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Chief Financial Officer  
Finance & Solvency II  
Capital Markets Day  
June 1, 2017

**DELIVERING TOGETHER: BUILDING  
ON IMPROVED FUNDAMENTALS**

**achmea** 

## KEY MESSAGES

- Operational result 2016 at approximately €230 million net of exceptional items
- We changed the fundamentals of Achmea for improved returns

### **Our strategic plan “Delivering Together” will further improve performance and lead to:**

- Operational result of €600 million in 2020 with a Free Capital Generation of €400 million
- Solvency II ratio remaining solid with a resilient capital base under several scenarios
- Key ratios in line with requirements for S&P IFS rating “A”

# PROGRAMME



Part I:  
Operational result 2016



Part II:  
Fundamentals improved



Part III:  
Ambition 2020



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Solvency II and Liquidity

Free Capital Generation

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Financial ratios

# OPERATIONAL RESULT 2016 AT APPROXIMATELY €230 MILLION NET OF EXCEPTIONAL ITEMS

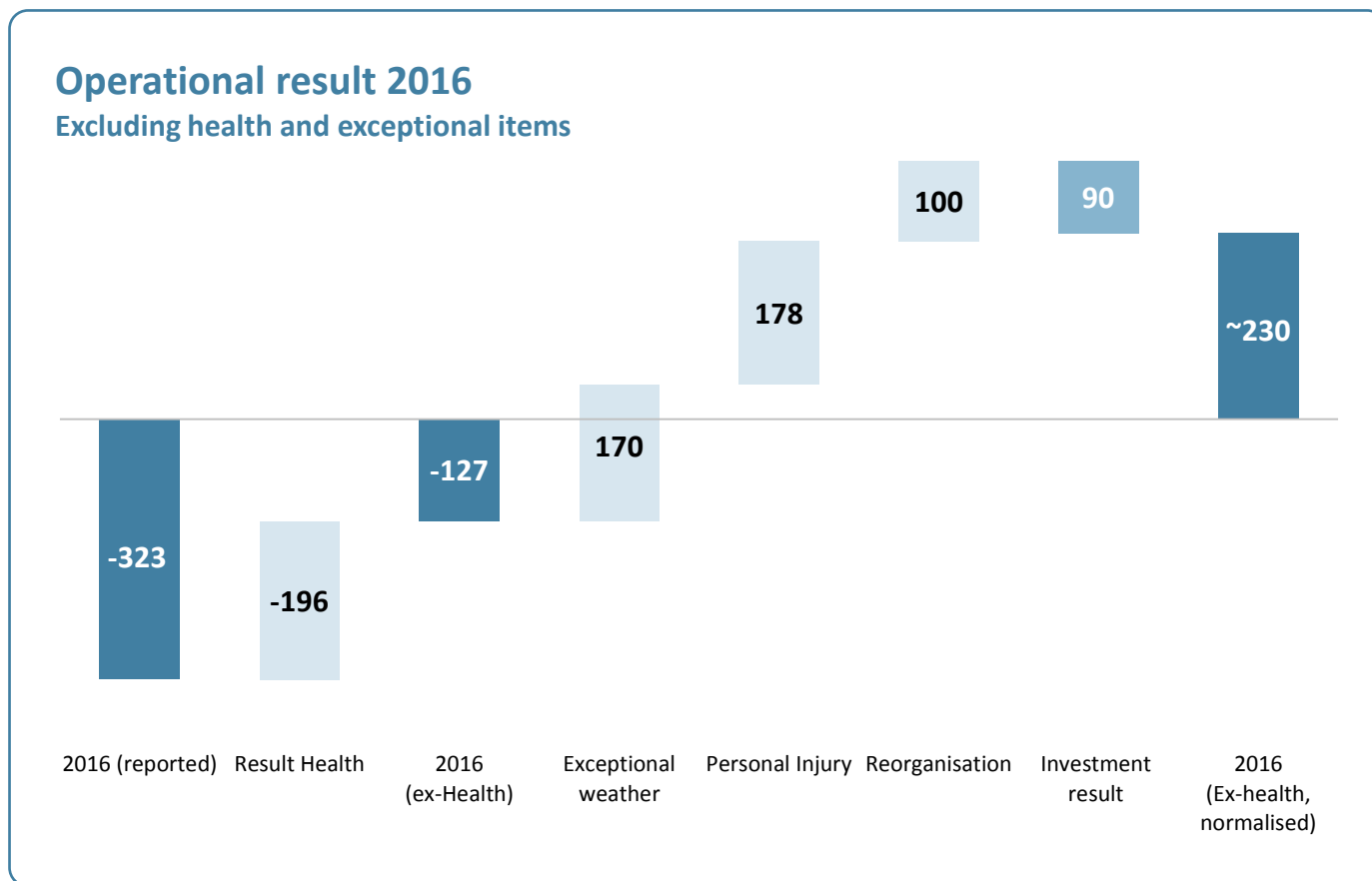
Operational result 2016 strongly influenced by several exceptional items:

- Exceptional weather such as the hail calamity in June
- Reserve strengthening personal injury
- Reorganisation provision for reduction 2,000 FTE and number of office locations
- High income from investments as a result of:
  - Realisations in Non-Life due to change in investment mandate
  - Strong recovery of commodities and real estate prices in Pension & Life

Result in basic health, expected to be at a break-even level, was impacted by:

- Loss provision premium setting 2017
- Higher than expected health care expenses
- Changes in portfolio composition

Operational result excluding Health is approximately €230 million



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# WE MAINTAINED MARKET LEADERSHIP IN HEALTH AND NON-LIFE AND REDUCED EXPENSES SIGNIFICANTLY

## General

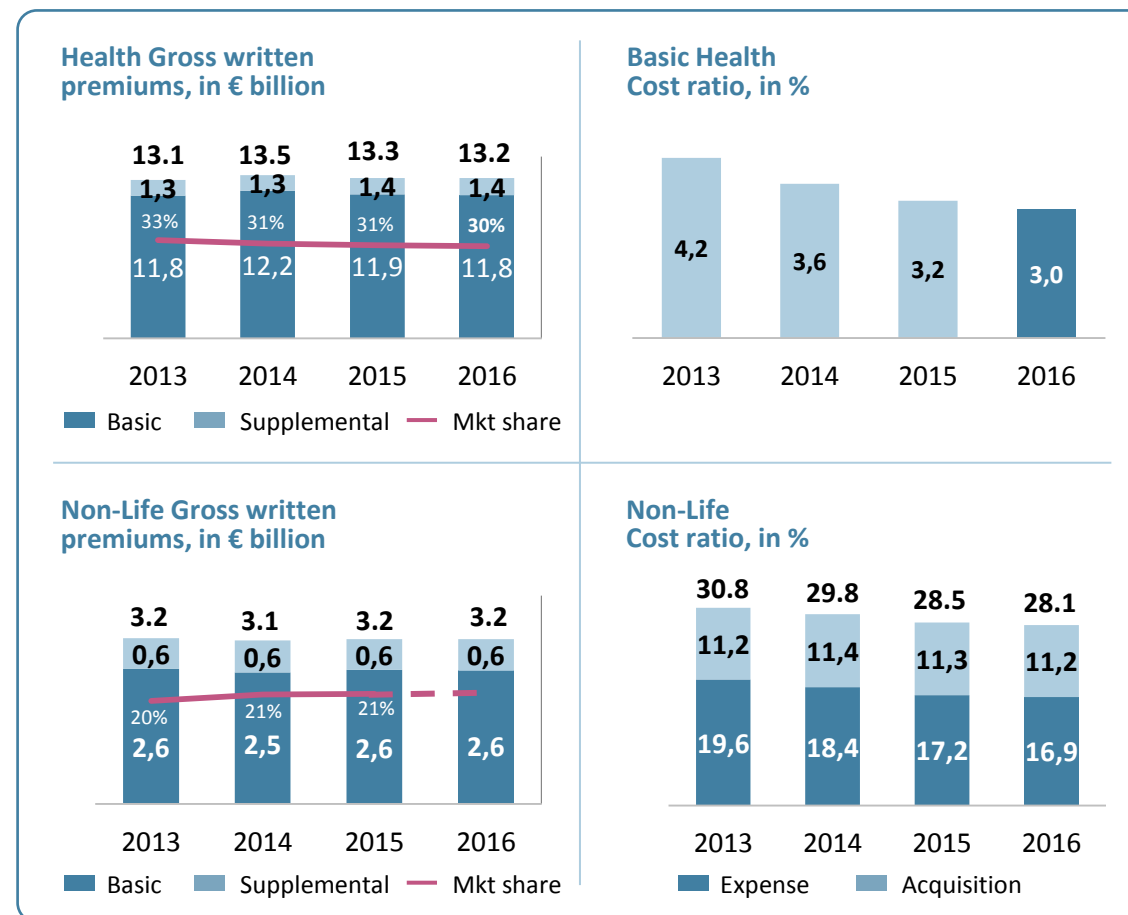
- In fiercely competitive markets we managed to maintain market leadership in Health and Non-life with respectively 30% and 21% market share
- We reduced FTE and expenses through digitisation and other measures as a result of Acceleration & Innovation

