
Embedded
Value Report
2016
achmea

Achmea Embedded Value Report

CONTENT OF REPORT

This report presents the embedded value (EV) of the life business of Achmea Group ('Achmea') as at 31 December 2016. 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 report using the Solvency II framework. In the transition towards reporting Solvency II, Achmea has chosen to use the Solvency II process for the EV calculations and align EV as much as possible with Solvency II. The differences between Solvency II and EV are the cost of capital and the contract boundary. Both have a positive effect on the EV (see for details chapter Methodology and Assumptions). Further, the Net Asset Value in the EV is not restricted by any Solvency II tiering limits.

EMBEDDED VALUE RESULTS

The embedded value as at 31 December 2016 is EUR 4,489 million.

EMBEDDED VALUE — ACHMEA LIFE — (€ MILLIONS)

	31 DECEMBER 2016	31 DECEMBER 2015	DELTA
EV Net Asset Value			
Free Surplus	1,615	1,297	318
Required Capital	2,617	2,748	-131
EV Net Asset Value	4,232	4,045	187
Value of In Force Business			
Value of In Force before Cost of Capital	1,197	1,091	106
Cost of Capital	-940	-769	-171
Value of In Force Business	257	322	-65
Embedded Value	4,489	4,367	122

The EV reported as at 31 December 2015 was EUR 4,367 million.

The increase of EUR 122 million of the EV in 2016 is explained by:

- An increase of the Net Asset Value of positive EUR 187 million as result of profits over 2016. Within the Net Asset Value there is a significant movement from the Required Capital to the Free Surplus mainly due to:
    - A decrease of the Market Risk as a result of significant lower spread risk with an effect of positive EUR 300 million
    - An increase of Counterparty Default Risk as result of an increase of the mortgage portfolio with an effect of minus EUR 57 million.
    - An increase of Life Risk due to higher longevity risk as result of the lower interest curve and changed assumptions with a combined effect of minus EUR 112 million.
- An increase of the Value of in Force Business (before Cost of Capital) of positive EUR 106 million as a result of the positive impact of the portfolio development and economic assumptions, partly compensated by the effect of new expense and mortality assumptions.
- An increase of the Cost of Capital mainly due to improvement of the valuation method with an effect of minus EUR 171 million.

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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 in the determination of the EV 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%, where this is 6% for Solvency II. The cost of capital also covers 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).

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

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.

Expenses have been split between expenses relating to the acquisition of new business and to the maintenance of business in-force. For the Netherlands expense assumptions are based on expenses expected for 2021. Because expenses for the Netherlands are based on the year 2021 a cost overrun is included to value the higher costs over future years till 2021.

Achmea has chosen to use the Solvency II process for the EV calculations. Therefore the EV calculations deviate from the EV principles of the CRO forum. The Solvency II calculations are externally reviewed but there is no specific external review of the EV results.