0	0
Provisions other than technical provisions	4	0	17	0	0	0	0	0	0
Deposits from reinsurers	0	1	0	0	0	0	0	0	0
Deferred Tax Liabilities	0	3	129	11	0	0	0	0	0
Derivatives	209	1	14	0	0	0	0	0	0
Financial liabilities other than debts owed to credit institutions	2	0	15	0	10	-0	26	0	0
Insurance & intermediaries payables	528	14	134	0	0	289	15	22	16
Reinsurance payables	0	1	10	0	0	0	0	0	0
Payables (trade, not insurance)	24	0	205	2	15	32	3	14	6
Subordinated liabilities not in Basic Own Funds	0	0	0	0	0	0	0	0	0
Subordinated liabilities in Basic Own Funds	0	0	0	0	0	0	0	21	0
Any other liabilities, not elsewhere shown	1,585	7	23	0	17	11	4	2	0
Total liabilities	**46,137**	**734**	**6,003**	49	**201**	**3,825**	**556**	**295**	**154**
						0			
Excess of assets over liabilities	**4,304**	**250**	**1,084**	184	**3,192**	**2,125**	**334**	**101**	**137**

APPENDIX 5: SOLVENCY CAPITAL REQUIREMENT DUTCH (RE)INSURANCE ENTITIES

SOLVENCY CAPITAL REQUIREMENT

€ MILLION.

	2019								
	ACHMEA PENSIOEN LEVENSVERZEKERINGEN N.V.	ACHMEA REINSURANCE COMPANY N.V.	ACHMEA SCHADEVERZEKERINGEN N.V.	N.V. HAGELUNIE	ACHMEA ZORGVERZEKERINGEN N.V. (SOLO)	DE FRIESLAND ZORGVERZEKERAAR N.V.	FBTO ZORGVERZEKERINGEN N.V.	INTERPOLIS ZORGVERZEKERINGEN N.V.	ZILVEREN KRUIS ZORGVERZEKERINGEN N.V.
Market Risk	1,608	78	495	21	660	33	10	9	150
Counterparty Default Risk	113	13	62	10	12	3	3	3	35
Life Underwriting Risk	1,810	45	0	0	0	0	0	0	0
Health Underwriting Risk	0	15	270	0	193	153	68	51	1,116
Non-Life Underwriting Risk	0	108	605	47	0	0	0	0	0
Diversification	-788	-87	-450	-16	-129	-24	-9	-8	-128
Intangible Asset Risk	0	0	0	0	0	0	0	0	0
Basic Solvency Capital Requirement	2,743	171	983	62	736	165	72	55	1,173
Operational Risk	176	11	107	3	37	43	19	14	308
Loss-Absorbing Capacity of Expected Profits	0	-9	-93	-7	0	0	0	0	0
Loss-Absorbing Capacity of Technical Provisions	-0	0	0	0	0	0	0	0	0
Loss-Absorbing Capacity of Deferred Taxes	-543	-41	-234	-15	0	0	0	0	0
Other Deductions & Additions	0	0	0	0	0	0	0	0	0
Solvency Capital Requirement	**2,291**	**133**	**763**	**44**	**774**	**209**	**91**	**70**	**1,481**

SOLVENCY CAPITAL REQUIREMENT

€ MILLION.

	2018								
	ACHMEA PENSIOEN LEVENSVERZEKERINGEN N.V.	ACHMEA REINSURANCE COMPANY N.V.	ACHMEA SCHADEVERZEKERINGEN N.V.	N.V. HAGELUNIE	ACHMEA ZORGVERZEKERINGEN N.V. (SOLO)	DE FRIESLAND ZORGVERZEKERAAR N.V.	FBTO ZORGVERZEKERINGEN N.V.	INTERPOLIS ZORGVERZEKERINGEN N.V.	ZILVEREN KRUIS ZORGVERZEKERINGEN N.V.
Market Risk	1,633	83	500	14	649	29	9	8	128
Counterparty Default Risk	98	11	73	5	9	2	3	2	42
Life Underwriting Risk	1,644	41	0	0	0	0	0	0	0
Health Underwriting Risk	0	11	317	0	205	162	70	51	1,134
Non-Life Underwriting Risk	0	94	580	50	0	0	0	0	0
Diversification	-752	-80	-476	-11	-132	-21	-8	-7	-119
Intangible Asset Risk	0	0	0	0	0	0	0	0	0
Basic Solvency Capital Requirement	2,623	161	994	59	731	172	74	54	1,185
Operational Risk	169	8	103	3	40	42	19	14	304
Loss-Absorbing Capacity of Expected Profits	0	-5	-87	-3	0	0	0	0	0
Loss-Absorbing Capacity of Technical Provisions	-0	0	0	0	0	0	0	0	0
Loss-Absorbing Capacity of Deferred Taxes	-456	-29	-249	-14	0	0	0	0	0
Other Deductions & Additions	0	0	0	0	0	0	0	0	0
Solvency Capital Requirement	**2,256**	**135**	**761**	**44**	**770**	**214**	**92**	**68**	**1,489**

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

- "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".
- "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

- "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.