## Health

- Our market share provides us scale to differentiate ourselves through procurement of health care and health related services

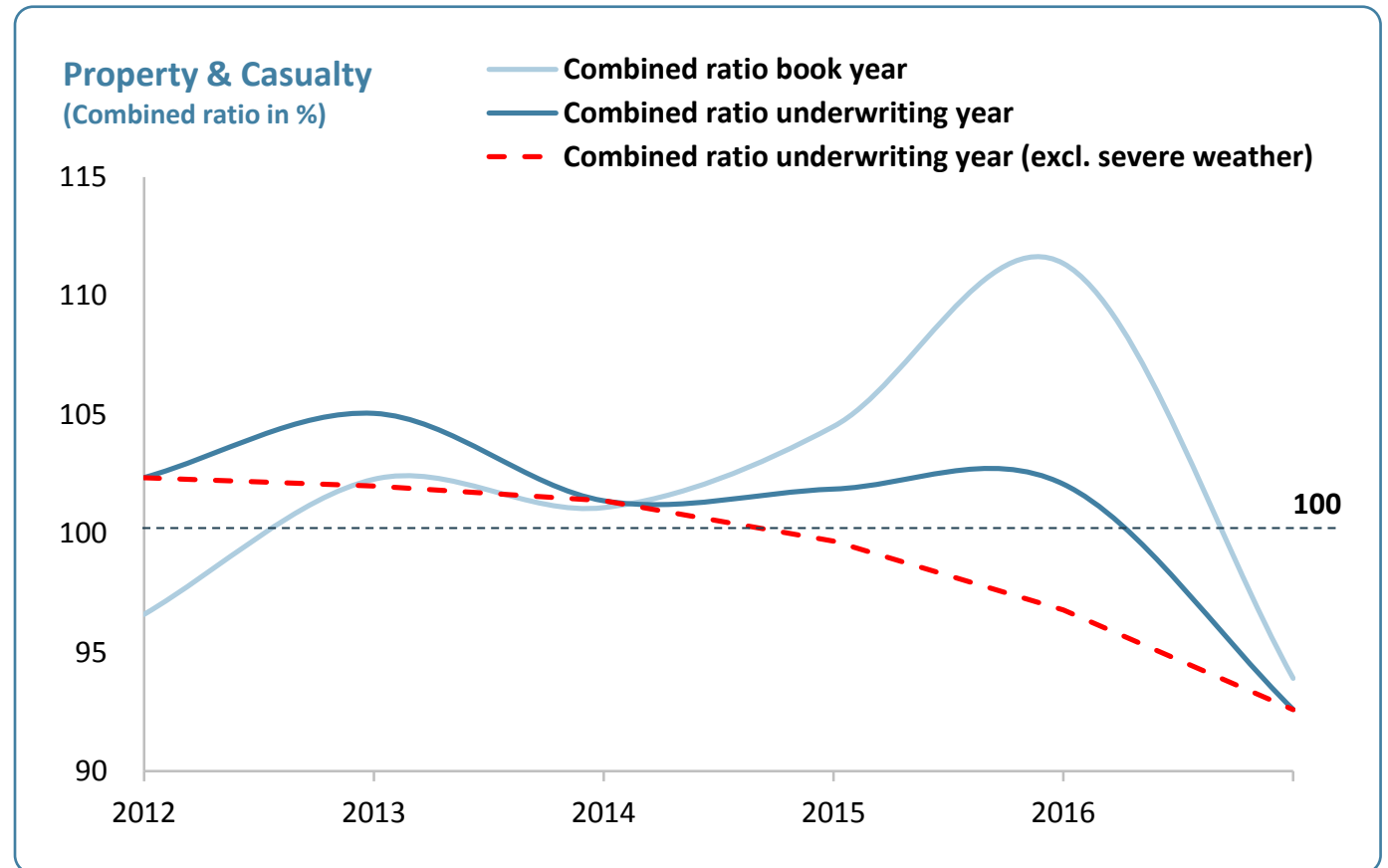
## Non-Life

- With a cost ratio around 28% and market average around 33% our cost ratio is best-in-class



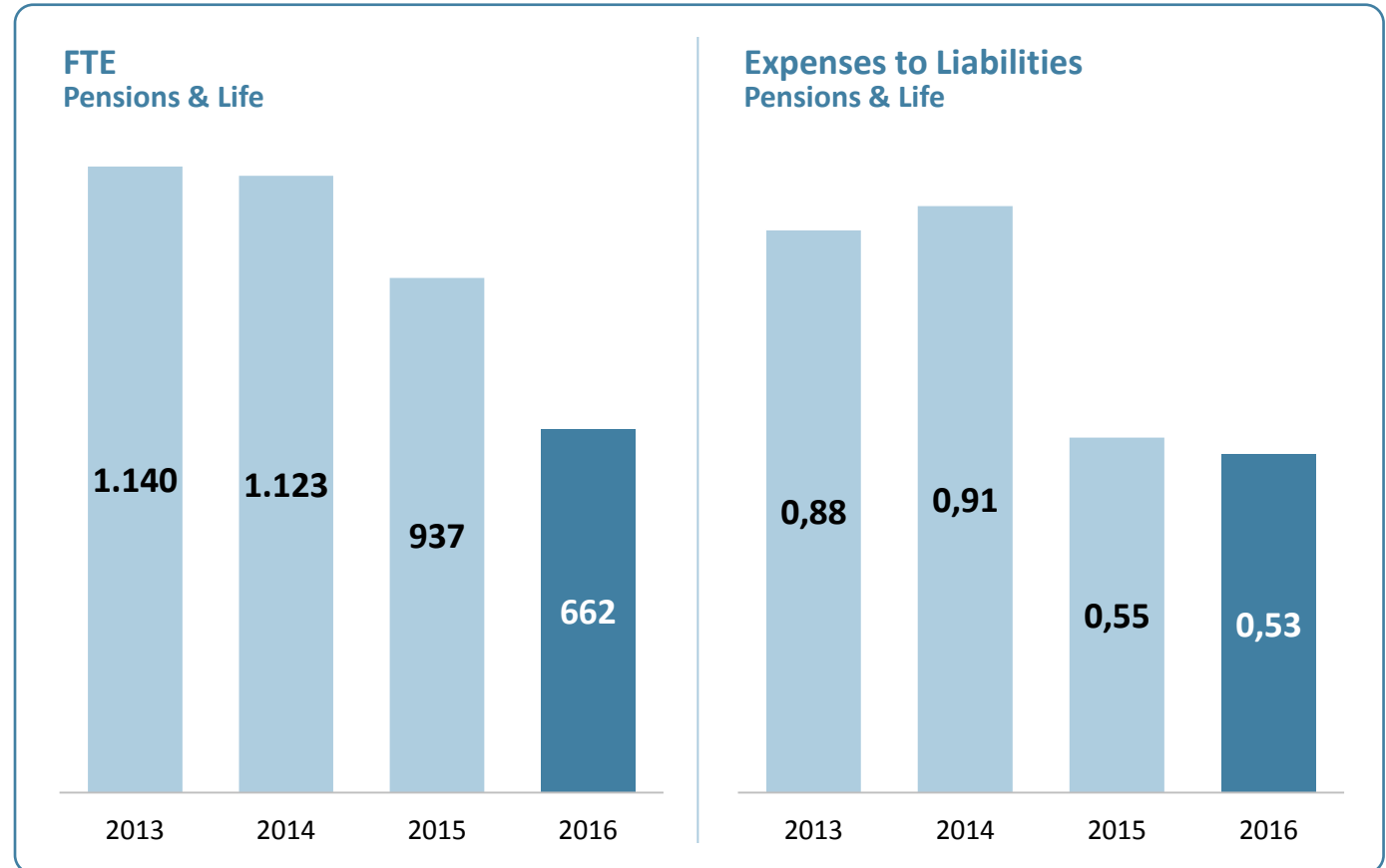
## ...AND IMPROVED OUR COMBINED RATIO, ESPECIALLY IN PROPERTY & CASUALTY... THROUGH PREMIUM INCREASES AND CLAIMS MANAGEMENT

- Excluding impact severe weather events, our combined ratio based on underwriting year improved steadily since 2013
- Based on book year, our combined ratio was impacted as we increased our provisions on older years due to negative claims experience
- Actions have been taken to compensate for these negative claims experience such as:
  - Premium increases
  - Exiting unprofitable business lines
  - Lowering cost levels
- This will result in convergence of our combined ratio based on underwriting year and book year in 2017 and further



