Embedded Value Report 2014

achmea

CONTENT OF REPORT

This report presents the embedded value (EV) of the life business of Achmea Group ('Achmea') as at 31 December 2014. Embedded value supports shareholders' understanding of the value of their interests in the company. It enables them to assess the company's financial performance over time. The covered business in this report is all business reported as life business to the local regulators. Achmea has insurance activities in The Netherlands (Achmea) and in Greece (InterAmerican), Ireland (Friends First) and Slovakia (Union). From 2016 European insurance companies will report using the Solvency II framework. Achmea is on track in the preparation for these calculations. In the transition towards reporting Solvency II, Achmea has chosen to use the Solvency II process for the EV calculations and align the EV and its assumptions as much as possible with Solvency II. Remaining differences between Solvency II and EV are the cost of capital and the contract boundary.

EMBEDDED VALUE RESULTS

The embedded value as at 31 December 2014 is €4,729 million.

The EV reported as at 31 December 2013 was €4,223 million. If this were to be restated using the new alignment with Solvency II, the EV 2013 would increase by €522 million to €4,745 million. In this alignment the change of the discount rate is the most important change, with an effect of €475 million.

The decrease (after alignment with Solvency II principles) of €16 million of the EV in 2014 is largely explained by:

- Effect dividend payment and capital transfer of minus €311 million.
- Significant decrease of interest rates with an effect on both assets and liabilities. The liabilities are valued (Solvency II principles) using a curve including an ultimate forward rate (UFR) and a volatility adjustment (VA). Together with the results on assets this has an effect on the EV of positive €590 million.
- An improved model to calculate the value of existing guarantees. This has an effect of minus €150 million.
- Active cost reductions has led to a reduction of the number of policy administration systems. To implement this, we approached clients to convert their existing policies into new Unit Linked products. The product conditions of these new Unit Linked products are an improvement from the perspective of the client. This causes an effect of minus €150 million.
- Changes in non-economic assumptions with an effect of minus €57 million.
- Deviation of the expected portfolio movements with an effect of positive €62 million.

EMBEDDED VALUE ACHMEA LIFE (€ MILLION)

	31 DECEMBER 2014	31 DECEMBER 2013	Δ
EV Net Asset Value			
Free Surplus	807	1,036	-229
Required Capital	3,129	3,063	66
EV Net Asset Value	**3,936**	**4,100**	**-163**
Value of In Force Business			
Value of In Force before Cost of Capital	1,660	1,010	650
Cost of Capital	-867	-887	19
Value of In Force Business	**792**	**123**	**669**
Embedded Value	**4,729**	**4,223**	**506**

METHODOLOGY & ASSUMPTIONS

The embedded value is the difference on a market value balance sheet between the value of the assets and the value of the liabilities. The value of the insurance liabilities is determined as the sum of the best estimate liabilities, including the time value of options and guarantees, and the cost of non hedgeable risks. Allowance is made for tax.

The insurance liabilities are valued according to the Solvency II principles. This implies use of the swap curve with adjustments to include an ultimate forward rate (UFR) of 4.2% , a credit risk adjustment and a volatility adjustment.

The cost of capital rate is set to 4.5%. This is assumed to also cover the frictional cost of required capital (the present value of future investment costs and future taxation on investment returns on the assets backing required capital).

Current tax legislation and rates have been assumed to continue unaltered.

The assumed rates of mortality, morbidity, lapse, surrender, conversion to paid-up and early retirement have been derived from analyses of the life operations' recent operating experience and published industry studies.

Expense assumptions are based on expenses expected for 2017. Expenses have been split between expenses relating to the acquisition of new business and to the maintenance of business in-force. Because expenses are based on the year 2017 a cost overrun is added to value the higher costs over the years 2015 and 2016.

The Contract Boundary largely follows Solvency II definitions, which is the full duration of the contract. For smaller group business EV valuation assumes an expected rate of contract renewal.

Unlike the principles of the CRO forum there has been no external review of the EV results. This report contains limited disclosures compared to that required by the CRO forum principles.