- "<u>Discontinuance</u>" 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.
- "<u>Diversification effects</u>" 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

- "<u>Earned premiums</u>" means the premiums relating to the risk covered by the insurance or reinsurance undertaking during a specified time period.
- "<u>EIOPA</u>" means the European Insurance and Occupational Pensions Authority.
- "<u>Eligible Own Funds"</u> are those components of the Available Own Funds which can be used to cover the SCR.
- "<u>EMIR</u>" means the European Market Infrastructure Regulation, which imposes requirements to improve transparency and reduce the risks associated with the derivatives market.
- "<u>Equity Risk</u>" 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%).
- <u>"Events after the reporting period"</u> 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).
- "<u>Existing insurance or reinsurance contract</u>" means an insurance or reinsurance contract for which insurance or reinsurance obligations have been recognised.
- "<u>Expected profit included in future premiums</u>" 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.
- "<u>Expense Risk</u>" 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.
- <u>"External credit assessment institution</u>" ("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

- <u>"Future discretionary bonuses</u>" 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

- "<u>Group</u>" 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.

I

- "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 SCR (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.
- "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 (LACDT)" means the possibility to have a loss absorbency related to the possibility to recover the capital requirement as part of the deferred taxes.
- "Loss Absorbing Capacity of Expected Profits (LACEP)" 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 or 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.

R

- “Regulated market” means either of the following:
  (a) in the case of a market situated in a Member State, a regulated market as defined in Article 4(1)(14) of Directive 2004/39/EC (a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments - in the system and in accordance with its non-discretionary rules - in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly); or
  (b) in the case of a market situated in a third country, a financial market which fulfils the following conditions: (i) it is recognised by the home Member State of the insurance undertaking and fulfils requirements comparable to those laid down in Directive 2004/39/EC; and (ii) the financial instruments dealt in on that market are of a quality comparable to that of the instruments dealt in on the regulated market or markets of the home Member State.
- “Regulated undertaking” means “regulated entity” within the meaning of Article 2(4) of Directive 2002/87/EC of the European Parliament and of the Council (a credit institution, an insurance undertaking or an investment firm).
- “Relegation of Tier 3” implies a situation where the insurance undertaking has recognised a net Deferred Tax Asset which exceeds the Tier 3 limit of 15% of the SCR. An excess above this 15% is deemed not eligible to cover the SCR.
- “Reinsurance” means either of the following: (a) the activity consisting in accepting risks ceded by an insurance undertaking or third-country insurance undertaking, or by another reinsurance undertaking or third-country reinsurance undertaking; or (b) in the case of the association of underwriters known as Lloyd’s, the activity consisting in accepting risks, ceded by any member of Lloyd’s, by an insurance or reinsurance undertaking other than the association of under writers known as Lloyd’s.
- “Reinsurance undertaking” means an undertaking which has received authorisation to pursue reinsurance activities.
- “Related undertaking” means either a subsidiary undertaking or other undertaking in which a participation is held, or an undertaking linked with another undertaking by a relationship as set out in Article 22(7) of Directive 2013/34/EU ((a) that undertaking and one or more other undertakings are managed on a unified basis in accordance with: (i) a contract concluded with that undertaking, or (ii) the memorandum or articles of association of those other undertakings; or (b) the administrative, management or supervisory bodies of that undertaking and of one or more other undertakings to which it is not related consist in the majority of the same persons in office during the financial year and until the consolidated financial statements are drawn up)
- “Reporting currency”, unless otherwise required by the supervisory authority, shall be: (a) for individual disclosure, the currency used for the preparation of the insurance or reinsurance undertaking’s financial statements; (b) for group disclosure, the currency used for the preparation of the consolidated financial statements.
- “Required capital”. Reference is made to the definition included at “Capital requirement”.
- “Risk-free Interest discount rate”. Reference is made to the definition included at “Basic risk-free interest rate tem structure”.
- “Revision Risk” means the risk of loss or of adverse change in the value of 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 EOF into three Tiers which present the quality characteristics of the components of the EOF. 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.