# OUR TRADITIONAL PENSION & LIFE ACTIVITIES TURNED INTO A CLOSED-BOOK LEADING TO SIGNIFICANT FTE AND COST REDUCTIONS

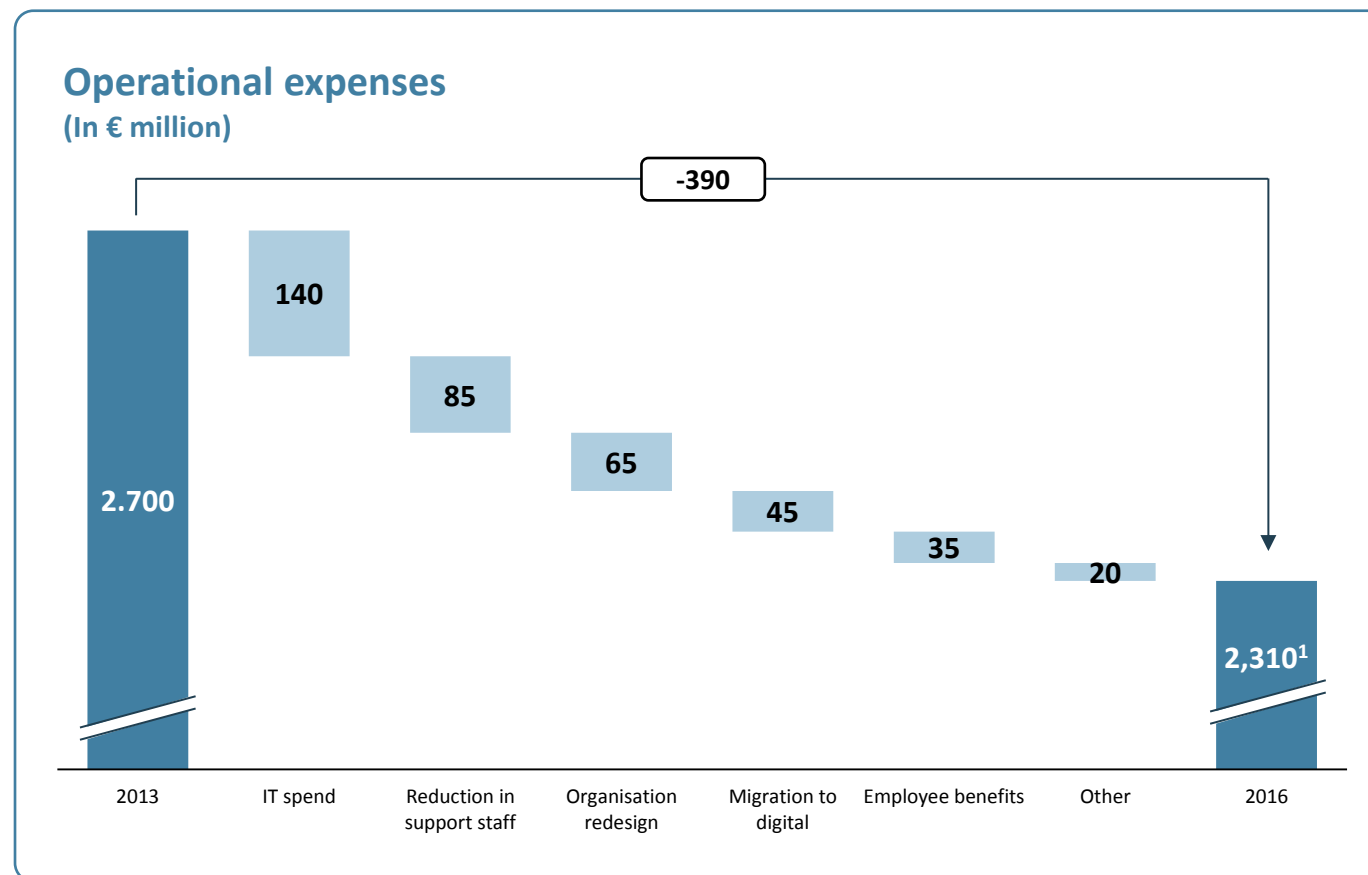
- In 2013 we established a closed-book for our Life activities
- This has accelerated the reduction of expenses by:
  - Simplifying our IT-landscape
  - Lowering product development costs
  - Reducing the number of FTE
- Mid 2016, we have taken the strategic decision to also establish a closed-book for Pensions following the establishment of the Centraal Beheer Pension Fund (CB APF)
  - This has directly led to reduction in sales expenses and product investments
  - Closed-Book Pensions and Life focuses on further efficiency improvements and other value enhancements
- At the same time we have invested and will continue to invest in Retirement Services





# OUR CHANGE PROGRAM SUCCESSFULLY REDUCED OUR EXPENSES WITH €390 MILLION

- As a result of our Acceleration & Innovation programme operating expenses have been lowered by €390 million or nearly 15% in three years' time
- The lower expenses are a result of efficiency improvements and changes in our business portfolio in the Netherlands:
  - Improved project management and lowering of our IT run-cost
  - Restructuring of distribution divisions and reduction in marketing spend
  - Digitisation of customer contact



# WE MADE TOUGH PORTFOLIO DECISIONS DIVESTING UPROFITABLE BUSINESSES..... WHILE INVESTING IN OUR DIGITAL CAPABILITIES AND NEW BUSINESS MODELS SECURING FUTURE RETURNS

## Portfolio decisions

We divested and stopped structurally loss-making activities with annual losses of around €70 million

## Investments

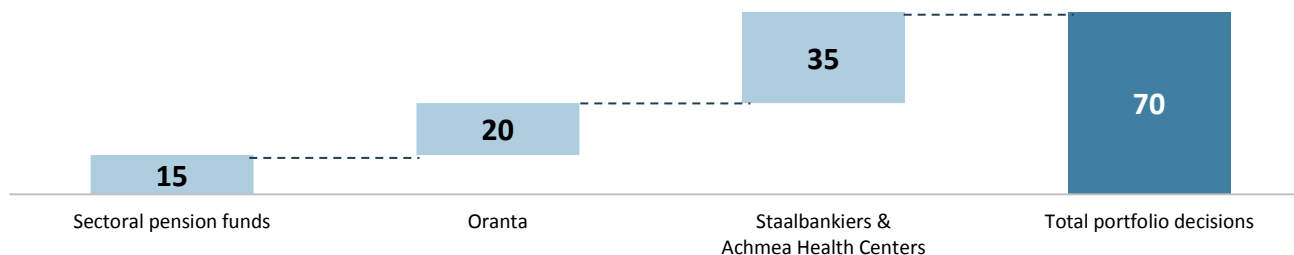
We continued to invest in our businesses to improve the foundation and profitability

In total we invested approximately €75 million on top of our regular change budget:

- Bancassurance 2.0
- Income Protection
- Retirement Services Strategy
  - Strategic decision to stop pension management services to mandatory sectoral pension funds
  - IT investments Pension & Life, Achmea Bank, Achmea IM and Achmea Pension Management
  - Establishment of CB APF

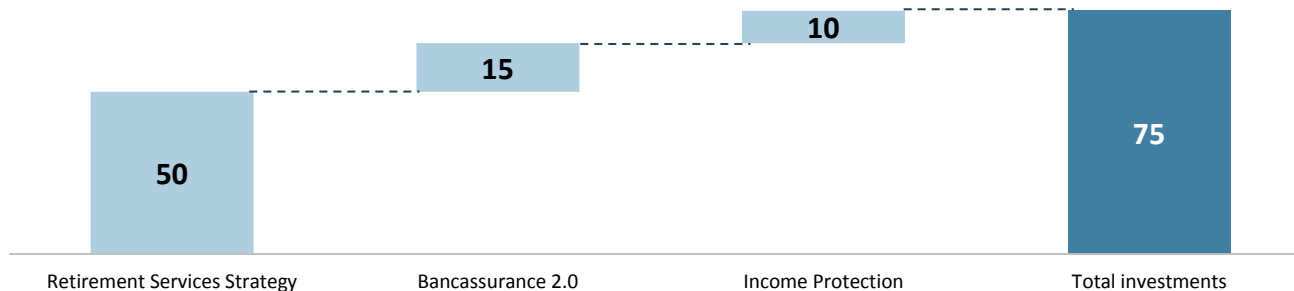
### Major portfolio decisions

2013-2016



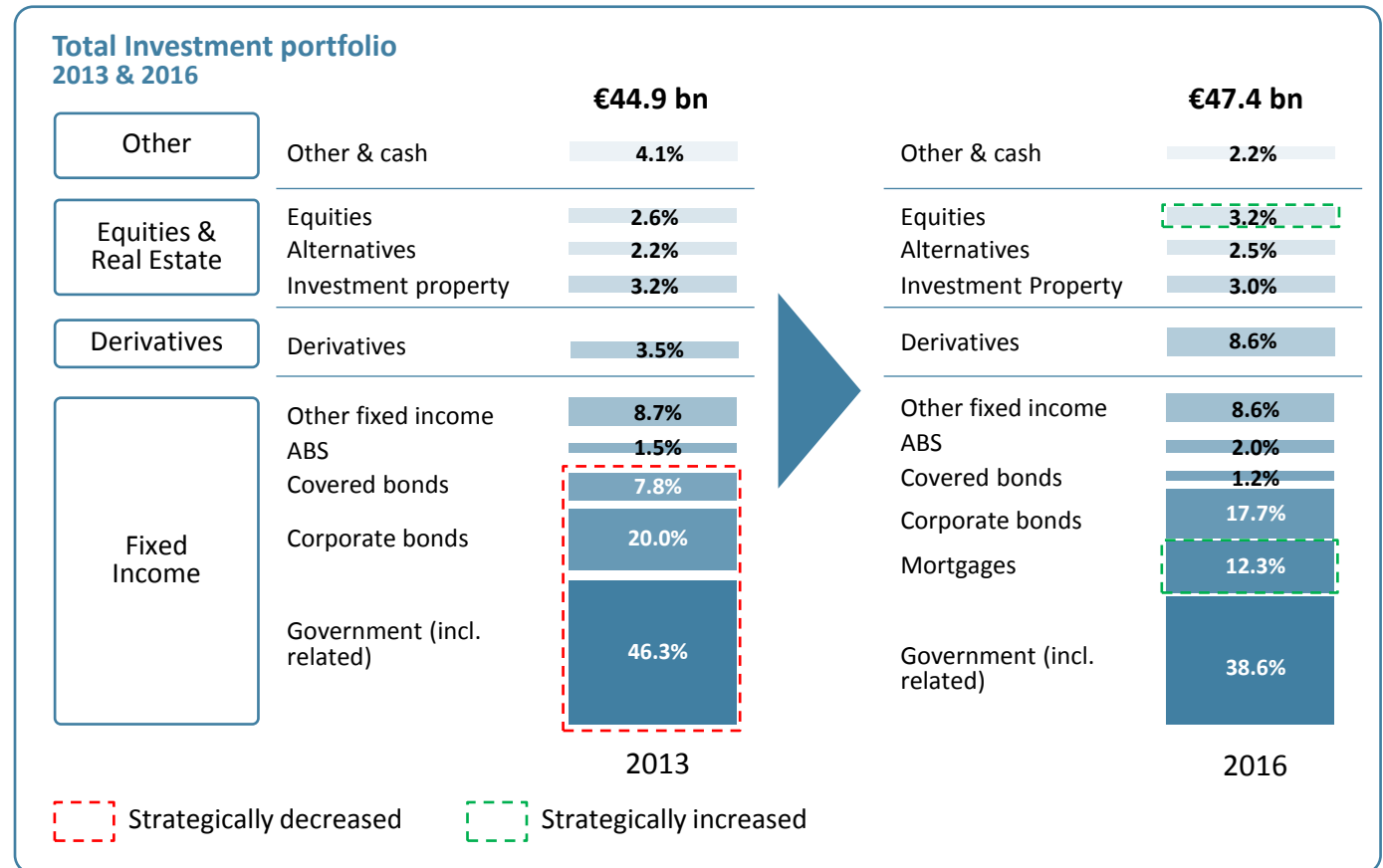
### Total investments

2013-2016



# WE OPTIMISED OUR INVESTMENT PORTFOLIO TO PARTLY OFF-SET THE IMPACT OF LOW INTEREST RATES

- We optimised our matching portfolio to deal with the low interest rate environment while continuing to properly match our liability profile:
  - Investments in mortgages (2013: nil and 2016: €6.2 billion) with long durations financed through the sale of low yielding government bonds, corporate and covered bonds
  - Investments in higher yielding government related securities (e.g. WSW-loans) financed through the sale of sovereign debt
- We also optimised our return portfolio:
  - Increase in equities
  - Higher allocations to emerging market debt, senior secured loans and senior real estate debt



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Free Capital Generation

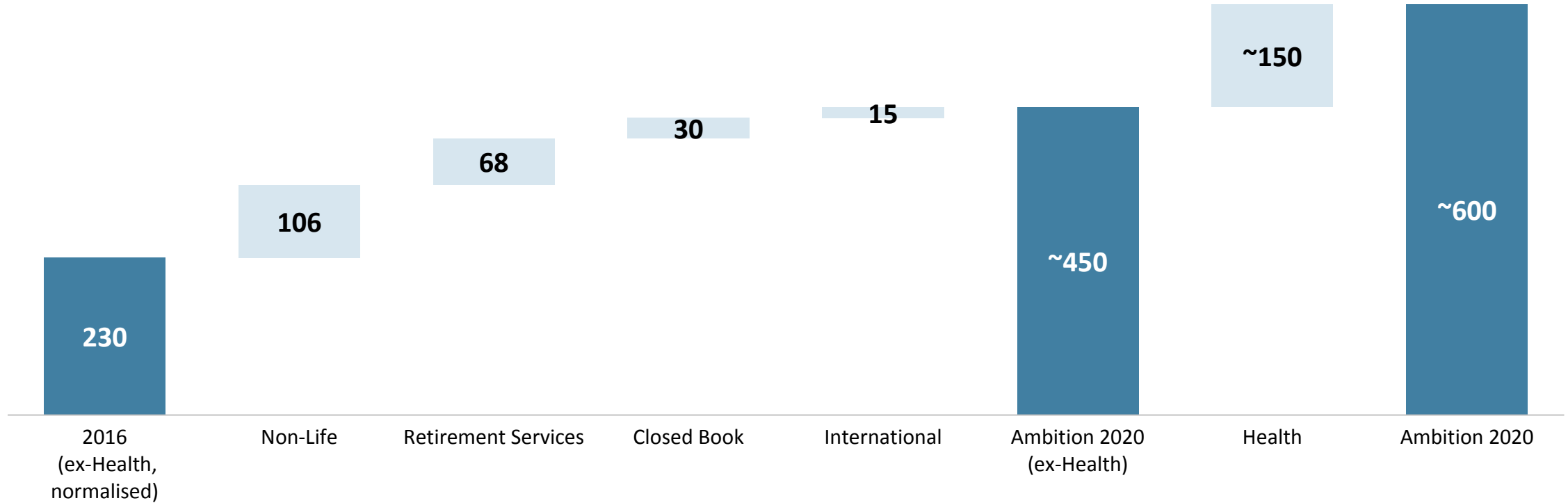
Solvency II

Liquidity

Financial ratios

# OPERATIONAL RESULT 2020 AT APPROXIMATELY €600 MILLION

Ambition operational result  
2016-2020, in € million



# HIGHER PROFITABILITY NON-LIFE AS A RESULT OF: PREMIUM INCREASES, COST REDUCTIONS AND FOCUS ON CLAIMS MANAGEMENT

## Non-Life

- Overall cost reductions through standardisation, lower number of FTE and reduction in number of locations
- Lower investment returns as a result of the low interest rate environment

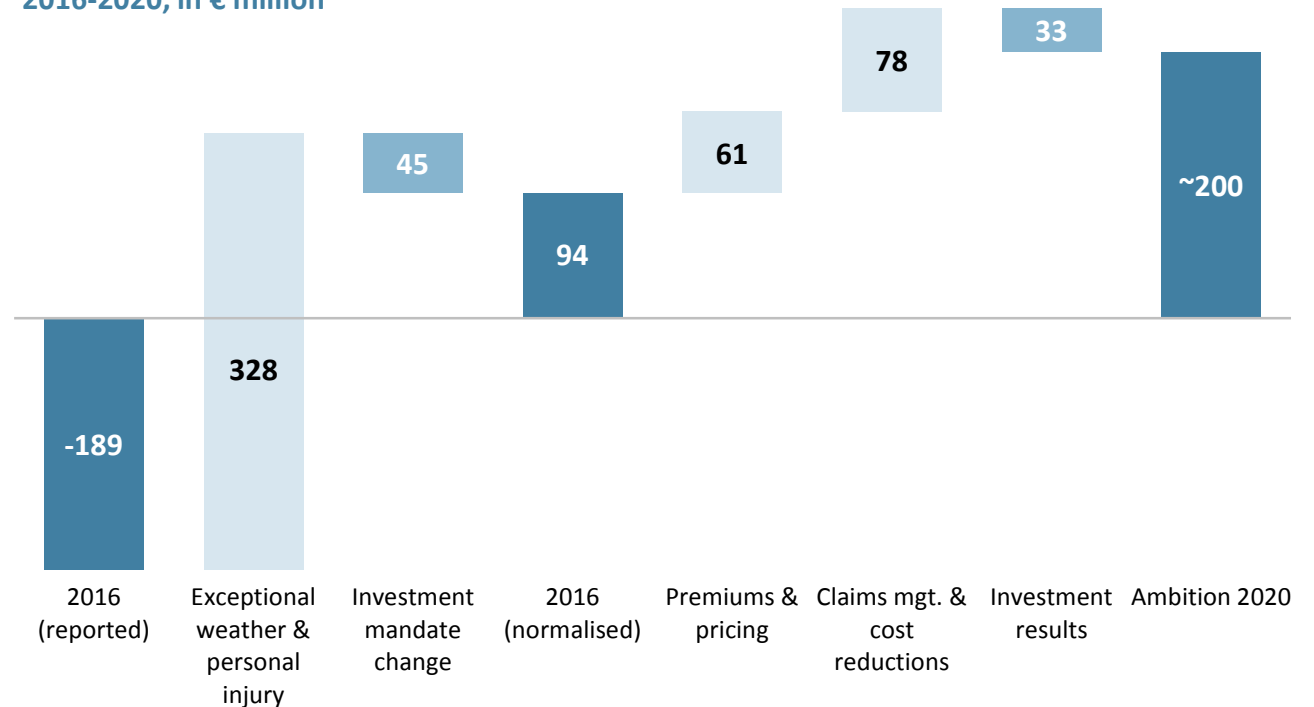
## Property & Casualty

- Realised premium increases fully visible at renewal
- Further premium adjustments on non-profitable business lines and for weather related insurance products
- Claims management actions such as fraud prevention, re-integration and prevention

## Income Protection

- Increase in premiums disability portfolio as a result of low interest rates
- Continuous focus on re-integration and prevention

**Ambition operational result**  
2016-2020, in € million





# PROFITABILITY RETIREMENT SERVICES WILL IMPROVE AS A RESULT OF: AN INCREASE IN MORTGAGES AND SAVINGS AT ACHMEA BANK AND INFLOW OF AUM AT ACHMEA IM

## Background

- Our investments in retirement service strategy will generate higher profitability in 2020

## Achmea Bank

- Increase in mortgage and savings portfolio and lower funding costs drive higher net interest margin
- Cost reductions through outsourcing back-office mortgage activities and implementation new savings system

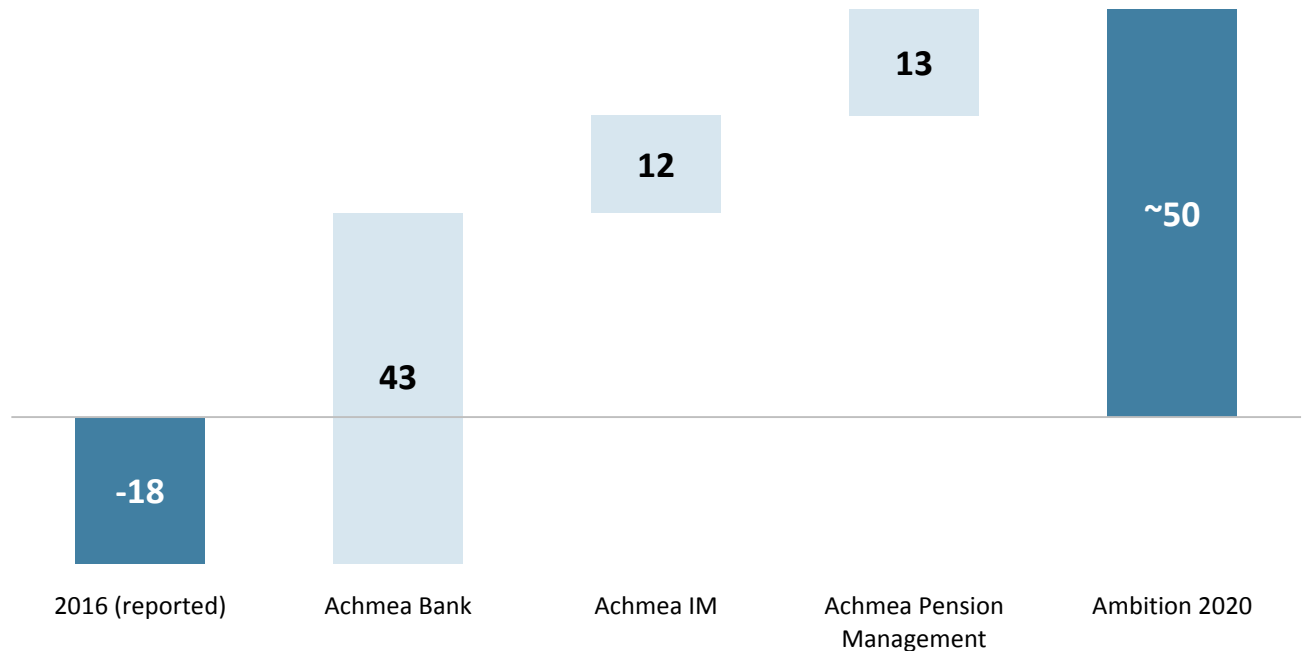
## Achmea IM

- Operational result increases through higher AuM:
  - Increase in internally managed funds (Achmea Own risk)
  - Increase in AuM CB APF as first clients RBS and Bavaria are fully integrated and new clients are attracted

## Achmea Pension Management

- Strategic decision to stop loss-making services to mandatory sectoral pension funds

**Ambition operational result**  
2016-2020, in € million



# INCREASE IN RESULT PENSIONS & LIFE RESULTING FROM INTEGRATION OF CLOSED-BOOKS

## Closed-book

- Closed-book life and pensions focuses on further reducing expenses and FTE
- Further value enhancements will be explored
- Impact of expense reduction more than compensating for the financial impact of the decline in the Pension & Life portfolios
- Transition of clients towards APF strengthens result retirement services

## Investment Income

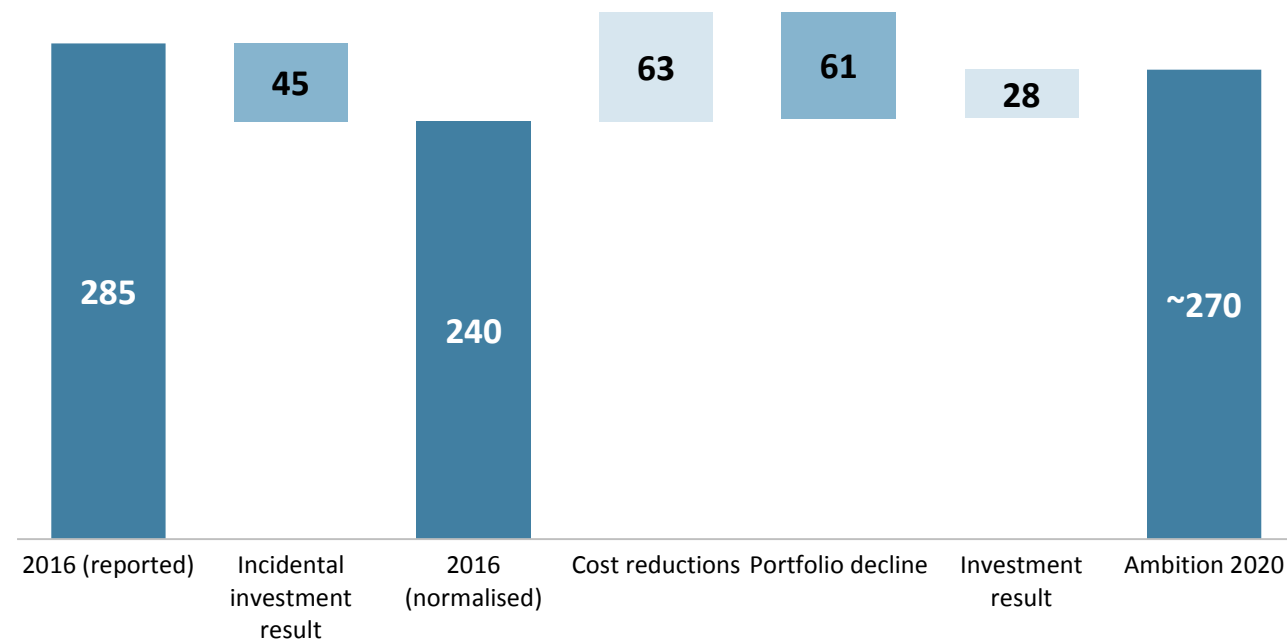
- Increase as a result of portfolio optimisation

## Open-book

- Market leadership maintained in term life with 25% market share
- Strong increase in number of term life policies to 480,000 on the back of solid housing market and banking distribution

### Ambition operational result

2016-2020, in € million



# HIGHER RESULT INTERNATIONAL AS A RESULT OF: INVESTMENTS IN OUR INTERNATIONAL GROWTH STRATEGY

## Background

- Our international activities benefit from investments in previous years which will drive growth in all countries

## Greece

- Current investments in direct health and Anytime Cyprus will result in higher operational result at the end of planning period

## Turkey

- Higher underwriting result is compensated by investments in IT and expected currency effects

## Ireland

- Higher profitability as a result of cost reductions, optimisation investment portfolio and growth income protection

**Ambition operational result**  
2016-2020, in € million



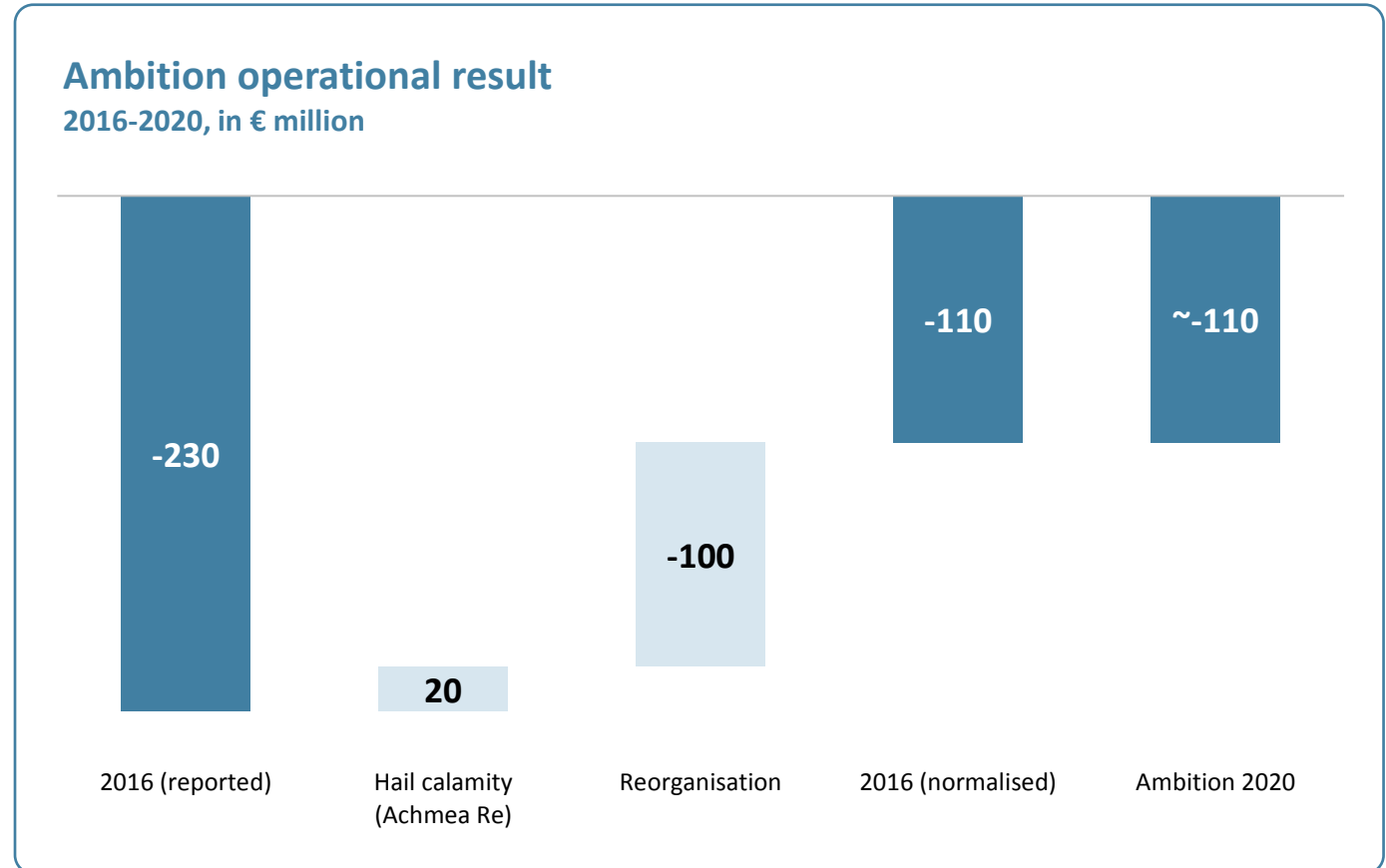
# STABLE RESULT SEGMENT OTHER AS LOWER HOLDING EXPENSES BENEFIT OTHER SEGMENTS

## Holding

- Lower holding expenses through lower IT expenses, housing expenses and reduction in employee benefits
- Positive impact is transferred to business segments

## Strategic entities

- Stable result at Achmea Reinsurance, Independer and Syntrus Achmea Real Estate & Finance



# OPERATIONAL RESULT HEALTH NORMALISES AS: MARKET DYNAMICS WILL DRIVE PREMIUM LEVELS TO A LEVEL SLIGHTLY ABOVE COST PRICE

## Basic Health

- Health market assumed to normalise with premium levels slightly above costs leading to:
  - A claims ratio of 96%
  - A cost ratio at or below 3.0%
  - A profit margin of 1.0%
- With a 1% profit margin and premiums in basic health at around €12 billion, we realise an operational result of €125 million

## Supplemental Health

- Supplemental health is expected to operate at a COR of 98% resulting in a profit of €25 million

### Ambition Operational result 2016-2020, in € million

Operational Result	2016	2020
Basic health	-215	125
Supplemental health	19	25
<b>Total</b>	<b>-196</b>	<b>150</b>

Combined ratio Basic Health	2016	2020
Profit margin	102.7%	99.0%
Cost ratio	3.0%	≤3.0%
Claims ratio	99.7%	96.0%

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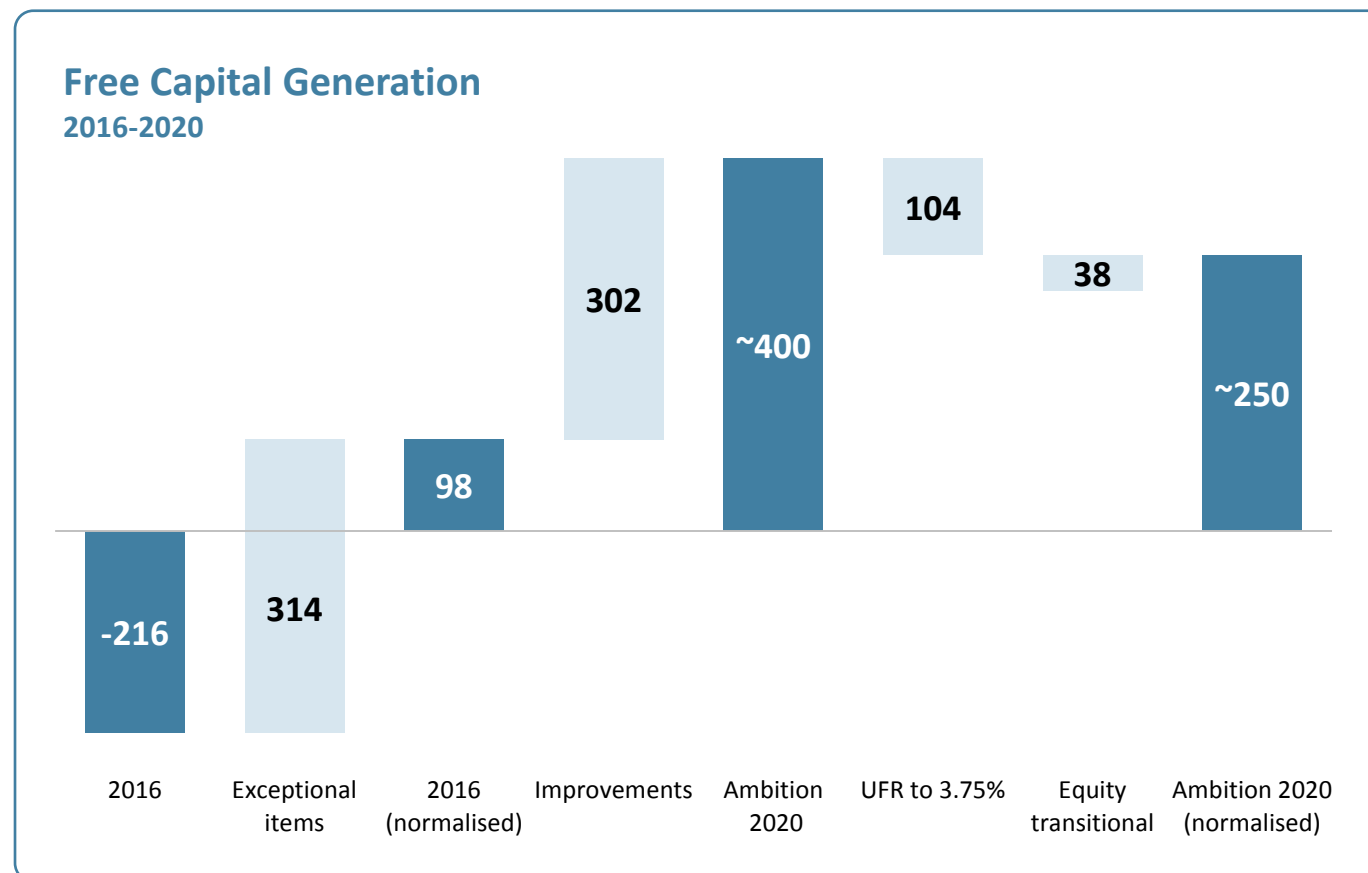
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# FREE CAPITAL GENERATION IMPROVES TOWARDS €400 MILLION

- Free Capital Generation 2016 impacted by:
  - Negative operational result 2016
  - Equity transitional
  - Adjustment in assumptions Pensions & Life (e.g. cost assumptions, mortality assumptions)
- Free Capital Generation improves towards a level of €400 million in line with higher operational result in all business segments
  - In 2020 FCG is temporarily impacted by 0.15% decline of UFR to 3.75% (third step)
  - Impact of equity transitional limited in 2020 and will disappear after 2021



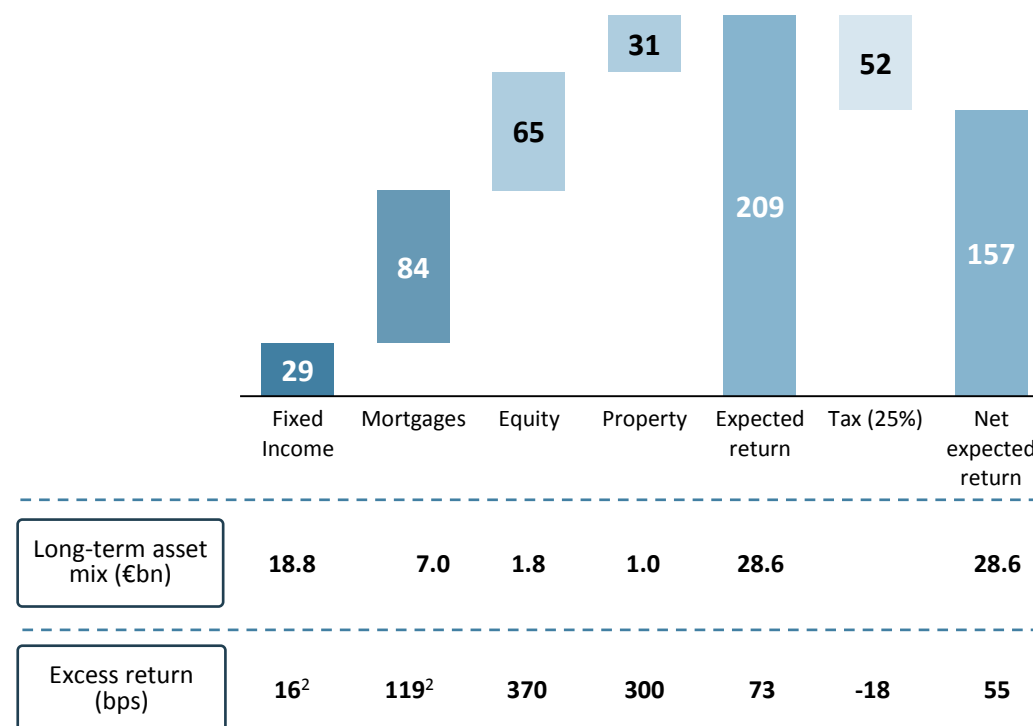
# CLOSED-BOOK PENSIONS & LIFE CONTRIBUTES SIGNIFICANTLY TO FREE CAPITAL GENERATION

## Free Capital Generation (Ambition 2020, in € million)

  Only Pensions & Life

Description	FCG
Operational Result	170
Investment margin	157
Unwind UFR	-59
Unwind of risk margin	80
Unwind SCR	147
<b>Free Capital Generation (Segments)</b>	<b>~500</b>
Financing expenses	-100
<b>Free Capital Generation (Group)</b>	<b>~400</b>

## Investment Margin Pension & Life (Ambition 2020, in € million)



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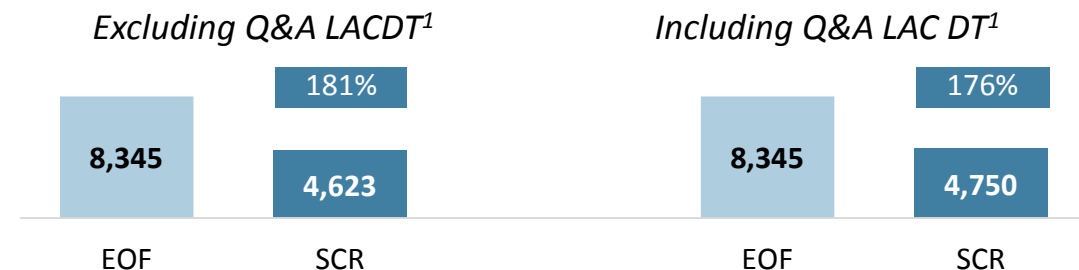
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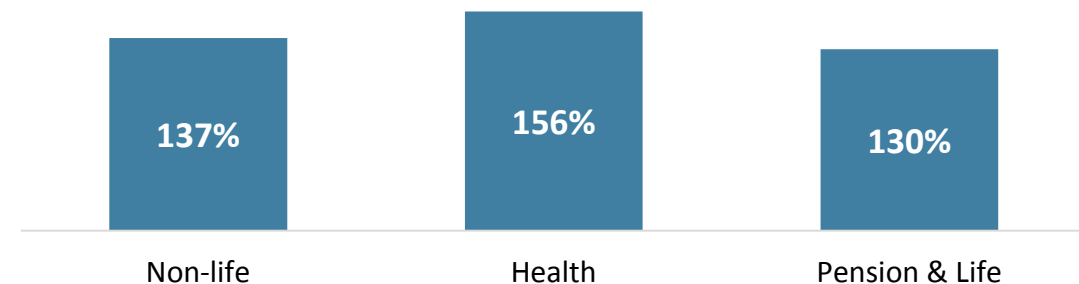
# SOLVENCY II CAPITAL REMAINS SOLID AT GROUP

## IMPACT DRAFT LEGISLATION ON THE BAN OF PROFIT DISTRIBUTION OF HEALTH CAPITAL 0-25%-PT

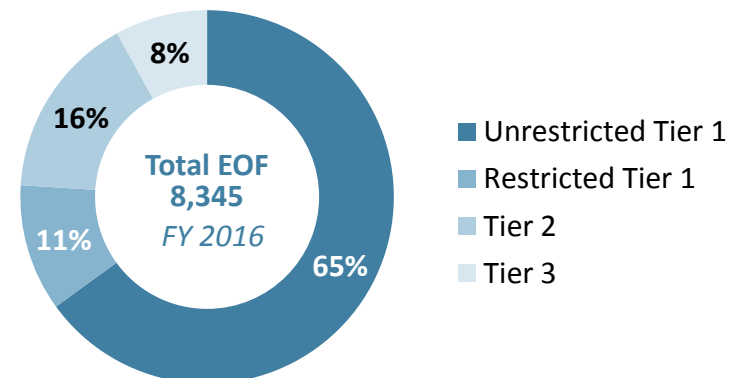
Solvency II ratio  
2016, in € million



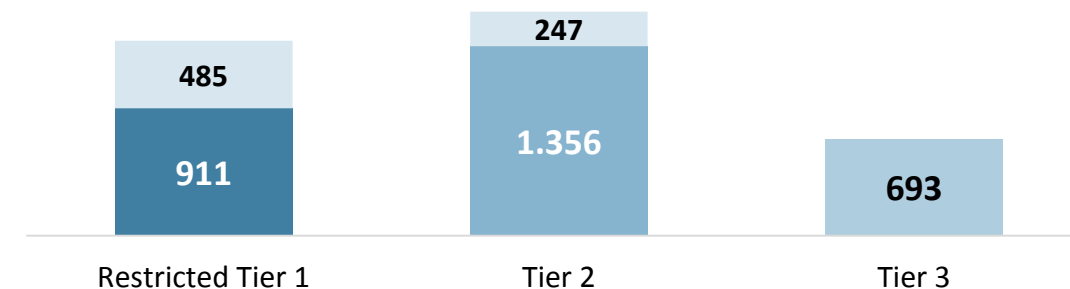
Solvency II PIM  
Legal entities<sup>2</sup>, 2016



Tiering of Capital  
2016



Available Headroom  
2016



<sup>1</sup> Preliminary interpretation of Q&A Dutch legislator

<sup>2</sup> Refers to the Solvency II PIM (approved) ratio of Achmea Schadeverzekeringen NV (Non-Life), Achmea Zorgverzekeringen NV (Health) and Achmea Pensioen- en Levensverzekering NV (Pensions & Life).

# RESILIENT CAPITAL BASE UNDER SEVERAL SCENARIOS, INTEREST RATE SENSITIVITY ADDRESSED BY CAPITAL HEDGE IMPLEMENTED IN 2017

## Interest rate sensitivity

- Interest rate sensitivity does not reflect the full implementation of the capital hedge as we started to hedge UFR and risk margin in autumn 2016 and focused on hedging non-parallel shocks first

## Spread sensitivity

- Due to the 65% application factor in the VA, asset values will decrease more than the liabilities upon spread widening

## Equity sensitivity

- The impact of the shock is linear as we do not make use of equity derivatives to reduce the impact of developments in equity prices

## UFR sensitivity

- UFR sensitivity is limited due to the business mix. The decrease of the UFR to 4.05% per 1 January 2018 will reduce Group solvency levels by 2%.

### Solvency II PIM sensitivities 2016

	Scenario	EOF (in € million)	SCR (in € million)	SII PIM (in %)	Δ SII PIM (in %-pt)
	BASE	8,345	4,623	181	---
Interest rate	-100bps	9,527	4,873	196	+ 15
	+100bps	7,419	4,455	167	- 14
All spreads	+100bps	7,718	4,525	171	-10
	No VA	7,885	4,698	168	- 13
	-20%	7,638	4,505	170	- 11
Equity	-40%	6,932	4,394	158	- 23
	No eq.trans.	8,385	4,886	172	- 9
	-20%	7,941	4,569	175	-6
Property	3.7%	8,091	4,626	175	- 6
	No UFR	6,664	5,121	130	- 51

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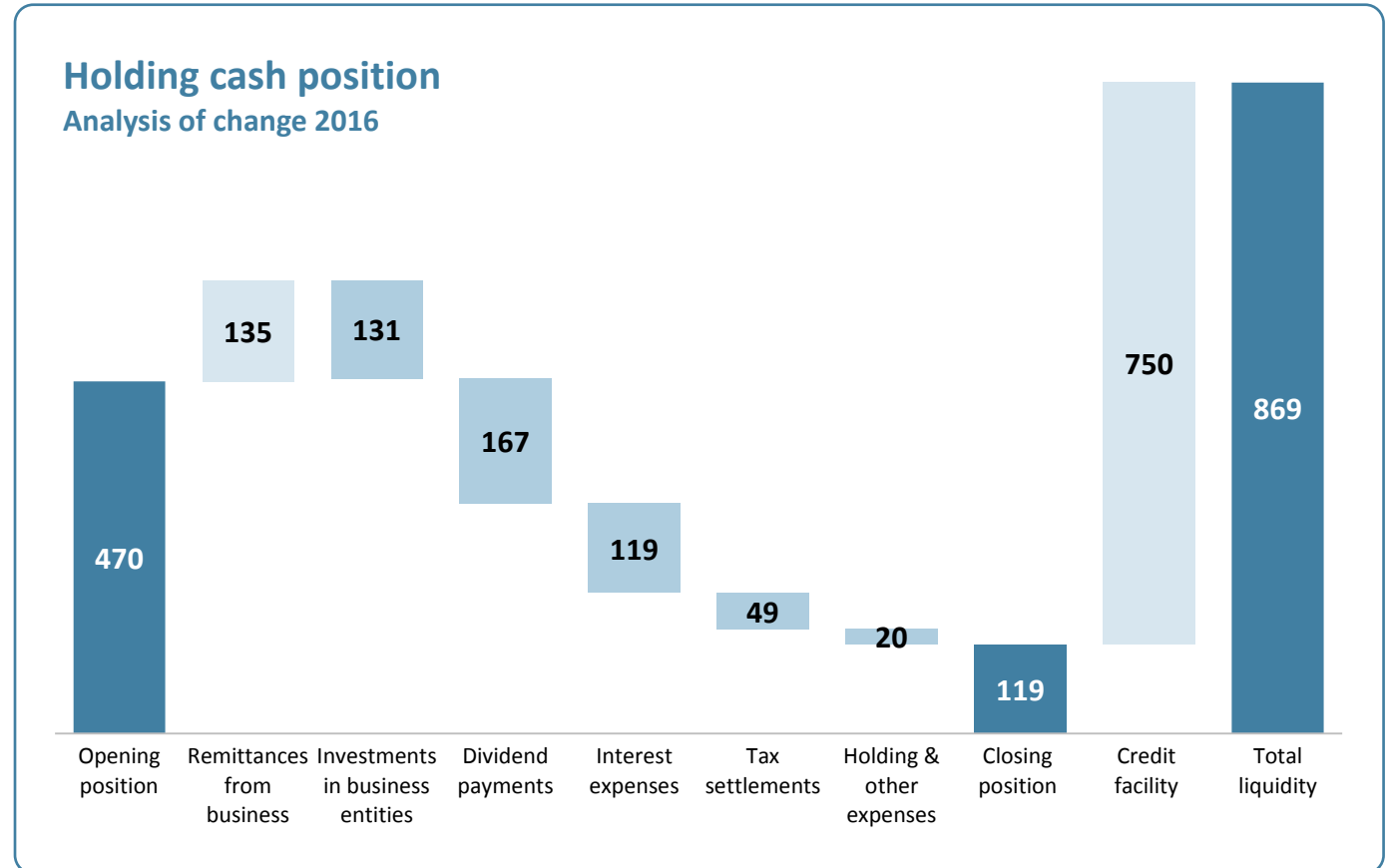
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# AVAILABLE LIQUIDITY AT HOLDING LEVEL €869 MILLION

- Holding cash position declined over 2016 mainly as a result of:
  - Dividend payments in 2016 over fiscal 2015
  - Buy-out of minorities Independe and InShared
  - Incidental investments due to transfer private banking mortgage portfolio and restructuring pension administration business
  - Relative low remittances from businesses due to exceptional items
- Operational result improvements will result in higher remittances from businesses
- Higher projected cash position during plan period



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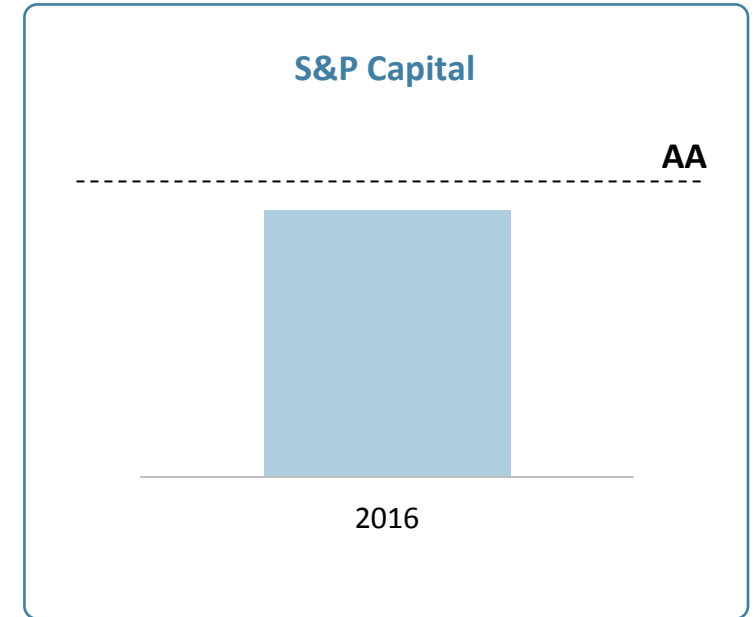
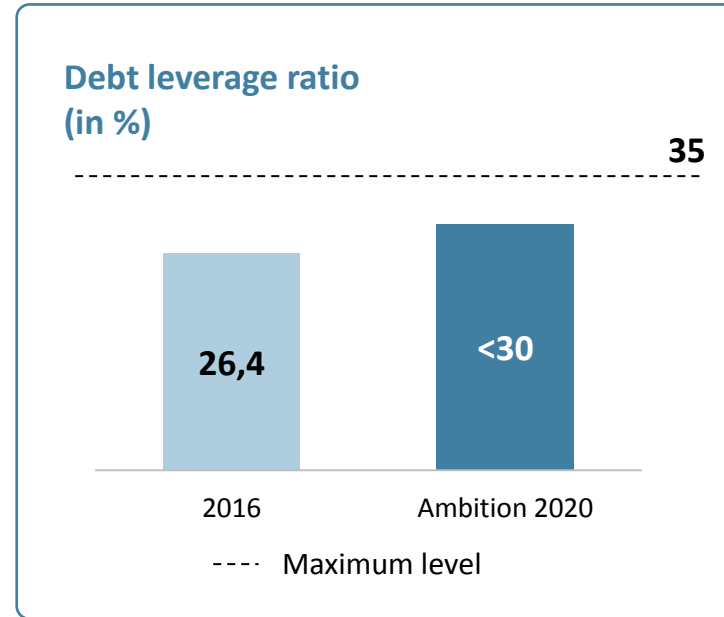
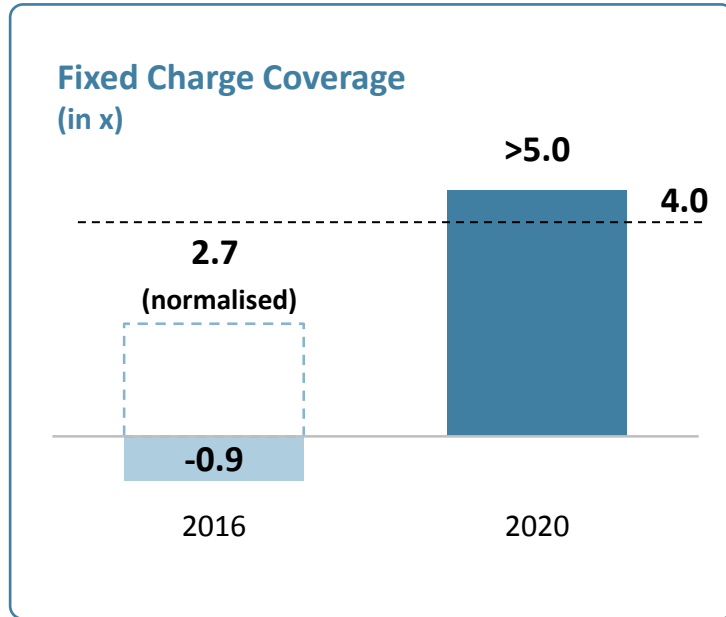
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# OUR OPERATIONAL IMPROVEMENTS WILL POSITIVELY IMPACT FINANCIAL RATIOS



Fixed charge coverage ratio impacted by negative operational result 2016. Ambition 2020: FCCR above 5.0x

Ambition to maintain debt leverage ratio below 30%

Maintain S&P IFS rating at single A level

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